**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**

# FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the fiscal year ended December 31, 2019**

**OR**

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

**Commission file number: 001-38399**

## AdaptHealth Corp.

(Exact name of registrant as specified in its charter)

| **Delaware** | **82-3677704** |
|---|---|
| (State of Other Jurisdiction of incorporation or Organization) | (I.R.S. Employer Identification No.) |
| **220 West Germantown Pike Suite 250, Plymouth Meeting, PA** | **19462** |
| (Address of principal executive offices) | (Zip code) |

**Registrant's telephone number, including area code: (610) 630-6357**

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

| Title of Each Class | Trading Symbol(s) | Name Of Each Exchange On Which Registered |
|---|---|---|
| **Class A Common Stock, par value $0.0001 per share** | **AHCO** | **The Nasdaq Stock Market LLC** |

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No x

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

Indicate by check mark whether the Registrant has submitted electronically; every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.0405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ☐

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

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

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

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

As of June 28, 2019, the last business day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the shares of Class A Common Stock, par value $0.0001 per share, held by non-affiliates of the Registrant, computed based on the closing sale price of $10.13 per share on June 28, 2019, as reported by The Nasdaq Stock Market LLC, was approximately $253.3 million. Shares of Common Stock held by each executive officer and director and by each shareholder affiliated with a director or an executive officer have been excluded from this calculation because such persons may be deemed to be affiliates. As of March 3, 2020, there were 42,247,356 shares of the Registrant's Class A Common Stock issued and outstanding and 31,063,799 shares of the Registrant's Class B Common Stock issued and outstanding.

**Documents Incorporated by Reference**

The information called for by Part III is incorporated by reference to the Definitive Proxy Statement for the 2020 Annual Meeting of Stockholders of the Registrant which will be filed with the U.S. Securities and Exchange Commission not later than April 29, 2020.

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**CAUTIONARY STATEMENT**

In this Annual Report on Form 10-K, including "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" in Item 7, and the documents incorporated by reference herein, we make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to expectations for future financial performance, business strategies or expectations for our business. These statements may be preceded by, followed by or include the words "may," "might," "will," "will likely result," "should," "estimate," "plan," "project," "forecast," "intend," "expect," "anticipate," "believe," "seek," "continue," "target" or similar expressions.

These forward-looking statements are based on information available to us as of the date they were made, and involve a number of risks and uncertainties which may cause them to turn out to be wrong. Accordingly, forward-looking statements should not be relied upon as representing our views as of any subsequent date, and we do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. As a result of a number of known and unknown risks and uncertainties, our actual results or performance may be materially different from those expressed or implied by these forward- looking statements. Some factors that could cause actual results to differ include:

- the ability to maintain the listing of our Class A Common Stock on Nasdaq;
- competition and the ability of our business to grow and manage growth profitably;
- changes in applicable laws or regulations;
- fluctuations in the U.S. and/or global stock markets;
- the possibility that we may be adversely affected by other economic, business, and/or competitive factors; and
- other risks and uncertainties set forth in this Form 10-K, as well as all documents incorporated by reference herein.

# PART I

## Item 1. Business

We are a leading provider of home healthcare equipment, supplies and related services in the United States. We focus primarily on providing (i) sleep therapy equipment, supplies and related services (including CPAP and bi PAP services) to individuals suffering from obstructive sleep apnea ("OSA"), (ii) home medical equipment ("HME") to patients discharged from acute care and other facilities, (iii) oxygen and related chronic therapy services in the home and (iv) other HME medical devices and supplies on behalf of chronically ill patients with diabetes care, wound care, urological, ostomy and nutritional supply needs. We service beneficiaries of Medicare, Medicaid and commercial payors. As of December 31, 2019, we serviced approximately 1.2 million patients annually in 49 states through our network of 173 locations in 35 states. Following our acquisition of the Patient Care Solutions business ("PCS") from McKesson Corporation in January 2020, we service approximately 1.4 million patients annually in all 50 states through our network of 187 locations in 38 states. Our principal executive offices are located at 220 West Germantown Pike, Suite 250, Plymouth Meeting, Pennsylvania 19462.

We were originally formed in November 2017 as a special purpose acquisition company under the name DFB Healthcare Acquisitions Corp. for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, or similar business combination involving one or more businesses. On November 8, 2019, we completed our initial business combination, (the "Business Combination") with AdaptHealth Holdings LLC ("AdaptHealth Holdings"), a Delaware limited liability company, pursuant to an Agreement and Plan of Merger, dated as of July 8, 2019 (as amended, the "Merger Agreement"), by and among DFB Healthcare Acquisitions Corp. a Delaware corporation (DFB Healthcare Acquisitions Corp. prior to the Business Combination is referred to herein as "DFB"), DFB Merger Sub LLC, a Delaware limited liability company (the "Merger Sub"), our wholly owned subsidiary, AdaptHealth Holdings LLC, AH Representative LLC (the "AdaptHealth Holdings Unitholders' Representative"), BM AH Holdings, LLC, Access Point Medical Inc. (together the "Blocker Companies") and, solely for the purposes described therein, Clifton Offshore Investments L.P., a British Virgin Islands limited partnership (the "A Blocker Seller"), BlueMountain Foinaven Master Fund L.P., a Cayman Islands exempted limited partnership, BMSB L.P. a Delaware limited partnership, BlueMountain Fursan Fund L.P. a Cayman Islands exempted limited partnership (collectively, the "BM Blocker Sellers" and together with the A Blocker Seller, the "Blocker Sellers"). The transactions contemplated by the Merger Agreement are collectively referred to herein as the "Business Combination". As part of the Business Combination, we changed our name from DFB Healthcare Acquisitions Corp. to AdaptHealth Corp. ("we", "us", "our", "AdaptHealth" or the "Company"). Refer to Note 11, *Stockholders' Equity*, included in our consolidated financial statements for the year ended December 31, 2019 included in this report for additional information.

### Industry Overview

The HME industry provides critical medical products and recurring supply services, designed to improve quality of life, to patients in their homes. The HME industry allows patients with complex and chronic conditions to transition to their homes and achieve a greater level of independence, which is often lost in facility-based settings. While the industry has traditionally treated outpatient and lower acuity ailments, recent technological improvements have helped make higher acuity treatment more affordable and, in turn, have allowed the industry to shift to the treatment of more advanced acute ailments. The equipment and supplies that HME providers deliver can include respiratory products, mobility, diabetes management, nutritional and other general home needs (bathroom needs, nutritional needs, hospital beds, etc.).

According to the Centers for Medicare & Medicaid Services ("CMS"), the HME industry has grown from $40 billion in 2010 to $56 billion in 2018 (representing a 4.3% CAGR), of which the Company estimates its total addressable market for its sleep therapy, oxygen services, mobility products and hospice HME business lines to be approximately $12 billion to $15 billion in 2018. During that time Medicaid data shows a continued shift of long-term services and supports spending into the home, with 57% of that spending going to home and community-based services in 2016. According to CMS, the HME market is projected to continue to grow at a 6.1% CAGR over the next nine years. As a result of the acquisition of the diabetic, wound care, ostomy and urological supplies business of PCS in January 2020,

the Company believes it has more than doubled its addressable market to more than $25 billion. Primary drivers of continued market growth include:

- **Aging U.S. Population:** The population of adults aged 65 and older in the U.S., a significant group of end users of AdaptHealth's products and services, is expected to continue to grow and thus grow AdaptHealth's market opportunity. According to CMS, in the U.S., the population of adults between the ages of 65 and 84 is expected to grow at a 2.5% CAGR through 2030, while the population of adults over 85 is projected to grow at a 2.9% CAGR during that same time period. Not only is the elderly population expected to grow, but it is also expected to make up a larger percentage of the total U.S. population. According to the U.S. Census Bureau, the U.S. geriatric population was approximately 15% of the total population in 2014 and is expected to grow to approximately 24% of the total population by 2060. This growth emphasizes the need for companies such as AdaptHealth to provide efficient and effective equipment to a patient's home, shortening the amount of time that the patient population spends in an inpatient setting.

- **Increasing Prevalence of Chronic Conditions:** HME is necessary to help treat significant health issues affecting millions of Americans. For example, chronic obstructive pulmonary disease was the third leading cause of death in the U.S. in 2014 with over 15 million reported diagnoses, according to the Centers for Disease Control and Prevention ("CDC"). Congestive heart failure ("CHF"), another condition where HME plays a role in successful treatment, impacts more than five million Americans, according to the CDC. The CDC also estimates that more than 9% of the US population suffers from diabetes. Finally, according to the American Sleep Apnea Association, OSA affects 20 million people across the nation, with 15 million undiagnosed, including many individuals younger than 65 years old. As these conditions continue to increase in prevalence, AdaptHealth expects that the demand within the HME industry for suppliers, such as AdaptHealth, will grow with it, positioning AdaptHealth to be able to expand its market reach and penetration.

- **Advancements in Technology:** Continuing development of technology and supply logistics has enabled more efficient and effective delivery of care in the home along with the collection of data that can be used for ongoing treatment. This, in turn, has helped grow AdaptHealth's total addressable market. With improvements in technology, physicians are often able to monitor patients' adherence to prescribed therapy which previously required admission to a facility. With the advancement of technology, physicians are more confident in shifting care to a patient's home and patients are more comfortable receiving care in this setting.

- **Increasing Prevalence of and Preference for In-Home Treatments:** The number of conditions that can be treated in the home continues to grow, with recent additions including chronic wound care, sleep testing, dialysis and chemotherapy. In-home care is also increasingly becoming the preferred method of treatment, particularly for the elderly population. According to the AARP Public Policy Institute, 90% of patients over age 55 have indicated a preference to receive care in the home rather than in an institutional setting. Patient preference is supported by data that has shown that the efficacy of home care is often equivalent to that of facility-based care. The home setting provides comfort and convenience for a population that often faces barriers to receiving effective traditional treatment, such as transportation and adherence. By bringing the care to them, the elderly population can maintain a higher quality of life while still receiving high-quality care and equipment. As a result, more companies within the healthcare industry that are primarily facility-based are beginning to shift towards in-home offerings.

- **Home Care is the Lowest Cost Setting:** Not only is in-home care typically just as effective as care delivered in a facility-based setting, but it has also proven to be more cost effective. The cost-effectiveness of in-home care is particularly important within the context of government pressures to lower the cost of care, pushing payors, such as Medicare and Medicaid, and clinicians to seek care settings that are less costly than hospitals and inpatient facilities. On a daily basis, home healthcare has been estimated by Cain Brothers & Company, LLC to be approximately seven times less expensive than care provided in skilled nursing facilities, the closest acuity site of care. Home care generally offers a significant cost reduction opportunity relative to facility-based care without sacrificing quality.

**Business Strategy**

AdaptHealth's strategy is to grow its revenue while expanding margins through targeted strategies for organic growth as well as opportunistic acquisitions that take advantage of AdaptHealth's scalable, integrated technology platform.

- **Drive Market Share Gains in the HME Market:** AdaptHealth plans to leverage its technological and clinical advantages as well as its relationships with key constituents across the HME supply chain to deepen its presence in the HME market. AdaptHealth has built a strong network of highly diversified referral relationships that its sales force will continue to grow to help expand market penetration in certain geographies. Primary referral sources include acute care hospitals, sleep laboratories, pulmonologist offices, skilled nursing facilities and hospice operators, with no one source accounting for greater than 2% of its revenue as of December 31, 2019. AdaptHealth believes that maintaining and broadening these relationships will drive organic growth. AdaptHealth's ability to provide many products across its contracted payors is particularly valuable, especially to providers and facilities that discharge patients with a variety of product needs and insurance coverages. While some of its HME competitors focus on certain specific product lines, AdaptHealth is able to offer a wide array of products to its customers. AdaptHealth believes that its strong referral relationships and its broad product portfolio will help drive market share growth.

- **Grow through Acquisitions:** The HME industry is highly fragmented, with more than 6,000 unique suppliers. AdaptHealth believes that ongoing reimbursement changes will continue the consolidation trend in the HME industry that has accelerated in recent years. AdaptHealth believes that in the current environment, companies with the ability to scale operations possess competitive advantages that can drive volume to their platforms. As one of a limited number of national HME companies, AdaptHealth plans to continue to evaluate acquisitions and execute upon attractive opportunities to help drive growth. For the year ended December 31, 2019, AdaptHealth completed 18 acquisitions for aggregate consideration of $67 million (excluding amounts related to contingent consideration), which are expected to add annual net revenues of approximately $116 million. Three of these acquisitions were closed in the fourth quarter of 2019 and represent approximately $18 million in anticipated annual net revenue in 2020.

- **Improve Profitability with Technology-Enabled Platform:** AdaptHealth plans to leverage its integrated technology system (based upon third party applications and proprietary software products) to reduce costs and improve operational efficiency in its current business and the businesses it acquires. During 2018 and 2019, AdaptHealth has deployed its technology solutions with respect to 39 acquisitions and has established the ability to improve logistics performance and operating margins. AdaptHealth intends to continue to improve its technology platform to enhance its communications with referral sources and provide better patient service.

- **Expand Product Portfolio:** In addition to its other growth initiatives, AdaptHealth also plans to augment its product portfolio to help drive growth. While AdaptHealth offers a suite of products to its referrers and patients, it has identified several key expansion opportunities, including products in the respiratory device, respiratory medicine, diabetes management, orthotic bracing and hospice HME markets. AdaptHealth believes that these products will deepen its portfolio and allow it to further address key clinical conditions which, in turn, are expected to help drive growth across its customer base. AdaptHealth's scale has helped it to be successful in the past when bidding on Medicare contracts.

- **Utilize Value-Based Reimbursement Arrangements:** AdaptHealth's broad HME service offerings and technology-enabled infrastructure provide the opportunity to enter into value-based reimbursement arrangements with its payors and referrers (including large multi-specialty physician groups, hospital systems, and accountable care organizations) pursuant to which AdaptHealth provides certain HME services on a per-patient, per-month basis or shares in reduction of HME service costs over baseline periods. Such arrangements are attractive to risk-bearing providers (such as capitated medical groups) and payors wishing to reduce administrative costs related to HME services.

**Competitive Strengths**

AdaptHealth believes that the following strengths will continue to enable it to provide high quality products and services to its customers and to create value for stockholders.

- **Differentiated Technology-Enabled Platform:** Over the last five years, AdaptHealth has developed an integrated technology system (based upon best-in-class third party applications and proprietary software products) which AdaptHealth believes provides a competitive advantage within the HME industry. AdaptHealth's integrated platform distinguishes itself from other industry participants by automating processes that can be complex, prone to mistakes and inefficient. AdaptHealth believes that its platform's ease of use, improved compliance and automated, integrated workflow for delivery of care appeals to physicians and payors. Additionally, AdaptHealth believes its adoption of e-prescribing solutions enhances transparency and reduces clinical errors and delays. AdaptHealth believes such systems provide better patient service by reducing the time between an order's receipt and the delivery of the products to the patient. AdaptHealth believes its model is scalable, supporting future organic growth while also allowing for timely on-boarding of acquisitions. AdaptHealth believes that this differentiated technology platform will help generate business from new clients, as other competitors either lack the resources to modernize their technology infrastructure or utilize systems which do not easily allow for changes from traditional, less automated models.

- **National Scale and Operational Excellence:** Following AdaptHealth's acquisition of PCS in January 2020, AdaptHealth services approximately 1.4 million patients annually across all 50 states and performs over 10,000 equipment and supply deliveries a day through 187 locations, consisting of 140 patient servicing centers, 38 distribution only depots and 9 administrative offices. AdaptHealth also has relationships with national healthcare distribution companies to drop ship certain HME products directly to patients' homes in one to two days. AdaptHealth believes that its scale makes AdaptHealth attractive to payors as it is able to service its patients across the nation. As of December 31, 2019, AdaptHealth has been able to build a network of more than 1,200 payors, including 10 national and over 150 regional insurers. AdaptHealth's payor network allows the organization to provide in-network rates for most prospective patients, unlike many of its competitors. AdaptHealth believes that this, in turn, makes it more attractive to referral sources and helps to drive volume. AdaptHealth has a broad distribution network to leverage with respect to timely and efficient delivery of products. AdaptHealth has strategically located small depots across the country based upon equipment volume and drive times to support its delivery fleet and help enhance operational success.

- **Experienced Management Team:** AdaptHealth is led by a proven management team with significant experience in the HME and healthcare services industries. The team has domain knowledge within the industry having been employed at various healthcare organizations throughout their careers. Multiple members of the management team have also built independent HME companies and have the proven ability to scale a business within the HME industry. Additionally, several members of the management team have experience within their specific roles in both private and public company settings. Given the complexity of the highly regulated industry in which AdaptHealth operates, AdaptHealth believes that management's experience is a meaningful differentiator relative to its competitors.

- **Proven M&A Success:** AdaptHealth's integrated technology platform includes scalable and centralized front-end and back office processes that facilitate the effective onboarding of potential acquisitions and help achieve cost synergies. AdaptHealth has demonstrated its ability to execute upon acquisitions, deploying over $320 million in capital to complete 64 transactions from its founding through December 31, 2019. As AdaptHealth continues to grow it expects to deploy incrementally more capital and integrate substantially larger targets over time, which in turn it expects will be a source of continued growth for AdaptHealth. For the year ended December 31, 2019, AdaptHealth completed 18 acquisitions for aggregate consideration of $67 million (excluding amounts related to contingent consideration).

**Company Operations**

*Product Offering.* AdaptHealth delivers home medical equipment and supplies directly to a patient's home upon discharge from a hospital and/or receipt of referral. The breadth of AdaptHealth's products is particularly valuable to acute care hospitals, sleep laboratories and long-term care facilities that discharge patients with complex conditions and multiple product needs.

AdaptHealth is often paid a fixed monthly amount for certain HME products as designated by CMS or commercial payors, such as CPAP, wheelchairs, hospital beds, oxygen concentrators, continuous glucose monitors and other similar products. These types of equipment accounted for approximately 40% of AdaptHealth's revenue for the year ended December 31, 2019.

For other products, which include those deemed to be consumables, AdaptHealth receives a single payment upon shipment of the product. Sales of these products, which include CPAP masks and related supplies, diabetes management supplies, wound care supplies, wheelchair cushions accessories, orthopedic bracing, breast pumps and supplies, walkers, commodes and canes, nutritional supplies and incontinence supplies, accounted for approximately 60% of AdaptHealth's revenue for the year ended December 31, 2019.

*Supply Chain.* AdaptHealth plays an important role in delivering HME products to patients in their homes. Manufacturers of home medical equipment sell their products to AdaptHealth and ship them to AdaptHealth directly. AdaptHealth also contracts with national healthcare distribution companies to ship certain HME products directly to patients' homes. These distributors invoice AdaptHealth for the cost of shipped products at the time of sale. AdaptHealth receives referrals from a variety of sources, such as acute care hospitals, sleep laboratories, pulmonologist offices, skilled nursing facilities and hospice operators. AdaptHealth's products are either shipped to patients' homes by AdaptHealth-operated or contracted delivery trucks or shipped using proprietary or third-party distribution services. AdaptHealth bills payors and patients directly for the products that are delivered and for the services that are provided. Following AdaptHealth's acquisition of PCS in January 2020, AdaptHealth services approximately 1.4 million patients annually across all 50 states and performs over 10,000 equipment and supply deliveries a day through 187 locations, consisting of 140 patient servicing centers, 38 distribution-only depots and 9 administrative offices, to help service its patient population efficiently and effectively.

**Operating Structure**

*Management.* AdaptHealth is led by a proven management team with experience in the HME industry across a variety of healthcare organizations. AdaptHealth adopts a centralized approach for key business processes, including M&A activity, revenue cycle management, strategic purchases, payor contracting, finance, compliance, legal, human resources, IT and sales management. In addition, AdaptHealth has centralized many of the functions relating to its CPAP and other resupply businesses. However, AdaptHealth believes that the personalized nature of customer requirements and referral relationships, characteristic of the home healthcare business, mandate that it emphasize a localized operating structure as well. AdaptHealth focuses on regional management to respond promptly and effectively to local market demands and opportunities. AdaptHealth's regional managers are responsible and accountable for maintaining and developing relationships with referral sources, customer service for non-CPAP supply product lines and logistics for non-drop-shipped products.

*IT.* AdaptHealth has established an integrated, technology-enabled, centralized platform, distinguishing itself from many of its competitors who traditionally use less automated processes that are typically complex, can be prone to mistakes and are inefficient. AdaptHealth's technology enables automated, compliant, and integrated workflow into patients' delivery of care. AdaptHealth believes that this advanced technology platform provides it with a competitive advantage through its unique components that cater to patients and physicians. AdaptHealth believes that its technology platform has several characteristics that appeal to physicians, including its ease of use, the improved compliance it enables through its integrated systems and the automated, integrated workflow it provides for patients' delivery of care. Additionally, AdaptHealth's e-prescribing capabilities enhance transparency and reduce transcription and other errors. AdaptHealth believes that patients are also better served due to the efficiency from time of order to delivery and the seamless integration across points of care enabled by AdaptHealth's platform. The integrated system also provides

AdaptHealth management with critical information in a timely manner, allowing them to track performance levels company wide.

AdaptHealth has formed close relationships with its third-party software providers, including Apacheta Corporation, Brightree, Parachute Health and SnapWorx, LLC, to optimize its HME workflow. An example of this optimization is AdaptHealth's automated point-of-delivery technology, which tracks AdaptHealth's drivers and produces paperless, secure delivery tickets which are uploaded directly to the patient's file and available immediately on an enterprise-wide basis. In addition, to address ongoing and growing threats related to cyberattacks, AdaptHealth continues to deploy market leading defense tools to protect and secure its networks and data.

*Revenue Cycle Management.* AdaptHealth's revenue cycle management and billing processes have both manual and computerized elements that are designed to maintain the integrity of revenue and accounts receivable. Third-party payors that can accommodate electronic claims submission, such as Medicare, certain state Medicaid payors and many commercial payors, are billed electronically on a daily basis. For other payors who are unable to accept electronic submissions, AdaptHealth generates paper claims and invoices.

AdaptHealth contracts with several business process outsourcing providers to provide certain billing and administrative functions related to revenue cycle management. These providers are based in the Philippines, India and Central America and provide AdaptHealth with the ability to scale its workforce in a cost-effective manner. As of December 31, 2019, approximately 1,430 full-time equivalent personnel were provided to AdaptHealth under such arrangements. Following AdaptHealth's acquisition of PCS in January 2020, approximately 1,500 full-time equivalent personnel are provided to AdaptHealth under such arrangements.

**Sales and Marketing**

Sales activities are generally carried out by AdaptHealth's full-time sales representatives with assistance from on-site liaisons in certain markets who interact directly with hospital discharge coordinators and patients. AdaptHealth's sales team works closely with AdaptHealth's trained respiratory therapists in carrying out their daily sales activities. AdaptHealth primarily acquires new patients through referrals. Sources of referrals include acute care hospitals, sleep laboratories, pulmonologist offices, skilled nursing facilities and hospice operators, among others. AdaptHealth's sales representatives maintain continual contact with medical professionals across these facilities. AdaptHealth believes that its relationships with its referral sources are strong and that these entities will continue to be a source of organic growth through new patients. While AdaptHealth views its referral sources as fundamental to its business, no single referral source accounted for more than 2% of its revenues as of December 31, 2019.

**Acquisitions**

Continuing to grow through accretive acquisitions is a key element of AdaptHealth's growth strategy, and AdaptHealth continuously reviews its pipeline of potential acquisition candidates. AdaptHealth maintains a dedicated M&A integration team and leverages its scalable front-end and back-office technology platform to facilitate acquisition integration to help realize short-term cost saving synergies and longer-term revenue growth synergies.

During the year ended December 31, 2019, AdaptHealth completed acquisitions involving 18 companies for total purchase consideration of approximately $67 million (excluding amounts related to contingent consideration). For the year ended December 31, 2018, AdaptHealth completed acquisitions involving 21 companies for total purchase consideration of approximately $171 million.

**Suppliers**

AdaptHealth purchases medical equipment from a variety of suppliers. AdaptHealth's sleep therapy equipment and supplies are primarily provided by two suppliers, and its mobility and home services products (such as hospital beds, wheelchairs, walkers and commodes) are principally supplied by a single supplier. Notwithstanding its significant supply relationships with these vendors, AdaptHealth believes that it is not dependent upon any single supplier and that its product needs can be met by an adequate number of qualified manufacturers.

**Facilities**

AdaptHealth does not own any properties and leases its headquarters facility located at 220 West Germantown Pike, Suite 250, Plymouth Meeting, PA. As of December 31, 2019, AdaptHealth served approximately 1.2 million patients annually across 49 states and performed over 7,000 equipment and supply deliveries a day through 173 locations, consisting of 128 patient servicing centers, 36 distribution-only depots and 9 administrative offices. Following AdaptHealth's acquisition of PCS in January 2020, AdaptHealth services approximately 1.4 million patients annually across all 50 states and performs over 10,000 equipment and supply deliveries a day through 187 locations, consisting of 140 patient servicing centers, 38 distribution-only depots and 9 administrative offices. Full service locations are typically between 300 and 5,000 square feet, and are usually a combination office and warehouse space. Many of these facilities are accredited to provide patient services, and their adjacent warehouse space is used for storage of adequate supplies of equipment and accessories for such patient services. AdaptHealth believes that these facilities are adequate to meet its current needs, and expects to add additional facilities in connection with its growth strategies. AdaptHealth believes that such additional space, when required, will be available on commercially reasonable terms, consistent with historical cost trends.

**Employees**

As of December 31, 2019, AdaptHealth had approximately 2,590 employees. Following AdaptHealth's acquisition of PCS in January 2020, AdaptHealth has approximately 3,060 employees. AdaptHealth believes that relations between its management and employees are good.

**Competition**

The HME market is fragmented and highly competitive. AdaptHealth competes with other large national providers, including AeroCare, Apria Healthcare, Lincare and Rotech; regional providers, including DASCO Home Medical Equipment, Binson's Medical Equipment, Inc., Norco, Inc. and Protech Home Medical Corp.; and product-specific providers, including Breg, Inc., Byram Healthcare Centers, Inc., Inogen, Inc. and Acelity L.P. Inc, as well as over 6,000 local organizations. In addition, non-HME providers, including CVS, Amazon and certain manufacturers of HME equipment, are considering entering or expanding their presence in the HME market.

Consolidation of the HME market is a continuing trend, as required technology investments and reduced reimbursements put financial pressure on smaller providers. Larger HME providers with integrated technology and automated processes are generally better positioned to gain market share and more attractive vendor pricing. Competitive bidding also emphasizes the importance of relationships with both the payors and referral sources. Because payors typically select a limited number of exclusive suppliers and physicians typically refer based on timely delivery and consistency, relationships with both are critical to the success of competitors in the market.

AdaptHealth believes that the most important competitive factors in the regional and local markets are:

- Reputation with referral sources, including local physicians and hospital-based professionals;
- Service quality and efficient, responsive referral process;
- Differentiated technology platform that provides a superior physician and patient experience;
- Comprehensive offering across the home medical equipment space;
- Broad network of payor contracts and regional insurers;
- Overall ease of doing business; and
- Quality of patient care, including clinical expertise.

AdaptHealth believes that it competes favorably with competitors on the basis of these and other factors.

**Legal Proceedings**

AdaptHealth is involved in investigations, claims, lawsuits and other proceedings arising in the ordinary course of its business. These matters involve personnel and employment issues, regulatory matters, personal injury, contract and other proceedings arising in the ordinary course of business, which have not resulted in any material losses to date. Although AdaptHealth does not expect the outcome of these proceedings will have a material adverse effect on its financial condition or results of operations, such matters are inherently unpredictable. Therefore, AdaptHealth could incur judgments or enter into settlements or claims that could materially impact its financial condition or results of operations.

In addition, on July 25, 2017, AdaptHealth Holdings was served with a subpoena by the U.S. Attorney's Office for the United States District Court for the Eastern District of Pennsylvania ("EDPA") pursuant to 18 U.S.C. §3486 to produce certain audit records and internal communications regarding ventilator billing. The investigation appears to be focused on billing practices regarding one payor that contracted for bundled payments for certain ventilators. AdaptHealth Holdings has cooperated with investigators and, through agreement with the EDPA, has submitted all information requested. An independent third party was retained by AdaptHealth Holdings that identified overpayments and underpayments for ventilator billings related to the payor, and a remittance was sent to reconcile that account. AdaptHealth Holdings has cooperated and fully complied with the subpoena. On October 3, 2019 AdaptHealth received a follow-up civil investigative demand from the EDPA regarding a document previously produced to the EDPA and patients included in the review by the independent third party. AdaptHealth has responded to the EDPA and supplemented its production as requested. At this time, AdaptHealth Holdings cannot provide any assurance as to whether the EDPA will seek additional information or pursue this matter further.

**Government Regulation**

The federal government and all states in which AdaptHealth currently operates regulate various aspects of AdaptHealth's business. In particular, AdaptHealth's operations are subject to federal laws that regulate the reimbursement of its products and services under various government programs and that are designed to prevent fraud and abuse. AdaptHealth's operations are also subject to state laws governing, among other things, pharmacies, nursing services, medical equipment suppliers and certain types of home health activities. Certain of its employees are subject to state laws and regulations governing the licensure and professional practice of respiratory therapy, pharmacy and nursing.

AdaptHealth maintains a Compliance Program that meets the guidelines set forth by the Office of Inspector General of CMS, and provides ongoing compliance training designed to keep AdaptHealth's officers, directors and employees well-educated and up-to-date regarding developments on relevant topics and to emphasize AdaptHealth's policy of strict compliance. Federal and state laws require that AdaptHealth obtain facility and other regulatory licenses and that AdaptHealth enroll as a supplier with federal and state health programs.

As a healthcare provider, AdaptHealth is subject to extensive regulation to prevent fraud and abuse and laws regulating reimbursement under various government programs. The marketing, billing, documenting and other practices of healthcare companies are all subject to government scrutiny. To ensure compliance with Medicare, Medicaid and other regulations, regional health insurance carriers and state agencies often conduct audits and request customer records and other documents to support AdaptHealth's claims submitted for payment of services rendered to customers. Similarly, government agencies and their contractors periodically open investigations and obtain information from healthcare providers pursuant to the legal process. Violations of federal and state regulations can result in severe criminal, civil and administrative penalties and sanctions, including disqualification from Medicare and other reimbursement programs, which could have a material adverse effect on AdaptHealth's financial condition and results of operations.

Numerous federal and state laws and regulations, including HIPAA and the HITECH Act, govern the collection, dissemination, security, use and confidentiality of patient-identifiable health information. As part of

AdaptHealth's provision of, and billing for, healthcare equipment and services, AdaptHealth is required to collect and maintain patient-identifiable health information. New health information standards, whether implemented pursuant to HIPAA, the HITECH Act, congressional action or otherwise, could have a significant effect on the manner in which AdaptHealth handles healthcare-related data and communicate with payers, and the cost of complying with these standards could be significant. If AdaptHealth does not comply with existing or new laws and regulations related to patient health information, it could be subject to criminal or civil sanctions.

Healthcare is an area of rapid regulatory change. Changes in the laws and regulations and new interpretations of existing laws and regulations may affect permissible activities, the relative costs associated with doing business, and reimbursement amounts paid by federal, state and other third-party payers. AdaptHealth cannot predict the future of federal, state and local regulation or legislation, including Medicare and Medicaid statutes and regulations, or possible changes in national healthcare policies. Future legislative and regulatory changes could have a material adverse effect on AdaptHealth's financial condition and results of operations.

**Implemented Regulation**

As a provider of home oxygen, respiratory and other chronic therapy equipment to the home healthcare market, AdaptHealth participates in Medicare Part B, the Supplementary Medical Insurance Program, which was established by the Social Security Act of 1965. Providers of home oxygen and other respiratory therapy services and equipment have historically been heavily dependent on Medicare reimbursement due to the high proportion of elderly persons suffering from respiratory disease. Durable medical equipment, including oxygen equipment, is traditionally reimbursed by Medicare based on fixed fee schedules.

*Impact of the ACA and MIPPA.* The ACA, the Medicare Improvements for Patients and Providers Act of 2008 ("MIPPA"), the Medicare, Medicaid and SCHIP Extension Act of 2007 ("SCHIP Extension Act"), the Deficit Reduction Act of 2005 ("DRA") and the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 ("MMA") contain provisions that directly impacted reimbursement for the primary respiratory and other durable medical equipment ("DME") products provided by AdaptHealth.

In recent years, the U.S. Congress and certain state legislatures have considered and passed a large number of laws intended to result in significant change to the ACA. The law has been subject to legislative and regulatory changes and court challenges, and the current presidential administration and certain members of Congress have stated their intent to repeal or make additional significant changes to the ACA, its implementation or its interpretation. In 2017, the Tax Cuts and Jobs Acts was enacted, which, among other things, removed penalties for not complying with ACA's individual mandate to carry health insurance. In addition, the president has signed an executive order that directs agencies to minimize "economic and regulatory burdens" of the ACA. Because the penalty associated with the individual mandate was eliminated, a federal judge in Texas ruled in December 2018 that the entire ACA was unconstitutional. However, the law remains in place pending appeal. These changes and court challenges may impact the number of individuals that elect to obtain public or private health insurance or the scope of such coverage, if purchased. The presidential administration and the U.S. Congress may take further action regarding the ACA, including, but not limited to, repeal or replacement. Additionally, all or a portion of the ACA and related subsequent legislation may be modified, repealed or otherwise invalidated through further legislation or judicial challenge, which could result in lower numbers of insured individuals, and reduced coverage for insured individuals. There is uncertainty regarding whether, when, and how the ACA will be further changed, what alternative provisions, if any, will be enacted, and the impact of alternative provisions on providers and other healthcare industry participants. Government efforts to repeal or change the ACA or to implement alternative reform measures could cause AdaptHealth's revenues to decrease to the extent such legislation reduces Medicaid and/or Medicare reimbursement rates.

MIPPA delayed the implementation of a Medicare competitive bidding program for oxygen equipment and certain other DME items that was scheduled to begin on July 1, 2008, and instituted a 9.5% price reduction nationwide for these items as of January 1, 2009. The SCHIP Extension Act reduced Medicare reimbursement amounts for covered Part B drugs, including inhalation drugs that AdaptHealth provides, beginning April 1, 2008. DRA provisions negatively impacted reimbursement for oxygen equipment beginning in 2009 through the implementation of a capped rental arrangement. MMA changed the pricing formulas used to establish payment rates for inhalation drug therapies resulting

in significantly reduced reimbursement beginning in 2005, established a competitive acquisition program for DME, established a Recovery Audit Contractors program, which implemented a new method for recovery of Medicare overpayments by utilizing private companies operating on a contingent fee basis to identify and recoup Medicare overpayments, and implemented quality standards and accreditation requirements for DME suppliers. The RACs are empowered to audit claims submitted by healthcare providers and to withhold future payments, including in cases where the reimbursement rules are unclear or subject to differing interpretations. This activity, as well as the activity of intermediaries and others involved in government reimbursement, may include changes in long-standing interpretations of reimbursement rules, which could adversely impact AdaptHealth's future financial condition and results of operations. In October 2008, CMS established Zone Program Integrity Contractors ("ZPICs"), who are responsible for ensuring the integrity of all Medicare-related claims. The ZPICs assumed the responsibilities previously held by Medicare's Program Safeguard Contractors ("PSCs"). These legislative and regulatory provisions, as currently in effect have and will continue to adversely impact AdaptHealth's financial condition and results of operations.

*Impact of Competitive Bidding.* In December 2003, MMA was signed into law. The MMA legislation directly impacted reimbursement for the primary respiratory and other DME products that AdaptHealth provides. Among other things, MMA established a competitive acquisition program for DME that was expected to commence in 2008, but was subsequently delayed by further legislation. MMA instructed CMS to establish and implement programs under which competitive acquisition areas would be established throughout the United States for purposes of awarding contracts for the furnishing of competitively priced items of DME, including oxygen equipment. The program was initially intended to be implemented in phases such that competition under the program would occur in nine of the largest metropolitan statistical areas ("MSAs") in the first year and an additional 70 of the largest MSAs in a second, subsequent round of bidding. The second round was subsequently expanded to include 91 MSAs.

For each competitive acquisition area, CMS is required to conduct a competition under which providers submit bids to supply certain covered items of DME. Successful bidders are expected to meet certain program quality standards in order to be awarded a contract, and only successful bidders can supply the covered items to Medicare beneficiaries in the acquisition area (there are, however, regulations in place that allow non-contracted providers to continue to provide equipment and services to their existing customers at the new prices determined through the bidding process). The contracts are expected to be re-bid at least every three years. CMS is required to award contracts to multiple entities submitting bids in each area for an item or service but has the authority to limit the number of contractors in a competitive acquisition area to the number it determines to be necessary to meet projected demand. CMS concluded the bidding process for the first round of MSAs in September 2007. However, in July 2008, Congress enacted the MIPPA legislation which retroactively delayed the implementation of competitive bidding and reduced Medicare prices nationwide by 9.5% beginning in 2009 for the product categories, including oxygen, that were initially included in competitive bidding.

In 2009, CMS reinstituted the bidding process in the nine largest MSA markets. Reimbursement rates from the re-bidding process were publicly released by CMS on June 30, 2010. CMS announced average savings of approximately 32% off the current payment rates in effect for the product categories included in competitive bidding. As of January 1, 2011, these payment rates were in effect in the nine markets only (Charlotte, Cincinnati, Cleveland, Dallas, Kansas City, Miami, Orlando, Pittsburgh and Riverside). AdaptHealth's annual Medicare revenues from the product categories in the nine markets affected by competitive bidding were approximately $5.6 million at the time the program commenced.

On January 30, 2013, CMS announced new, lower Medicare pricing for the second round of competitive bidding effective July 1, 2013. CMS announced average savings of approximately 45% for the product categories included in Round 2. The ACA legislation requires CMS to expand competitive bidding further to additional geographic markets (certain markets may be excluded at the discretion of CMS) or to use competitive bid pricing information to adjust the payment amounts otherwise in effect for areas that are not competitive acquisition areas by January 1, 2016.

CMS is required by law to re-compete competitive bidding contracts at least once every three years. With the Round 1 rebid contracts expiring on December 31, 2013, new Round 1 re-compete contracts and pricing went into effect on January 1, 2014. Round 1 re-compete bidding occurred in the same nine Metropolitan Statistical Areas ("MSAs") as the Round 1 rebid. CMS' contract prices under the Round 1 re-compete averaged 37% below Medicare's fee schedule rates for the six product categories.

On March 7, 2019, CMS announced plans to consolidate the competitive bidding areas included in the Round 2 re-compete and Round 1 2017 DMEPOS Competitive Bidding Program into a single round of competition referred to as "Round 2021." Round 2021 contracts are scheduled to become effective on January 1, 2021, and extend through December 31, 2023. The competitive bidding process has historically put pressure on the amount AdaptHealth is reimbursed in the markets in which it exists as well as in areas that are not subject to the Competitive Bidding Program. The rates required to win future competitive bids could continue to compress reimbursement rates. AdaptHealth will continue to monitor developments regarding the Competitive Bidding Program. While AdaptHealth cannot predict the outcome of the Competitive Bidding Program on its business in the future nor the Medicare payment rates that will be in effect in future years for the items subjected to competitive bidding, the program may materially adversely affect its future financial condition and results of operations.

*Durable Medical Equipment Medicare Administrative Contractor.* In order to ensure that Medicare beneficiaries only receive medically necessary and appropriate items and services, the Medicare program has adopted a number of documentation requirements. For example, the DME MAC Supplier Manuals provide that clinical information from the "patient's medical record" is required to justify the initial and ongoing medical necessity for the provision of DME. Some DME MACs, CMS staff and government subcontractors have recently taken the position, among other things, that the "patient's medical record" refers not to documentation maintained by the DME supplier but instead to documentation maintained by the patient's physician, healthcare facility or other clinician, and that clinical information created by the DME supplier's personnel and confirmed by the patient's physician is not sufficient to establish medical necessity. It may be difficult, and sometimes impossible, for AdaptHealth to obtain documentation from other healthcare providers. Moreover, auditors' interpretations of these policies are inconsistent and subject to individual interpretation, leading to significant increases in individual supplier and industry-wide perceived error rates. High error rates lead to further audit activity and regulatory burdens. If these or other burdensome positions are generally adopted by auditors, DME MACs, other contractors or CMS in administering the Medicare program, AdaptHealth would have the right to challenge these positions as being contrary to law. If these interpretations of the documentation requirements are ultimately upheld, however, it could result in AdaptHealth making significant refunds and other payments to Medicare, and AdaptHealth's future revenues and cash flows from Medicare may be reduced. AdaptHealth cannot currently predict the adverse impact these interpretations of the Medicare documentation requirements might have on its financial condition and results of operations, but such impact could be material.

Federal and state budgetary and other cost-containment pressures will continue to impact the home respiratory care industry. AdaptHealth cannot predict whether new federal and state budgetary proposals will be adopted or the effect, if any, such proposals would have on its financial condition and results of operations.

**Availability of Information**

We file or furnish annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission (the "SEC") under the Exchange Act. The SEC maintains an internet website at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers, including us, that file electronically with the SEC.

We also make available free of charge through our website, https://www.adapthealth.com/investor-relations, electronic copies of certain documents that we file with the SEC, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Information on our website or any other website is not incorporated by reference into, and does not constitute a part of, this Annual Report.

**Item 1A. Risk Factors**

*We operate in a rapidly changing environment that involves a number of risks. The following discussion highlights some of these risks. and others are discussed elsewhere in this report. These and other risks could materially and adversely affect our business, revenue, financial condition and results of operations.*

**Risks Related to Our Business and Industry**

***AdaptHealth's revenue could be impacted by federal and state changes to reimbursement and other aspects of Medicaid and Medicare.***

AdaptHealth derived approximately 32% of its revenue for the year ended December 31, 2019 from Medicare and various state-based Medicaid programs. These programs are subject to statutory and regulatory changes affecting overall spending, base rates or basis of payment, retroactive rate adjustments, annual caps that limit the amount that can be paid (including deductible and coinsurance amounts) for rehabilitation therapy services rendered to Medicare beneficiaries, administrative or executive orders and government funding restrictions, all of which may materially adversely affect the rates and frequency at which these programs reimburse AdaptHealth. For example, the Medicaid Integrity Contractor program is increasing the scrutiny placed on Medicaid payments and could result in recoupments of alleged overpayments in an effort to rein in Medicaid spending. Recent budget proposals and legislation at both the federal and state levels have called for cuts in reimbursement for healthcare providers participating in the Medicare and Medicaid programs. Enactment and implementation of measures to reduce or delay reimbursement or overall Medicare or Medicaid spending could result in substantial reductions in AdaptHealth's revenue and profitability. Payors may disallow AdaptHealth's requests for reimbursement based on determinations that certain costs are not reimbursable or reasonable because either adequate or additional documentation was not provided or because certain services were not covered or considered reasonably necessary. Additionally, revenue from these payors can be retroactively adjusted after a new examination during the claims settlement process or as a result of post-payment audits.

***AdaptHealth's business may be adversely impacted by healthcare reform efforts, including repeal of or significant modifications to, the ACA.***

In recent years, the U.S. Congress and certain state legislatures have considered and passed a number of laws that are intended to result in significant changes to the healthcare industry. However, there is significant uncertainty regarding the future of the Patient Protection and Affordable Care Act ("ACA"), the most prominent of these reform efforts. The law has been subject to legislative and regulatory changes and court challenges, and the current presidential administration and certain members of Congress have stated their intent to repeal or make additional significant changes to the ACA, its implementation or its interpretation. In 2017, the Tax Cuts and Jobs Acts was enacted, which, effective January 1, 2019, among other things, removed penalties for not complying with ACA's individual mandate to carry health insurance. In addition, President Trump has signed an executive order that directs agencies to minimize "economic and regulatory burdens" of the ACA. Because the penalty associated with the individual mandate was eliminated, a federal judge in Texas ruled in December 2018 that the entire ACA was unconstitutional. The presidential administration and the Centers for Medicare and Medicaid Services have both stated that the ruling will have no immediate effect, and on December 18, 2019, the Fifth Circuit U.S. Court of Appeals upheld the lower court's finding that the individual mandate is unconstitutional and remanded the case back to the lower court to reconsider its earlier invalidation of the full ACA. Pending review, the law remains in effect, but it is unclear at this time what effect the latest ruling will have on the status of the ACA. These changes and court challenges may impact the number of individuals that elect to obtain public or private health insurance or the scope of such coverage, if purchased. The presidential administration and the U.S. Congress may take further action regarding the ACA, including, but not limited to, repeal or replacement. Additionally, all or a portion of the ACA and related subsequent legislation may be modified, repealed or otherwise invalidated through further legislation or judicial challenge, which could result in reduced funding for state Medicaid programs, lower numbers of insured individuals, and reduced coverage for insured individuals. There is uncertainty regarding whether, when, and how the ACA will be further changed, what alternative provisions, if any, will be enacted, and the impact of alternative provisions on providers and other healthcare industry participants. Government efforts to repeal or change the ACA or to implement alternative reform measures could cause AdaptHealth's revenues to decrease to the extent such legislation reduces Medicaid and/or Medicare reimbursement rates.

***AdaptHealth is affected by continuing efforts by private third-party payors to control their costs. If AdaptHealth agrees to lower its reimbursement rates due to pricing pressures from private third-party payors, AdaptHealth's financial condition and results of operations would likely deteriorate.***

AdaptHealth derived approximately 57% of its revenue for the year ended December 31, 2019 from third-party private payors. Such payors continually seek to control the cost of providing healthcare services through direct contracts with healthcare providers, increased oversight and greater enrollment of patients in managed care programs and preferred provider organizations. These private payors are increasingly demanding discounted fee structures, including setting reimbursement rates based on Medicare fee schedules and the assumption by the healthcare provider of all or a portion of the financial risk. Reimbursement payments under private payor programs may not remain at current levels and may not be sufficient to cover the costs allocable to patients eligible for reimbursement pursuant to such programs, and AdaptHealth may suffer deterioration in pricing flexibility, changes in payor mix and growth in operating expenses in excess of increases in payments by private third-party payors. AdaptHealth may be compelled to lower its prices due to increased pricing pressures, which could adversely impact AdaptHealth's financial condition and results of operations.

***Changes in governmental or private payor supply replenishment schedules could adversely affect AdaptHealth.***

AdaptHealth generated approximately 42% of its revenue for the year ended December 31, 2019 through the sale of masks, tubing and other ancillary products related to patients utilizing CPAP devices. Medicare, Medicaid and private payors limit the number of times per year that patients may purchase such supplies. To the extent that any governmental or private payor revises their resupply guidelines to reduce the number of times such supplies can be purchased, such reductions could adversely impact AdaptHealth's revenue, financial condition and results of operations.

***AdaptHealth generates a significant portion of its revenue from the provision of sleep therapy equipment and supplies to patients, and AdaptHealth is therefore highly dependent on it for its success.***

Approximately 58% of AdaptHealth's revenue for the year ended December 31, 2019 was generated from the provision of sleep therapy equipment and supplies to patients. AdaptHealth's ability to execute its growth strategy therefore depends upon the adoption by patients, physicians and sleep centers, among others, of AdaptHealth's sleep therapy equipment and supplies to treat their patients suffering from OSA. There can be no assurance that AdaptHealth will continue to maintain broad acceptance among physicians and patients. Any failure by AdaptHealth to satisfy physician or patient demand or to maintain meaningful market acceptance will harm its business and future prospects.

***AdaptHealth may be adversely affected by consolidation among health insurers and other industry participants.***

In recent years, a number of health insurers have merged or increased efforts to consolidate with other non-governmental payors. Insurers are also increasingly pursuing alignment initiatives with healthcare providers. Consolidation within the health insurance industry may result in insurers having increased negotiating leverage and competitive advantages, such as greater access to performance and pricing data. AdaptHealth's ability to negotiate prices and favorable terms with health insurers in certain markets could be affected negatively as a result of this consolidation. In addition, the shift toward value-based payment models could be accelerated if larger insurers, including those engaging in consolidation activities, find these models to be financially beneficial. There can be no assurance that AdaptHealth will be able to negotiate favorable terms with payors and otherwise respond effectively to the impact of increased consolidation in the payor industry or vertical integration efforts.

***AdaptHealth's payor contracts are subject to renegotiation or termination, which could result in a decrease in AdaptHealth's revenue or profits.***

The majority of AdaptHealth's payor contracts are subject to unilateral termination by either party on between 30 and 90 days' prior written notice. Such contracts are routinely amended (sometimes by unilateral action by payors regarding payment policy), renegotiated, subjected to a bidding process with AdaptHealth's competitors, or terminated altogether. Sometimes in the renegotiation process, certain lines of business may not be renewed or a payor may enlarge

its provider network or otherwise adversely change the way it conducts its business with AdaptHealth. In other cases, a payor may reduce its provider network in exchange for lower payment rates. AdaptHealth's revenue from a payor may also be adversely affected if the payor alters its utilization management expectations and/or administrative procedures for payments and audits, changes its order of preference among the providers to which it refers business or imposes a third-party administrator, network manager or other intermediary. Any reduction in AdaptHealth's projected home respiratory therapy/home medical equipment revenues as a result of these or other factors could lead to a reduction in AdaptHealth's revenues. There can be no assurance that AdaptHealth's payor contracts will not be terminated or altered in ways that are unfavorable to AdaptHealth as a result of renegotiation or such administrative changes. Payors may decide to refer business to their owned provider subsidiaries, such as specialty pharmaceuticals and/or HME networks owned by such payors or by third-party management companies. These activities could materially reduce AdaptHealth's revenue from these payors.

***If AdaptHealth fails to manage the complex and lengthy reimbursement process, its revenue, financial condition and results of operations could suffer.***

Because AdaptHealth depends upon reimbursement from Medicare, Medicaid and third-party payors for a significant majority of its revenues, AdaptHealth's revenue, financial condition and results of operations may be affected by the reimbursement process, which in the healthcare industry is complex and can involve lengthy delays between the time that services are rendered and the time that the reimbursement amounts are settled. Depending on the payor, AdaptHealth may be required to obtain certain payor-specific documentation from physicians and other healthcare providers before submitting claims for reimbursement. Certain payors have filing deadlines and will not pay claims submitted after such time. AdaptHealth cannot ensure that it will be able to effectively manage the reimbursement process and collect payments for its equipment and services promptly.

***If the Centers for Medicare and Medicaid Services ("CMS") require prior authorization or implement changes in documentation necessary for AdaptHealth's products, AdaptHealth's revenue, financial condition and results of operations could be negatively impacted.***

CMS has established and maintains a Master List of Items Frequently Subject to Unnecessary Utilization of certain DMEPOS that the Secretary determined, based on prior payment experience, are frequently subject to unnecessary utilization. This list identifies items that CMS has determined could potentially be subject to Prior Authorization as a condition of Medicare payment. Since 2012, CMS has also maintained a list of categories of DMEPOS items to include face-to-face encounters with practitioners and written orders before furnishing the items to beneficiaries. On November 8, 2019 CMS combined and harmonized the two lists to create a single unified Master List of DMEPOS Items Potentially Subject to Face-To-Face Encounter and Written Order Prior to Delivery and/or Prior Authorization Requirements ("Master List"). In November 2019, CMS also reduced the financial threshold for inclusion on the Master List. With certain exceptions for reductions in Payment Threshold, items remain on the Master List for 10 years from the date the item was added to the Master List. The presence of an item on the Master List does not automatically mean that a prior authorization is required. Currently, CMS selects items from the Master List for inclusion on the "Required Prior Authorization List." The expanded Master List would increase the number of DMEPOS items potentially eligible to be selected for prior authorization, face-to-face encounter and written order prior to delivery requirements as a condition of payment.

On April 22, 2019, CMS has added items that are a part of AdaptHealth's product lines to the Master List of Items Frequently Subject to Unnecessary Utilization. If CMS adds additional products to the Master List, expands Prior Authorization requirements or expands Face-to-Face Encounter and Written Order Prior to Delivery requirements to products in AdaptHealth's product line, such requirements may adversely impact AdaptHealth's revenue, financial condition and results from operations.

***Reimbursement claims are subject to audits by various governmental and private payor entities from time to time and such audits may negatively affect AdaptHealth's revenue, financial condition and results of operations.***

AdaptHealth receives a substantial portion of its revenues from the Medicare program. Medicare reimbursement claims made by healthcare providers, including HME providers, are subject to audit from time to time by governmental

payors and their agents, such as Medicare Administrative Contractors ("MACs") that act as fiscal intermediaries for all Medicare billings, auditors contracted by CMS, and insurance carriers, as well as HHS-OIG, CMS and state Medicaid programs. These include specific requirements imposed by the Durable Medical Equipment Medicare Administrative Contractor ("DME MAC") Supplier Manuals. To ensure compliance with Medicare, Medicaid and other regulations, government agencies or their contractors, including MACs, Recovery Audit Contractors and Zone Program Integrity Contractors, often conduct audits and request customer records and other documents to support our claims submitted for payment of services rendered. In many instances, there are only limited publicly-available guidelines and methodologies for determining errors with certain audits. As a result, there can be a significant lack of clarity regarding required documentation and audit methodology. The clarity and completeness of each patient medical file, some of which is the work product of physicians not employed by AdaptHealth, is essential to successfully challenging any payment denials. For example, the DME MAC Supplier Manuals provide that clinical information from the "patient's medical record" is required to justify the initial and ongoing medical necessity for the provision of DME. Some DME MACs, CMS staff and government subcontractors have taken the position, that the "patient's medical record" refers not to documentation maintained by the Durable Medical Equipment ("DME") supplier but instead to documentation maintained by the patient's physician, healthcare facility or other clinician, and that clinical information created by the DME supplier's personnel and confirmed by the patient's physician is not sufficient to establish medical necessity. If the physicians working with AdaptHealth's patients do not adequately document, among other things, their diagnoses and plans of care, AdaptHealth's risks related to audits and payment denials in general are greater. Depending on the nature of the conduct found in such audits and whether the underlying conduct could be considered systemic, the resolution of these audits could adversely impact AdaptHealth's revenue, financial condition and results of operations.

CMS has developed and instituted various audit programs under which CMS contracts with private companies to conduct claims and medical record audits. These audits are in addition to those conducted by existing MACs. Some contractors are paid a percentage of the overpayments recovered. One type of audit contractor, the Recovery Audit Contractors ("RACs"), receive claims data directly from MACs on a monthly or quarterly basis and are authorized to review previously paid claims. It is unclear whether CMS intends to conduct RAC prepayment reviews in the future and if so, what providers and claims would be the focus of those reviews.

Moreover, the ACA now requires that overpayments be reported and returned within 60 days of identification of the overpayment. Any overpayment retained after this deadline will now be considered an "obligation" for purposes of the False Claims Act and subject to fines and penalties. CMS currently has a six-year "lookback period," for reporting and returning the "identified" overpayment. Private payors also reserve rights to conduct audits and make monetary adjustments.

AdaptHealth's third-party payors may also, from time to time, request audits of the amounts paid, or to be paid, to AdaptHealth. AdaptHealth could be adversely affected in some of the markets in which it operates if the auditing payor alleges substantial overpayments were made to AdaptHealth due to coding errors or lack of documentation to support medical necessity determinations.

AdaptHealth cannot currently predict the adverse impact, if any, that these audits, methodologies and interpretations might have on its financial condition and results of operations.

***Significant reimbursement reductions and/or exclusion from markets or product lines could adversely affect AdaptHealth.***

All Medicare Durable Medical Equipment, Prosthetics, Orthotics, & Supplies ("DMEPOS") Competitive Bidding Program contracts expired on December 31, 2018, and, as a result, there is a temporary gap in the entire DMEPOS Competitive Bidding Program that CMS expects will last until December 31, 2020.

On March 7, 2019, CMS announced plans to consolidate the competitive bidding areas ('CBAs") included in the Round 1 2017 and Round 2 Recompete DMEPOS Competitive Bidding Programs into a single round of competition named "Round 2021." Round 2021 contracts are scheduled to become effective on January 1, 2021, and extend through December 31, 2023. The bid window for the Round 2021 DMEPOS Competitive Bidding Program closed on September 18, 2019.

For each CBA, providers will submit bids to CMS offering to supply certain covered items of DME in the CBA at certain prices. A number of products in AdaptHealth's product lines are included on the list of products subject to Round 2021. For the year ended December 31, 2019, AdaptHealth estimates that approximately $145 million of revenue was generated with respect to covered items in competitive bidding areas subject to Round 2021.The $145.0 million estimate excludes amounts generated in non-rural and rural non-bid areas, as well as, products not currently part of Competitive Bidding Programs. As part of the competitive bidding process, single payment amounts ("SPAs") replace the current Medicare durable medical equipment fee schedule payment amounts for selected items in certain areas of the country. The SPAs are determined by using bids submitted by DME suppliers. CMS will select winning bidders based upon the CMS-determined demand in each CBA, and the price assigned to the winning bidders shall be the price submitted by the final bidder accepted to meet such CBA's volume demand. Successful bidders are expected to meet certain program quality standards in order to be awarded a contract and only successful bidders can supply the covered items to Medicare beneficiaries in the acquisition area (there are, however, regulations in place that allow non-contracted providers to continue to provide equipment and services to their existing customers at the new prices determined through the bidding process). The contracts are expected to be re-bid at least every three years. CMS is required to award contracts to multiple entities submitting bids in each area for an item or service, but has the authority to limit the number of contractors in a competitive acquisition area to the number it determines to be necessary to meet projected demand. AdaptHealth's exclusion from certain markets or product lines could materially adversely affect its financial condition and results of operations.

The competitive bidding process has historically put pressure on the amount AdaptHealth is reimbursed in the markets in which it exists, as well as in areas that are not subject to the Competitive Bidding Program. The rates required to win future competitive bids could continue to compress reimbursement rates. AdaptHealth will continue to monitor developments regarding the competitive bidding program. While AdaptHealth cannot predict the outcome of the competitive bidding program on its business in the future nor the Medicare payment rates that will be in effect in future years for the items subjected to competitive bidding, the program may materially adversely affect its financial condition and results of operations.

***Failure by AdaptHealth to maintain controls and processes over billing and collections or the deterioration of the financial condition of AdaptHealth's payors or disputes with third parties could have a significant negative impact on its financial condition and results of operations.***

The collection of accounts receivable requires constant focus and involvement by management and ongoing enhancements to information systems and billing center operating procedures. There can be no assurance that AdaptHealth will be able to improve upon or maintain its current levels of collectability and days sales outstanding in future periods. Further, some of AdaptHealth's payors and/or patients may experience financial difficulties, or may otherwise not pay accounts receivable when due, resulting in increased write-offs. If AdaptHealth is unable to properly bill and collect its accounts receivable, its financial condition and results of operations will be adversely affected. In addition, from time to time AdaptHealth is involved in disputes with various parties, including its payors and their intermediaries regarding their performance of various contractual or regulatory obligations. These disputes sometimes lead to legal and other proceedings and cause AdaptHealth to incur costs or experience delays in collections, increases in its accounts receivable or loss of revenue. In addition, in the event such disputes are not resolved in AdaptHealth's favor or cause AdaptHealth to terminate its relationships with such parties, there may be an adverse impact on its financial condition and results of operations.

***If AdaptHealth is unable to maintain or develop relationships with patient referral sources, its growth and profitability could be adversely affected.***

AdaptHealth's success depends in large part on referrals from acute care hospitals, sleep laboratories, pulmonologist offices, skilled nursing facilities, hospice operators and other patient referral sources in the communities served by AdaptHealth. By law, referral sources cannot be contractually obligated to refer patients to any specific provider. However, there can be no assurance that other market participants will not attempt to steer patients to competing post-acute providers or otherwise limit AdaptHealth's access to potential referrals. The establishment of joint ventures or networks between referral sources, such as acute care hospitals, and other post-acute providers may hinder patient referrals to AdaptHealth. AdaptHealth's growth and profitability depend on its ability to establish and maintain

close working relationships with patient referral sources and to increase awareness and acceptance of the benefits of inpatient rehabilitation, home health, and hospice care by its referral sources and their patients. There can be no assurance that AdaptHealth will be able to maintain its existing referral source relationships or that it will be able to develop and maintain new relationships in existing or new markets. AdaptHealth's loss of, or failure to maintain, existing relationships or its failure to develop new relationships could adversely affect its ability to grow its business and operate profitably.

***Failure by AdaptHealth to successfully design, modify and implement technology-based and other process changes to maximize productivity and ensure compliance could ultimately have a significant negative impact on AdaptHealth's financial condition and results of operations.***

AdaptHealth has identified a number of areas throughout its operations, including revenue cycle management and fulfilment logistics, where it intends to centralize and/or modify current processes or systems in order to attain a higher level of productivity or ensure compliance. Failure to achieve the cost savings or enhanced quality control expected from the successful design and implementation of such initiatives may adversely impact AdaptHealth's financial condition and results of operations. Additionally, Medicare and Medicaid often change their documentation requirements with respect to claims submissions. The standards and rules for healthcare transactions, code sets and unique identifiers also continue to evolve, such as ICD 10 and HIPAA 5010 and other data security requirements. Moreover, government programs and/or commercial payors may have difficulties administering new standards and rules for healthcare transactions and this may adversely affect timelines of payment or payment error rates. The DMEPOS competitive bidding program also imposes new reporting requirements on contracted providers. Failure by AdaptHealth to successfully design and implement system or process modifications could have a significant impact on its operations and financial condition. From time to time, AdaptHealth's outsourced contractors for certain information systems functions, such as Brightree LLC and Parachute Health LLC, may make operational, leadership or other changes that could impact AdaptHealth's plans and cost-savings goals. The implementation of many of the new standards and rules will require AdaptHealth to make substantial investments. Further, the implementation of these system or process changes could have a disruptive effect on related transaction processing and operations. If AdaptHealth's implementation efforts related to systems development are unsuccessful, AdaptHealth may need to write off amounts that it has capitalized related to systems development projects. Additionally, if systems development implementations do not occur, AdaptHealth may need to incur additional costs to support its existing systems.

***AdaptHealth's business depends on its information systems, including software licensed from third parties. AdaptHealth's information systems and those of AdaptHealth's third-party software providers are subject to security breaches and other cybersecurity incidents, which may disrupt AdaptHealth's operations.***

AdaptHealth's business depends on the proper functioning and availability of its computer systems and networks. AdaptHealth relies on an external service provider to provide continual maintenance, upgrading and enhancement of AdaptHealth's primary information systems used for its operational needs. AdaptHealth licenses third-party software that supports intake, personnel scheduling and other human resources functions, office clinical and centralized billing and receivables management in an integrated database, enabling AdaptHealth to standardize the care delivered across its network of locations and monitor its performance and consumer outcomes. AdaptHealth also uses a third-party software provider for its order processing and inventory management platform. To the extent that its third-party providers fail to support, maintain and upgrade such software or systems, or if AdaptHealth loses its licenses with third-party providers, the efficiency of AdaptHealth's operations could be disrupted or reduced.

***If AdaptHealth experiences a reduction in the performance, reliability, or availability of its information systems, its operations and ability to process transactions and produce timely and accurate reports could be adversely affected. If AdaptHealth experiences difficulties with the transition and integration of information systems or is unable to implement, maintain, or expand its systems properly, AdaptHealth could suffer from, among other things, operational disruptions, regulatory problems, and increases in administrative expenses.***

There can be no assurance that AdaptHealth's and its third-party software providers' safety and security measures and disaster recovery plan will prevent damage, interruption or breach of its information systems and operations. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems

change frequently and may be difficult to detect, AdaptHealth may be unable to anticipate these techniques or implement adequate preventive measures. In addition, hardware, software or applications AdaptHealth develops or procures from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise the security of its information systems. Unauthorized parties may attempt to gain access to AdaptHealth's systems or facilities, or those of third parties with whom AdaptHealth does business, through fraud or other forms of deceiving its employees or contractors. On occasion, AdaptHealth has acquired additional information systems through its business acquisitions. AdaptHealth has upgraded and expanded its information system capabilities and has committed significant resources to maintain, protect, enhance existing systems and develop new systems to keep pace with continuing changes in technology, evolving industry and regulatory standards, and changing customer preferences. In addition, costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology or with maintenance or adequate support of existing systems also could disrupt or reduce the efficiency of AdaptHealth's operations. A cyber security attack or other incident that bypasses AdaptHealth's information systems security could cause a security breach which may lead to a material disruption to its information systems infrastructure or business and may involve a significant loss of business or patient health information. If a cyber security attack or other unauthorized attempt to access AdaptHealth's systems or facilities were to be successful, it could result in the theft, destruction, loss, misappropriation or release of confidential information or intellectual property, and could cause operational or business delays that may materially impact AdaptHealth's ability to provide various healthcare services. Any successful cyber security attack or other unauthorized attempt to access AdaptHealth's systems or facilities also could result in negative publicity which could damage its reputation or brand with its patients, referral sources, payors or other third parties and could subject AdaptHealth to substantial penalties under HIPAA and other federal and state privacy laws, in addition to private litigation with those affected. Failure to maintain the security and functionality of AdaptHealth's information systems and related software, or a failure to defend a cyber security attack or other attempt to gain unauthorized access to AdaptHealth's systems, facilities or patient health information, could expose AdaptHealth to a number of adverse consequences, the vast majority of which are not insurable, including but not limited to disruptions in AdaptHealth's operations, regulatory and other civil and criminal penalties, fines, investigations and enforcement actions (including, but not limited to, those arising from the SEC, Federal Trade Commission, the OIG or state attorneys general), private litigation with those affected by the data breach, loss of customers, disputes with payors and increased operating expense, which could adversely impact AdaptHealth's financial condition and results of operations.

***AdaptHealth experiences competition from numerous other home respiratory and mobility equipment providers, and this competition could adversely affect its revenues and its business.***

The home respiratory and mobility equipment markets are highly competitive and include a large number of providers, some of which are national providers, but most of which are either regional or local providers, including hospital systems, physician specialists and sleep labs. The primary competitive factors are quality considerations such as responsiveness, access to payor contracts, the technical ability of the professional staff and the ability to provide comprehensive services. These markets are very fragmented. Some of AdaptHealth's competitors may now or in the future have greater financial or marketing resources than AdaptHealth. In addition, in certain markets, competitors may have more effective sales and marketing activities. AdaptHealth's largest national home respiratory/home medical equipment provider competitors include AeroCare Holdings, Inc., Apria Healthcare Group Inc., Lincare Holdings Inc. and Rotech Healthcare Inc. The rest of the homecare market in the United States consists of regional providers and product-specific providers, as well as numerous local organizations. Hospitals and health systems are routinely looking to provide coverage and better control of post-acute healthcare services, including homecare services of the types AdaptHealth provides. These trends may continue as new payment models evolve, including bundled payment models, shared savings programs, value based purchasing and other payment systems.

There are relatively few barriers to entry in local home healthcare markets, and new entrants to the home respiratory/home medical equipment markets could have a material adverse effect on AdaptHealth's business, results of operations and financial condition. A number of manufacturers of home respiratory equipment currently provide equipment directly to patients on a limited basis. Such manufacturers have the ability to provide their equipment at prices below those charged by AdaptHealth, and there can be no assurance that such direct-to-patient sales efforts will not increase in the future or that such manufacturers will not seek reimbursement contracts directly with AdaptHealth's third-party payors, who could seek to provide equipment directly to patients from the manufacturer. In addition, pharmacy benefit managers (known as "PBMs"), including CVS Health Corporation and the OptumRx business of

UnitedHealth Group Incorporated, could enter the HME market and compete with AdaptHealth. Large technology companies, such as Amazon.com, Inc. and Alphabet Inc., have disrupted other supply businesses and have publicly stated an interest in the entering the healthcare market. In the event such companies enter the HME market, AdaptHealth may experience a loss of referrals or revenue.

***Changes in medical equipment technology and development of new treatments may cause AdaptHealth's current equipment or services to become obsolete.***

AdaptHealth evaluates changes in home medical equipment technology and treatments on an ongoing basis for purposes of determining the feasibility of replacing or supplementing items currently included in the patient service equipment inventory and services that AdaptHealth offers patients. AdaptHealth's selection of medical equipment and services is formulated on the basis of a variety of factors, including overall quality, functional reliability, availability of supply, payor reimbursement policies, product features, labor costs associated with the technology, acquisition, repair and ownership costs and overall patient and referral source demand, as well as patient therapeutic and lifestyle benefits. Manufacturers continue to invest in research and development to introduce new products to the marketplace. It is possible that major changes in available technology, payor benefit or coverage policies related to those changes or the preferences of patients and referral sources may cause AdaptHealth's current product offerings to become less competitive or obsolete, and it will be necessary to adapt to those changes. Unanticipated changes could cause AdaptHealth to incur increased capital expenditures and accelerated equipment write-offs, and could force AdaptHealth to alter its sales, operations and marketing strategies.

***AdaptHealth's operations involve the transport of compressed and liquid oxygen, which carries an inherent risk of rupture or other accidents with the potential to cause substantial loss.***

AdaptHealth's operations are subject to the many hazards inherent in the transportation of medical gas products and compressed and liquid oxygen, including ruptures, leaks and fires. These risks could result in substantial losses due to personal injury or loss of life, severe damage to and destruction of property and equipment and pollution or other environmental damage and may result in curtailment or suspension of AdaptHealth's related operations. If a significant accident or event occurs, it could adversely affect AdaptHealth's business, financial position and results of operations. Additionally, corrective action plans, fines or other sanctions may be levied by government regulators who oversee transportation of hazardous materials such as compressed or liquid oxygen.

AdaptHealth provides a significant number of patients with oxygen-based therapy, and from time to time, AdaptHealth has operated medical gas facilities in several states subject to federal and state regulatory requirements. AdaptHealth's medical gas facilities and operations are subject to extensive regulation by the Food and Drug Administration ("FDA") and other federal and state authorities. The FDA regulates medical gases, including medical oxygen, pursuant to its authority under the federal Food, Drug and Cosmetic Act. Among other requirements, the FDA's current Good Manufacturing Practice ("cGMP") regulations impose certain quality control, documentation and recordkeeping requirements on the receipt, processing and distribution of medical gas. Further, in each such state, its medical gas facilities would be subject to regulation under state health and safety laws, which vary from state to state. The FDA and state authorities conduct periodic, unannounced inspections at medical gas facilities to assess compliance with the cGMP and other regulations, and AdaptHealth expends significant time, money and resources in an effort to achieve substantial compliance with the cGMP regulations and other federal and state law requirements at each of its medical gas facilities. AdaptHealth also complies with the FDA's requirement for medical gas providers to register their sites with the agency. There can be no assurance, however, that these efforts will be successful and that AdaptHealth's medical gas facilities will maintain compliance with federal and state law regulations. Failure by AdaptHealth to maintain regulatory compliance at its medical gas facilities could result in enforcement action, including warning letters, fines, product recalls or seizures, temporary or permanent injunctions, or suspensions in operations at one or more locations, and civil or criminal penalties which would materially harm its business, financial condition, results of operations, cash flow, capital resources and liquidity.

***AdaptHealth is subject, directly or indirectly, to United States federal and state healthcare fraud and abuse and false claims laws and regulations. Prosecutions under such laws have increased in recent years and AdaptHealth may become subject to such litigation. If AdaptHealth is unable to or has not fully complied with such laws, it could face substantial penalties.***

AdaptHealth's operations are subject to various state and federal fraud and abuse laws, including, without limitation, the federal Anti-Kickback Statute, the federal Stark Law and the federal False Claims Act. These laws may impact, among other things, AdaptHealth's sales, marketing and education programs.

The federal Anti-Kickback Statute prohibits persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing or arranging for a good or service, for which payment may be made under a federal healthcare program such as the Medicare and Medicaid programs. Several courts have interpreted the statute's intent requirement to mean that if any one purpose of an arrangement involving remuneration is to induce referrals of federal healthcare covered business, the statute has been violated. The Anti-Kickback Statute is broad and, despite a series of narrow safe harbors, prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. Penalties for violations of the federal Anti-Kickback Statute include criminal penalties and civil sanctions such as fines, imprisonment and possible exclusion from Medicare, Medicaid and other federal healthcare programs. Many states have also adopted laws similar to the federal Anti-Kickback Statute, some of which apply to the referral of patients for healthcare items or services reimbursed by any source, not only the Medicare and Medicaid programs.

The federal Ethics in Patient Referrals Act of 1989, commonly known as the "Stark Law," prohibits, subject to certain exceptions, physician referrals of Medicare and Medicaid patients to an entity providing certain "designated health services" if the physician or an immediate family member has any financial relationship with the entity. The Stark Law also prohibits the entity receiving the referral from billing any good or service furnished pursuant to an unlawful referral. Various states have corollary laws to the Stark Law, including laws that require physicians to disclose any financial interest they may have with a healthcare provider to their patients when referring patients to that provider. Both the scope and exceptions for such laws vary from state to state.

The federal False Claims Act prohibits persons from knowingly filing, or causing to be filed, a false claim to, or the knowing use of false statements to obtain payment from the federal government. Suits filed under the False Claims Act, known as qui tam actions, can be brought by any individual on behalf of the government and such individuals, commonly known as "whistleblowers," may share in any amounts paid by the entity to the government in fines or settlement. The frequency of filing qui tam actions has increased significantly in recent years, causing greater numbers of medical device, pharmaceutical and healthcare companies to have to defend a False Claim Act action. When an entity is determined to have violated the federal False Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties for each separate false claim. Various states have also enacted laws modeled after the federal False Claims Act.

From time to time, AdaptHealth has been and is involved in various governmental audits, investigations and reviews related to its operations. Reviews and investigations can lead to government actions, resulting in the assessment of damages, civil or criminal fines or penalties, or other sanctions, including restrictions or changes in the way AdaptHealth conducts business, loss of licensure or exclusion from participation in Medicare, Medicaid or other government programs. If AdaptHealth fails to comply with applicable laws, regulations and rules, its financial condition and results of operations could be adversely affected. Furthermore, becoming subject to these governmental investigations, audits and reviews may result in substantial costs as AdaptHealth cooperates with the government authorities, regardless of whether the particular investigation, audit or review leads to the identification of underlying issues.

AdaptHealth is unable to predict whether it could be subject to actions under any of these laws, or the impact of such actions. If AdaptHealth is found to be in violation of any of the laws described above or other applicable state and federal fraud and abuse laws, AdaptHealth may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion from Medicare, Medicaid and other government healthcare reimbursement programs and the curtailment or restructuring of its operations.

***Failure by AdaptHealth to maintain required licenses and accreditation could impact its operations.***

AdaptHealth is required to maintain a significant number of state and/or federal licenses for its operations and facilities. Certain employees are required to maintain licenses in the states in which they practice. AdaptHealth manages the facility licensing function centrally. In addition, individual clinical employees are responsible for obtaining, maintaining and renewing their professional licenses, and AdaptHealth has processes in place designed to notify branch or pharmacy managers of renewal dates for the clinical employees under their supervision. State and federal licensing requirements are complex and often open to subjective interpretation by various regulatory agencies. Accurate licensure is also a critical threshold issue for the Medicare enrollment and the Medicare competitive bidding program. From time to time, AdaptHealth may also become subject to new or different licensing requirements due to legislative or regulatory requirements developments or changes in its business, and such developments may cause AdaptHealth to make further changes in its business, the results of which may be material. Although AdaptHealth believes it has appropriate systems in place to monitor licensure, violations of licensing requirements may occur and failure by AdaptHealth to acquire or maintain appropriate licensure for its operations, facilities and clinicians could result in interruptions in its operations, refunds to state and/or federal payors, sanctions or fines or the inability to serve Medicare beneficiaries in competitive bidding markets which could adversely impact AdaptHealth's financial condition and results of operations.

Accreditation is required by most of AdaptHealth's managed care payors and is a mandatory requirement for all Medicare DMEPOS providers. If AdaptHealth or any of its branches lose accreditation, or if any of its new branches are unable to become accredited, such failure to maintain accreditation or become accredited could adversely impact AdaptHealth's financial condition and results of operations.

***Compliance with regulations under the federal Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), the Health Information Technology for Economic and Clinical Health Act ("HITECH Act") and related rules relating to the transmission, security and privacy of health information could impose additional significant costs on AdaptHealth's operations.***

Numerous federal and state laws and regulations addressing patient privacy and consumer privacy, including HIPAA and the HITECH Act, govern the collection, dissemination, security, use and confidentiality of patient-identifiable health information or personal information. HIPAA and the HITECH Act require AdaptHealth to comply with standards for the use and disclosure of health information within AdaptHealth and with third parties. HIPAA and the HITECH Act also include standards for common healthcare electronic transactions and code sets, such as claims information, plan eligibility, payment information and the use of electronic signatures, and privacy and electronic security of individually identifiable health information.

HIPAA requires healthcare providers, including AdaptHealth, in addition to health plans and clearinghouses, to develop and maintain policies and procedures with respect to protected health information that is used or disclosed. The HITECH Act expands the notification requirement for breaches of patient-identifiable health information, restricts certain disclosures and sales of patient identifiable health information and provides a tiered system for civil monetary penalties for HIPAA violations.

In addition, under the Federal CAN-SPAM Act, the Telephone Consumer Protection Act and the Telemarketing Sales Rule and Medicare regulations, AdaptHealth is limited in the ways in which it can market and service its products and services by use of email or telephone marketing. If AdaptHealth does not comply with existing or new laws and regulations related to patient health information, it could be subject to criminal or civil sanctions. New health information standards, whether implemented pursuant to HIPAA, the HITECH Act, congressional action or otherwise, could have a significant effect on the manner in which AdaptHealth handles healthcare-related data and communicates with payors, and the cost of complying with these standards could be significant.

***AdaptHealth is highly dependent upon senior management; failure by AdaptHealth to attract and retain key members of senior management could adversely affect AdaptHealth's financial condition and results of operations.***

AdaptHealth is highly dependent on the performance and continued efforts of its senior management team. AdaptHealth's future success is dependent on its ability to continue to attract and retain qualified executive officers and

senior management. Any inability to manage AdaptHealth's operations effectively could adversely impact its financial condition and results of operations.

***AdaptHealth's reliance on relatively few suppliers for the majority of its patient service equipment and supplies could adversely affect AdaptHealth's ability to operate.***

AdaptHealth currently relies on a relatively small number of suppliers to provide it with the majority of its patient service equipment and supplies. Significant price increases, or disruptions in the ability to obtain such equipment and supplies from existing suppliers, may force AdaptHealth to use alternative suppliers. Additionally, any new excise taxes imposed on manufacturers of certain medical equipment could be passed on to customers, such as AdaptHealth. Such manufacturers may be forced to make other changes to their products or manufacturing processes that are unacceptable to AdaptHealth, resulting in a need to change suppliers. Any change in suppliers AdaptHealth uses could cause delays in the delivery of such products and possible losses in revenue, which could adversely affect AdaptHealth's results of operations. In addition, alternative suppliers may not be available, or may not provide their products and services at similar or favorable prices. If AdaptHealth cannot obtain the patient service equipment and supplies it currently uses, or alternatives at similar or favorable prices, AdaptHealth's ability to provide such products may be severely impacted, which could have an adverse effect on its business, financial condition, results of operations, cash flow, capital resources and liquidity. In December 2019, a novel strain of coronavirus began to impact the population of China, where several of AdaptHealth's suppliers' manufacturing facilities are located. In China, certain businesses have suspended or terminated operations, a portion of the population has been subject to self-imposed or mandatory quarantines and economic activity has slowed. While the closures and limitations on movement in China are expected to be temporary, the potential supply chain disruption or its duration, and its related financial impact, cannot be estimated at this time. Should the closures and limitations on movement continue for an extended period of time, the impact on AdaptHealth's supply chain could materially and adversely affect AdaptHealth's business and results of operations.

***AdaptHealth's strategic growth plan, which involves the acquisition of other companies, may not succeed.***

AdaptHealth's strategic plan calls for significant growth in its business over the next several years through an increase in its density in select markets where it is established as well as the expansion of its geographic footprint into new markets. This growth would place significant demands on AdaptHealth's management team, systems, internal controls and financial and professional resources. As a result, AdaptHealth could be required to incur expenses for hiring additional qualified personnel, retaining professionals to assist in developing the appropriate control systems and expanding AdaptHealth's information technology infrastructure. If AdaptHealth is unable to effectively manage growth, its financial results could be adversely impacted.

AdaptHealth's strategic plan also contemplates continued growth from future acquisitions of home medical equipment providers. AdaptHealth may face increased competition for attractive acquisition candidates, which may limit the number of acquisition opportunities available to AdaptHealth or lead to the payment of higher prices for its acquisitions. Without successful acquisitions, AdaptHealth's future growth rate could decline. In addition, AdaptHealth cannot guarantee that any future acquisitions, if consummated, will result in further growth.

AdaptHealth's strategic plan contemplates successful integration of acquired home medical equipment providers with AdaptHealth's existing business, including reduction in operating expenses with respect to the acquired companies. Integrating an acquisition could be expensive and time-consuming and could disrupt AdaptHealth's ongoing business, negatively affect cash flow and distract management and other key personnel from day-to-day operations. AdaptHealth may not be able to combine successfully the operations of recently acquired companies with its operations, and, even if such integration is accomplished, AdaptHealth may never realize the potential benefits of such acquisition. The integration of acquisitions requires significant attention from management, may impose substantial demands on AdaptHealth's operations or other projects and may impose challenges on us including, but not limited to, consistencies in business standards, procedures, policies and business cultures. There can be no assurance that any future acquisitions, if consummated, will result in further growth.

Specific integration risks relating to the acquisition of other companies by AdaptHealth may include:

- difficulties related to combining previously separate businesses into a single unit, including patient transitions, product and service offerings, distribution and operational capabilities and business cultures;
- availability of financing to the extent needed to fund acquisitions;
- customer loss and other general business disruption;
- managing the integration process while completing other independent acquisitions or dispositions;
- diversion of management's attention from day-to-day operations;
- assumption of liabilities of an acquired business, including unforeseen or contingent liabilities or liabilities in excess of the amounts estimated;
- failure to realize anticipated benefits and synergies, such as cost savings and revenue enhancements;
- potentially substantial costs and expenses associated with acquisitions and dispositions;
- failure to retain and motivate key employees;
- coordinating research and development activities to enhance the introduction of new products and services;
- difficulties in establishing and applying AdaptHealth's internal control over financial reporting and disclosure controls and procedures to an acquired business;
- obtaining necessary regulatory licenses and payor-specific approvals, which may impact the timing of when AdaptHealth is to bill and collect for services rendered;
- AdaptHealth's ability to transition patients in a timely manner may impact AdaptHealth's ability to collect amounts for services rendered;
- AdaptHealth's estimates for revenue accruals during the integration of acquisitions may require adjustments in future periods as the transition of patient information is finalized; and
- delays in obtaining new government and commercial payor identification numbers for acquired branches, resulting in a slowdown and/or loss of associated revenue.

In addition, AdaptHealth faces competition for acquisition candidates and, which may limit the number of acquisition opportunities available to AdaptHealth or lead to the payment of higher prices for its acquisitions. There can be no assurance that AdaptHealth will be able to identify suitable acquisition opportunities in the future or that any such opportunities, if identified, will be consummated on favorable terms, if at all. Without successful acquisitions, AdaptHealth's future growth rate could decline.

While AdaptHealth conducts due diligence in connection with any acquisition opportunity, there may be risks or liabilities that such due diligence efforts fail to discover that are not disclosed to AdaptHealth or that AdaptHealth inadequately assesses. The failure to timely identify any material liabilities associated with any acquisitions could adversely impact AdaptHealth's financial condition and results of operations.

***If AdaptHealth were required to write down all or part of its goodwill its net earnings and net worth could be materially adversely affected.***

Goodwill represents a significant portion of AdaptHealth's assets. Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations. For example, if our market capitalization drops significantly below the amount of net equity recorded on our balance sheet, it might indicate a decline in our fair value and would require us to further evaluate whether our goodwill has been impaired. If, as part of our annual review of goodwill, we are required to write down all or a significant part of AdaptHealth's goodwill our net earnings and net worth could be materially adversely affected, which could affect our flexibility to obtain additional financing. In addition, if our assumptions used in preparing our valuations for purposes of impairment testing differ materially from actual future results, we may record impairment charges in the future and our financial results may be materially adversely affected. AdaptHealth had $266.8 million and $202.4 million of goodwill recorded on its Consolidated Balance Sheets at December 31, 2019 and December 31, 2018, respectively. It is not possible at this time to determine if there will be any future impairment charge, or if there is, whether such charges would be material.

***AdaptHealth may not be able to generate sufficient cash flow to cover required payments or meet operating covenants under its long-term debt and long-term operating leases.***

Failure to generate sufficient cash flow to cover required payments or meet operating covenants under AdaptHealth's long-term debt and long-term operating leases could result in defaults under such agreements and cross-defaults under other debt or operating lease arrangements, which could harm its operating subsidiaries. AdaptHealth may not generate sufficient cash flow from operations to cover required interest, principal and lease payments. In addition, AdaptHealth's outstanding credit facility contains restrictive covenants and requires AdaptHealth to maintain or satisfy specified coverage tests. These restrictions and operating covenants include, among other things, requirements with respect to total leverage ratios and fixed charge coverage ratios. These restrictions, together with the restrictive covenants included in promissory notes with certain affiliates of BlueMountain Capital Management, LLC, may interfere with AdaptHealth's ability to obtain additional advances under its existing credit facility or to obtain new financing or to engage in other business activities, which may inhibit AdaptHealth's ability to grow its business and increase revenue. In addition, failure by AdaptHealth to comply with these restrictive covenants could result in an event of default which, if not cured or waived, could result in the acceleration of its debt.

***AdaptHealth may need additional capital to fund its operating subsidiaries and finance its growth, and AdaptHealth may not be able to obtain it on acceptable terms, or at all, which may limit its ability to grow.***

AdaptHealth's ability to maintain and enhance its operating subsidiaries and equipment to meet regulatory standards, operate efficiently and remain competitive in its markets requires AdaptHealth to commit substantial resources to continued investment in its affiliated facilities and equipment. Additionally, the continued expansion of its business through the acquisition of existing facilities, expansion of existing facilities and construction of new facilities may require additional capital, particularly if AdaptHealth were to accelerate its acquisition and expansion plans. Financing may not be available or may be available only on terms that are not favorable. In addition, some of AdaptHealth's outstanding indebtedness restrict, among other things, its ability to incur additional debt. If AdaptHealth is unable to raise additional funds or obtain additional funds on acceptable terms, it may have to delay or abandon some or all of its growth strategies. Further, if additional funds are raised through the issuance of additional equity securities, the percentage ownership of our stockholders would be diluted. Any newly issued equity securities may have rights, preferences or privileges senior to those of the Common Stock.

***Changes in the method of determining the London Interbank Offered Rate ("LIBOR"), or the replacement of LIBOR with an alternative reference rate, may adversely affect interest rates on AdaptHealth's outstanding variable rate indebtedness.***

Certain of AdaptHealth's indebtedness, including LIBOR Rate Loans under its credit facility, bears interest at variable interest rates that use LIBOR as a benchmark rate. LIBOR is the subject of recent proposals for reform and, on July 27, 2017, the U.K. Financial Conduct Authority announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. The Federal Reserve Bank of New York has begun publishing a Secured

Overnight Funding Rate ("SOFR"), which is intended to replace U.S. dollar LIBOR, and central banks in several other jurisdictions have also announced plans for alternative reference rates for other currencies. These reforms may cause LIBOR to perform differently than in the past or to disappear entirely. The consequences of these developments with respect to LIBOR cannot be entirely predicted but may result in an increase in the interest cost of AdaptHealth's variable rate indebtedness. In the event that LIBOR is no longer available as a reference rate or is replaced by SOFR in the future, AdaptHealth's credit facility permits its lenders, in good faith, to unilaterally suspend maintaining LIBOR Rate Loans under the credit facility and to adopt a new rate, such as SOFR. As a result, AdaptHealth may need to renegotiate its outstanding indebtedness or incur other indebtedness, and the phase-out of LIBOR may negatively impact the terms of such indebtedness. In addition, the overall financial market may be disrupted as a result of the phase-out or replacement of LIBOR. Disruption in the financial market could have a material adverse effect on our business, financial condition and results of operations.

***Political and economic conditions, including significant global or regional developments such as economic and political events, international conflicts, natural disasters, and public health crises that are out of AdaptHealth's control, could adversely affect its revenue, financial condition and results of operations.***

AdaptHealth's business can be affected by a number of factors that are beyond its control, such as general geopolitical, economic and business conditions, financial services market conditions, and general political and economic developments, including slower economic growth, disruptions in financial markets, economic downturns in the form of either contained or widespread recessionary conditions, inflation, elevated unemployment levels, sluggish or uneven economic recovery, government actions impacting trade agreements including the imposition of trade restrictions such as tariffs and retaliatory counter measures, government deficit reduction, natural and other disasters and public health crises affecting the operations of AdaptHealth or its customers or suppliers. Any Medicare, Medicaid or third-party payor reimbursement reductions as a result of such factors could adversely impact AdaptHealth's business, financial condition, results of operations, cash flow, capital resources and liquidity. Turmoil in the financial markets, including in the capital and credit markets, and any uncertainty over its breadth, depth and duration may put pressure on the global economy and could have a negative effect on AdaptHealth's business. Further, historical worldwide financial and credit turmoil could reduce the availability of liquidity and credit to fund the continuation and expansion of business operations worldwide. The shortage of liquidity and credit combined with substantial losses in worldwide equity markets could cause an economic recession in the United States or worldwide. If financial markets in the United States, Europe and Asia experience extreme disruption, including, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others, governments may take unprecedented actions intended to address extreme market conditions that may include severely restricted credit and declines in real estate values. If conditions in the global economy, U.S. economy or other key vertical or geographic markets are weak or uncertain, AdaptHealth could experience material adverse impacts on its revenue, financial condition and results of operations.

***If AdaptHealth's subsidiary fails to comply with the terms of its Corporate Integrity Agreement, it could be subjected to substantial monetary penalties or suspension or termination from participation in the Medicare and Medicaid programs.***

Braden Partners, L.P. ("BP"), d/b/a Pacific Pulmonary Services ("PPS"), which was acquired by AdaptHealth in May 2018, entered into a five-year Corporate Integrity Agreement ("CIA") with the Office of Inspector General of the Department of Health and Human Services (the "OIG-HHS"), effective March 31, 2017, concurrent with the execution of a settlement agreement with the United States, acting through the DOJ and on behalf of the OIG-HHS. The CIA imposes certain compliance, auditing (including by an independent review organization), self-reporting and training requirements with which BP must comply. If BP fails to comply with the terms of its CIA, it could be subjected to substantial monetary penalties and/or suspension or exclusion from participation in federal healthcare programs. Any such suspension, exclusion or termination would result in the revocation or termination of contracts and/or licenses and potentially have a material adverse effect on the results of BP's operations. The imposition of monetary penalties and/or termination of contracts with respect to BP could adversely affect AdaptHealth's profitability and financial condition. The CIA has a five-year term which expires in April 2022. In connection with the acquisition and integration of PPS by AdaptHealth, the OIG-HSS confirmed that the requirements of the CIA imposed upon PPS would only apply to the

operations of BP and therefore no operations of any other AdaptHealth affiliate are subject to the requirements of the CIA following the acquisition.

***AdaptHealth's current insurance program may expose it to unexpected costs and negatively affect its business, financial condition and results of operations, particularly if it incurs losses not covered by its insurance or if claims or losses differ from its estimates.***

There is an inherent risk of liability in the provision of healthcare services. As participants in the healthcare industry, AdaptHealth may periodically be subject to lawsuits, some of which may involve large claims and significant costs to defend, such as mass tort or other class actions. Although AdaptHealth's insurance coverage reflects deductibles, self-insured retentions, limits of liability and similar provisions that it believes are reasonable based on its operations, the coverage under its insurance programs may not be adequate to protect it in all circumstances. AdaptHealth's insurance policies contain exclusions and conditions that could have a materially adverse impact on AdaptHealth's ability to receive indemnification thereunder, as well as customary sub-limits for particular types of losses. Additionally, insurance companies that currently insure companies in AdaptHealth's industry may cease to do so, may change the coverage provided or may substantially increase premiums in the future. The incurrence of losses and liabilities that exceed AdaptHealth's available coverage, therefore, could have a material adverse effect on its business, financial condition and results of operations.

AdaptHealth currently self-insures a significant portion of expected losses under its workers' compensation, automobile liability and employee health insurance programs and, to offset negative insurance market trends, AdaptHealth may elect to increase its self-insurance coverage, accept higher deductibles or reduce the amount of coverage. Unanticipated changes in any applicable actuarial assumptions and management estimates underlying its liabilities for these losses could result in materially different expenses than expected under these programs, which could have a material adverse effect on AdaptHealth's financial condition and results of operations. In addition, if AdaptHealth experiences a greater number of these losses than it anticipates, it could have a material adverse effect on its business, financial condition and results of operations.

***AdaptHealth currently outsources, and from time to time in the future may outsource, a portion of its internal business functions to third-party providers. Outsourcing these functions has significant risks, and AdaptHealth's failure to manage these risks successfully could materially adversely affect its business, results of operations, and financial condition.***

AdaptHealth currently, and from time to time in the future, may outsource portions of its internal business functions, including billing and administrative functions relating to revenue cycle management, to third-party providers in India, the Philippines and Central America. These third-party providers may not comply on a timely basis with all of AdaptHealth's requirements, or may not provide AdaptHealth with an acceptable level of service. In addition, AdaptHealth's reliance on third-party providers could have significant negative consequences, including significant disruptions in its operations and significantly increased costs to undertake its operations, either of which could damage AdaptHealth's relationships with its customers. In addition, AdaptHealth's outsourced functions may be negatively impacted by any number of factors, including political unrest; social unrest; terrorism; war; vandalism; currency fluctuations; changes to the law of India, the Philippines, the United States or any of the states or other jurisdictions in which AdaptHealth does business or outsources operations; or increases in the cost of labor and supplies in India, the Philippines or Central America or any other jurisdiction in which AdaptHealth outsources any portion of its internal business functions. AdaptHealth's outsourced operations may also be affected by trade restrictions, such as tariffs or other trade controls. As a result of its outsourcing activities, it may also be more difficult for AdaptHealth to recruit and retain qualified employees for its business needs at any time. AdaptHealth's failure to successfully outsource certain of its business functions could materially adversely affect its business, results of operations, and financial condition.

**Risks Related to Our Securities**

***Our only significant assets are the ownership of a majority interest in AdaptHealth Holdings, and such ownership may not be sufficient to generate the funds necessary to meet our financial obligations or to pay any dividends on our Class A Common Stock.***

We have no direct operations and no significant assets other than the ownership of a majority of the economic and voting interests in AdaptHealth Holdings. We depend on AdaptHealth Holdings and its subsidiaries for distributions, loans and other payments to generate the funds necessary to meet our financial obligations or to pay any dividends with respect to our Class A Common Stock. Legal and contractual restrictions in agreements governing the indebtedness of AdaptHealth Holdings and its subsidiaries may limit our ability to obtain cash from AdaptHealth Holdings. The earnings from, or other available assets of, AdaptHealth Holdings and its subsidiaries may not be sufficient to enable us to satisfy our financial obligations or pay any dividends on our Class A Common Stock. AdaptHealth Holdings is classified as a partnership for U.S. federal income tax purposes and, as such, is generally not subject to entity-level U.S. federal income tax. Instead, taxable income is allocated to holders of units of AdaptHealth Holdings ("AdaptHealth Units"), including us. As a result, we generally will incur taxes on our allocable share of any net taxable income generated by AdaptHealth Holdings. Under the terms of the Fifth Amended and Restated Limited Liability Company Agreement of AdaptHealth Holdings, AdaptHealth Holdings is obligated to make tax distributions to holders of AdaptHealth Units, including us, except to the extent such distributions would render AdaptHealth Holdings insolvent or are otherwise prohibited by law or the terms of AdaptHealth's credit facility. In addition to our tax obligations, we also incur expenses related to our operations and our interests in AdaptHealth Holdings, including costs and expenses of being a publicly-traded company, all of which could be significant. To the extent that we require funds and AdaptHealth Holdings or its subsidiaries are restricted from making distributions under applicable law or regulation or under the terms of their financing arrangements, or are otherwise unable to provide such funds, it could materially adversely affect our liquidity and financial condition, including our ability to pay our income taxes when due.

***We are required to make payments under the Tax Receivable Agreement for certain tax benefits we may claim, and the amounts of such payments could be significant.***

The Tax Receivable Agreement, which we entered into at the Closing with the Blocker Sellers and the owners of units of AdaptHealth Holdings prior to the Closing other than the Blocker Companies (the "Non-Blocker AdaptHealth Members" and, collectively with the Blocker Sellers, the "TRA Holders"), generally provides for the payment by us to the Blocker Sellers of 85% of the net cash savings, if any, in U.S. federal, state and local income tax that we actually realize (or are deemed to realize in certain circumstances) in periods after the Closing as a result of: (i) certain tax attributes of Access Point Medical, Inc. existing prior to the Business Combination; (ii) certain increases in tax basis resulting from exchanges of AdaptHealth Units; (iii) imputed interest deemed to be paid by us as a result of payments we make under the Tax Receivable Agreement; and (iv) certain increases in tax basis resulting from payments we make under the Tax Receivable Agreement. We will retain the benefit of the remaining 15% of these cash savings. The amount of the cash payments that we may be required to make under the Tax Receivable Agreement could be significant and is dependent upon significant future events and assumptions, including the timing of the exchanges of AdaptHealth Units, the price of our Class A Common Stock at the time of each exchange, the extent to which such exchanges are taxable transactions and the amount of the exchanging TRA Holder's tax basis in its AdaptHealth Units at the time of the relevant exchange. The amount of such cash payments is also based on assumptions as to the amount and timing of taxable income we generate in the future, the U.S. federal income tax rate then applicable and the portion of our payments under the Tax Receivable Agreement that constitute interest or give rise to depreciable or amortizable tax basis. Moreover, payments under the Tax Receivable Agreement will be based on the tax reporting positions that we determine, which tax reporting positions are subject to challenge by taxing authorities. We are dependent on distributions from AdaptHealth Holdings to make payments under the Tax Receivable Agreement, and we cannot guarantee that such distributions will be made in sufficient amounts or at the times needed to enable us to make our required payments under the Tax Receivable Agreement, or at all. Any payments made by us to the TRA Holders under the Tax Receivable Agreement will generally reduce the amount of overall cash flow that might have otherwise been available to us. To the extent that we are unable to make timely payments under the Tax Receivable Agreement for any reason, the unpaid amounts will be deferred and will accrue interest until paid by us. Nonpayment for a specified period may constitute a breach of a material obligation under the Tax Receivable Agreement, and therefore, may accelerate

payments due under the Tax Receivable Agreement. The payments under the Tax Receivable Agreement are also not conditioned upon the TRA Holders maintaining a continued ownership interest in AdaptHealth Holdings or us.

***In certain cases, payments under the Tax Receivable Agreement may be accelerated and/or significantly exceed the actual benefits, if any, we realize in respect of the tax attributes subject to the Tax Receivable Agreement.***

The Tax Receivable Agreement provides that if we breach any of our material obligations under the Tax Receivable Agreement, if we undergo a change of control or if, at any time, we elect an early termination of the Tax Receivable Agreement, then the Tax Receivable Agreement will terminate and our obligations, or our successor's obligations, to make payments under the Tax Receivable Agreement would accelerate and become immediately due and payable. The amount due and payable in those circumstances is determined based on certain assumptions, including an assumption that we would have sufficient taxable income to fully utilize all potential future tax benefits that are subject to the Tax Receivable Agreement. We may need to incur debt to finance payments under the Tax Receivable Agreement to the extent our cash resources are insufficient to meet our obligations under the Tax Receivable Agreement as a result of timing discrepancies or otherwise.

As a result of the foregoing, (i) we could be required to make cash payments to the TRA Holders that are greater than the specified percentage of the actual benefits we ultimately realize in respect of the tax benefits that are subject to the Tax Receivable Agreement, and (ii) we would be required to make a cash payment equal to the present value of the anticipated future tax benefits that are the subject of the Tax Receivable Agreement, which payment may be made significantly in advance of the actual realization, if any, of such future tax benefits. In these situations, our obligations under the Tax Receivable Agreement could have a substantial negative impact on our liquidity and could have the effect of delaying, deferring or preventing certain mergers, asset sales, other forms of business combination, or other changes of control due to the additional transaction costs a potential acquirer may attribute to satisfying such obligations. There can be no assurance that we will be able to finance our obligations under the Tax Receivable Agreement.

***We will not be reimbursed for any payments made to TRA Holders under the Tax Receivable Agreement in the event that any tax benefits are disallowed.***

We will not be reimbursed for any cash payments previously made to the TRA Holders pursuant to the Tax Receivable Agreement if any tax benefits initially claimed by us are subsequently challenged by a taxing authority and are ultimately disallowed. Instead, any excess cash payments made by us to a TRA Holder will be netted against any future cash payments that we might otherwise be required to make under the terms of the Tax Receivable Agreement. However, a challenge to any tax benefits initially claimed by us may not arise for a number of years following the initial time of such payment or, even if challenged early, such excess cash payment may be greater than the amount of future cash payments that we might otherwise be required to make under the terms of the Tax Receivable Agreement and, as a result, there might not be future cash payments from which to net against. The applicable U.S. federal income tax rules are complex and factual in nature, and there can be no assurance that the Internal Revenue Service or a court will not disagree with our tax reporting positions. As a result, it is possible that we could make cash payments under the Tax Receivable Agreement that are substantially greater than our actual cash tax savings.

***Certain of the TRA Holders have substantial control over us, and their interests, along with the interests of other TRA Holders, in our business may conflict with the interests of our stockholders.***

The TRA Holders may receive payments from us under the Tax Receivable Agreement upon any redemption or exchange of their AdaptHealth Units, including the issuance of shares of our Class A Common Stock upon any such redemption or exchange. As a result, the interests of the TRA Holders may conflict with the interests of holders of our Class A Common Stock. For example, the TRA Holders may have different tax positions from us, which could influence their decisions regarding whether and when to dispose of assets, whether and when to incur new or refinance existing indebtedness, especially in light of the existence of the Tax Receivable Agreement, and whether and when we should terminate the Tax Receivable Agreement and accelerate our obligations thereunder. In addition, the structuring of future transactions may take into consideration tax or other considerations of TRA Holders even in situations where no similar considerations are relevant to us.

***We may not be able to timely and effectively implement controls and procedures required by Section 404 of the Sarbanes-Oxley Act that are applicable to us.***

As a public company, we are required to comply with the SEC's rules implementing Sections 302 and 404 of the Sarbanes-Oxley Act, which require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of internal control over financial reporting. To comply with the requirements of being a public company, we are required to provide attestation on internal controls, and we may need to undertake various actions, such as implementing additional internal controls and procedures and hiring additional accounting or internal audit staff. The standards required for a public company under Section 404 of the Sarbanes-Oxley Act are significantly more stringent than those that were required of AdaptHealth Holdings as a privately held company. Management may not be able to effectively and timely implement controls and procedures that adequately respond to the increased regulatory compliance and reporting requirements that are applicable to us after the Business Combination. If we are not able to implement the additional requirements of Section 404 in a timely manner or with adequate compliance, we may not be able to assess whether our internal controls over financial reporting are effective, which may subject us to adverse regulatory consequences and could harm investor confidence and the market price of our Class A Common Stock. Further, as an emerging growth company, our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal controls over financial reporting pursuant to Section 404 until the date we are no longer an emerging growth company. At such time, our independent registered public accounting firm may issue a report that is adverse in the event that it is not satisfied with the level at which our controls are documented, designed or operating.

In connection with the audit of AdaptHealth's consolidated financial statements for the fiscal years ended December 31, 2019 and 2018, there were certain controls over financial reporting relating to the timeliness of our review controls over non-routine transactions that did not operate as designed. AdaptHealth continues to be actively engaged in the development and implementation of its remediation plan to address such material weakness, including:

- implementation of processes to improve overall efficiency and accuracy of accounting;
- assignment of dedicated and experienced technical resources, including engaging a third-party consultant to assist management, with its responsibility of strengthening corporate oversight over financial reporting and enhancing controls associated with complex accounting matters; and
- hiring additional qualified personnel and continue to evaluate the adequacy of our accounting personnel staffing level.

This remediation plan is intended to ensure that the key controls over the financial reporting oversight process are operating effectively and are sustainable.

In addition, our management and other personnel will need to continue to devote a substantial amount of time to compliance initiatives applicable to public companies, including compliance with Section 404 and the evaluation of the effectiveness of our internal controls over financial reporting within the prescribed timeframe. AdaptHealth is in the process of evaluating the adequacy of its accounting personnel staffing level and other matters related to internal controls over financial reporting. AdaptHealth may discover additional deficiencies in existing systems and controls that it may not be able to remediate in an efficient or timely manner.

***Certain of our principal stockholders have significant influence over us.***

Entities affiliated with Deerfield Management Company, L.P. (collectively, "Deerfield Management") collectively beneficially own approximately 26.14% of our Class A Common Stock, assuming (i) the exchange of 31,063,799 AdaptHealth Units together with the same number of shares of Class B Common Stock for shares of Class A Common Stock and (ii) the exercise of 1,640,981 private placement warrants and 833,333 public warrants held by Deerfield Management. Everest Trust beneficially owns approximately 21.717% of our Class A Common Stock, assuming (i) the exchange of 31,063,799 AdaptHealth Units together with the same number of shares of Class B Common Stock for shares of Class A Common Stock and (ii) the exercise of 665,628 private placement warrants held by

Clifton Bay Offshore Investments L.P. and 41,473 private placement warrants held by Quadrant Management, Inc. As long as Deerfield Management and/or Everest Trust own or control a significant percentage of our outstanding voting power, they will have the ability to significantly influence all corporate actions requiring stockholder approval, including the election and removal of directors and the size of our board of directors, any amendment to our certificate of incorporation or bylaws, or the approval of any merger or other significant corporate transaction, including a sale of substantially all of our assets.

The interests of Deerfield Management and/or Everest Trust may not align with the interests of our other stockholders. Each of Deerfield Management and Everest Trust is in the business of making investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us. Each of Deerfield Management and Everest Trust may also pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us. Our second amended and restated certificate of incorporation provides that our stockholders and our directors, including any who were designated by any of our stockholders, other than any such persons who are employees of us or any of our subsidiaries, do not have any obligation to offer to us any corporate opportunity of which he or she may become aware prior to offering such opportunities to other entities with which they may be affiliated, subject to certain limited exceptions.

***We will continue to incur significant increased expenses and administrative burdens as a result of being a public company, which could have a material adverse effect on our business, financial condition and results of operations.***

We will continue to face increased legal, accounting, administrative and other costs and expenses as a public company that AdaptHealth Holdings did not incur as a private company. The Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act), including the requirements of Section 404, as well as rules and regulations subsequently implemented by the SEC, the Dodd-Frank Wall Street Reform and Consumer Protection Act and the rules and regulations promulgated and to be promulgated thereunder, the Public Company Accounting Oversight Board and the securities exchanges, impose additional reporting and other obligations on public companies. Compliance with public company requirements increases costs and makes certain activities more time-consuming. A number of those requirements require us to carry out activities AdaptHealth had not prior to the Business Combination. In addition, additional expenses associated with SEC reporting requirements will continue to be incurred. Furthermore, if any issues in complying with those requirements are identified (for example, if the auditors identify a material weakness or significant deficiency in the internal control over financial reporting), we could incur additional costs rectifying those issues, and the existence of those issues could adversely affect our reputation or investor perceptions of us. It may also be more expensive to obtain director and officer liability insurance. Risks associated with our status as a public company may make it more difficult to attract and retain qualified persons to serve on the board of directors or as executive officers. The additional reporting and other obligations imposed by these rules and regulations will increase legal and financial compliance costs and the costs of related legal, accounting and administrative activities. These increased costs will require us to divert a significant amount of money that could otherwise be used to expand the business and achieve strategic objectives. Advocacy efforts by stockholders and third parties may also prompt additional changes in governance and reporting requirements, which could further increase costs.

***AdaptHealth’s management has limited experience in operating a public company.***

AdaptHealth’s executive officers and certain directors have limited experience in the management of a publicly traded company. AdaptHealth’s management team may not successfully or effectively manage its transition to a public company that is subject to significant regulatory oversight and reporting obligations under federal securities laws. Their limited experience in dealing with the increasingly complex laws pertaining to public companies could be a significant disadvantage in that it is likely that an increasing amount of their time may be devoted to these activities which will result in less time being devoted to the management and growth of the company. It is possible that we will be required to expand our employee base and hire additional employees to support our operations as a public company, which will increase our operating costs in future periods.

***Because we have no current plans to pay cash dividends on our Class A Common Stock for the foreseeable future, our stockholders may not receive any return on investment unless they sell their Class A Common Stock for a price greater than that which they paid for it.***

We may retain future earnings, if any, for future operations, expansion and debt repayment and have no current plans to pay any cash dividends for the foreseeable future. Any decision to declare and pay dividends as a public company in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, financial condition, cash requirements, contractual restrictions and other factors that our board of directors may deem relevant. In addition, our ability to pay dividends may be limited by covenants of any existing and future outstanding indebtedness we or our subsidiaries incur. As a result, our stockholders may not receive any return on an investment in our Class A Common Stock unless they sell our Class A Common Stock for a price greater than that which they paid for it.

***There can be no assurance that we will be able to continue to comply with the continued listing standards of Nasdaq.***

Our Class A Common Stock is currently listed on Nasdaq. There can be no assurance that we will continue to be able to meet Nasdaq's listing requirements with respect to our Class A Common Stock. If our Class A Common Stock is delisted, there could be limited availability of market quotations for the Class A Common Stock and reduced liquidity in trading. Our public warrants were formerly listed on Nasdaq; however, on November 27, 2019, we received a letter from Nasdaq stating that our public warrants failed to meet the Nasdaq Capital Market's round lot holder requirement. Our public warrants were suspended from trading on Nasdaq on December 6, 2019 and subsequently delisted. Upon suspension of trading on Nasdaq, our public warrants began trading on the over-the-counter market. Although we anticipate that our Class A Common Stock, if delisted from Nasdaq, would be eligible for quotation and trading on the over-the-counter market, there can be no assurance that trading would be commenced or maintained on the over-the-counter market for our Class A Common Stock.

In addition, if we failed to meet Nasdaq's listing requirements with respect to our Class A Common Stock, in addition to reduced liquidity, we and our stockholders could face significant material consequences including:

- a determination that our Class A Common Stock is a "penny stock" which will require brokers trading in our Class A Common Stock to adhere to more stringent rules and possibly result in a reduced level of trading activity in the secondary trading market for our securities;
- a limited amount of news and analyst coverage; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

The National Securities Markets Improvement Act of 1996, which is a federal statute, prevents or preempts the states from regulating the sale of certain securities, which are referred to as "covered securities." Because our Class A Common Stock is listed on Nasdaq, it is a covered security. Although the states are preempted from regulating the sale of our Class A Common Stock, if we were no longer listed on Nasdaq, our Class A Common Stock would not be a covered security and we would be subject to regulation in each state in which we offer our Class A Common Stock.

***A significant portion of our total outstanding Class A Common Stock is restricted from immediate resale but may be sold into the market in the near future. This could cause the market price of our Class A Common Stock to drop significantly, even if our business is doing well.***

Sales of a substantial number of shares of Class A Common Stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our Class A Common Stock. After the Business Combination:

- certain persons collectively own 3,672,500 shares of Class A Common Stock and 2,643,333 private placement warrants distributed to them by Deerfield/RAB Ventures LLC (our "Sponsor") in connection with its

dissolution, subject to restrictions on transfer under the terms of a letter agreement entered into by our Sponsor at the time of our initial public offering ("IPO");

- 38,290,298 shares of Class A Common Stock which were either issued or may be issued upon the exchange of AdaptHealth Units are subject to restrictions on transfer under the terms of the Lock-up Agreements; and
- Deerfield and Richard Barasch collectively own 12,500,000 shares of Class A Common Stock that are subject to restrictions on transfer under the terms of the Amended and Restated Subscription Agreement entered into on October 15, 2019 between the Company, Deerfield and RAB Ventures (DFB) LLC.

***We may amend the terms of the warrants in a manner that may be adverse to holders with the approval by the holders of at least 65% of the then outstanding public warrants.***

Our warrants are issued in registered form under a warrant agreement between Continental Stock Transfer & Trust Company, as warrant agent, and us. The warrant agreement provides that the terms of the warrants may be amended without the consent of any holder to cure any ambiguity or correct any defective provision, but requires the approval by the holders of at least 65% of the then outstanding public warrants to make any change that adversely affects the interests of the registered holders. Accordingly, we may amend the terms of the warrants in a manner adverse to a holder if holders of at least 65% of the then-outstanding public warrants approve of such amendment. Although our ability to amend the terms of the warrants with the consent of at least 65% of the then outstanding public warrants is unlimited, examples of such amendments could be amendments to, among other things, increase the exercise price of the warrants, shorten the exercise period or decrease the number of shares of our Class A Common Stock purchasable upon exercise of a warrant.

***We may redeem unexpired public warrants prior to their exercise at a time that is disadvantageous to warrantholders, thereby making their public warrants worthless.***

We have the ability to redeem outstanding warrants at any time after they become exercisable and prior to their expiration, at a price of $0.01 per warrant; provided that the last reported sales price of our Class A Common Stock equals or exceeds $18.00 per share (as adjusted for share splits, share dividends, reorganizations, recapitalizations and the like) for any 20 trading days within a 30 trading-day period ending on the third trading day prior to the date we send the notice of such redemption to the warrant holders. If and when the warrants become redeemable by us, we may exercise our redemption right even if we are unable to register or qualify the underlying securities for sale under all applicable state securities laws. Redemption of the outstanding warrants could force warrantholders (i) to exercise their warrants and pay the exercise price therefor at a time when it may be disadvantageous for them to do so, (ii) to sell their warrants at the then-current market price when they might otherwise wish to hold their warrants or (iii) to accept the nominal redemption price which, at the time the outstanding warrants are called for redemption, is likely to be substantially less than the market value of their warrants. In addition, we may redeem the public warrants after they become exercisable for a number of shares of Class A Common Stock determined based on the redemption date and the fair market value of our Class A Common Stock. Any such redemption may have similar consequences to a cash redemption described above. In addition, such redemption may occur at a time when the warrants are "out-of-the-money," in which case warrantholders would lose any potential embedded value from a subsequent increase in the value of the Common Stock had their warrants remained outstanding.

In addition, we may redeem the public warrants after they become exercisable for a number of shares of Class A Common Stock determined based on the redemption date and the fair market value of our Class A Common Stock. Any such redemption may have similar consequences to a cash redemption described above. In addition, such redemption may occur at a time when the warrants are "out-of-the-money," in which case warrantholders would lose any potential embedded value from a subsequent increase in the value of the Class A Common Stock had their warrants remained outstanding. None of the private placement warrants will be redeemable by us so long as they are held by our Sponsor or its permitted transferees.

***Our warrants may have an adverse effect on the market price of our Class A Common Stock.***

We issued warrants to purchase 8,333,333 shares of our Class A Common Stock as part of the units offered in our IPO and, simultaneously with the closing of our IPO, we issued in a private placement an aggregate of 4,333,333 private placement warrants, each exercisable to purchase one share of Class A Common Stock at $11.50 per share. To the extent such warrants are exercised, additional shares of our Class A Common Stock will be issued, which will result in dilution to our stockholders and increase the number of shares of Class A Common Stock eligible for resale in the public market. Sales of substantial numbers of such shares in the public market or the fact that such warrants may be exercised could adversely affect the market price of our Class A Common Stock.

***The JOBS Act permits "emerging growth companies" like us to take advantage of certain exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies.***

We qualify as an "emerging growth company" as defined in Section 2(a)(19) of the Securities Act, as modified by the JOBS Act. As such, we plan to take advantage of certain exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies for as long as we continue to be an emerging growth company, including (i) the exemption from the auditor attestation requirements with respect to internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act, (ii) the exemptions from say-on-pay, say-on-frequency and say-on-golden parachute voting requirements and (iii) reduced disclosure obligations regarding executive compensation in its periodic reports and proxy statements. We will remain an emerging growth company until the earliest of (i) the last day of the fiscal year in which the market value of our Class A Common Stock that is held by non-affiliates exceeds $700 million as of June 30 of that fiscal year, (ii) the last day of the fiscal year in which we have total annual gross revenue of $1 billion or more during such fiscal year, (iii) the date on which we have issued more than $1.07 billion in non-convertible debt in the prior three-year period or (iv) the last day of the fiscal year following the fifth anniversary of the date of the first sale of our common stock in the IPO, which would be December 31, 2023. AdaptHealth had revenues for the year ended December 31, 2019 of approximately $529.6 million. If we continue to expand our business through acquisitions and/or continue to grow revenues organically, we may cease to be an emerging growth company prior to December 31, 2023.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the exemption from complying with new or revised accounting standards provided in Section 7(a)(2)(B) of the Securities Act as long as we are an emerging growth company. An emerging growth company can therefore delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, we, as an emerging growth company, can adopt the new or revised standard at the same time private companies adopt the new or revised standard. Investors may find our Class A Common Stock less attractive because we will rely on these exemptions, which may result in a less active trading market for our Class A Common Stock and its stock price may be more volatile.

We are also currently a "smaller reporting company." In the event that we are still considered a "smaller reporting company," at such time as we cease being an "emerging growth company," the disclosure we will be required to provide in our SEC filings will increase, but will still be less than it would be if we were not considered either an "emerging growth company" or a "smaller reporting company." Specifically, similar to "emerging growth companies," "smaller reporting companies" are able to provide simplified executive compensation disclosures in their filings; are exempt from the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that independent registered public accounting firms provide an attestation report on the effectiveness of internal control over financial reporting; and have certain other decreased disclosure obligations in their SEC filings. Decreased disclosures in our SEC filings due to our status as an "emerging growth company" or "smaller reporting company" may make it harder for investors to analyze our results of operations and financial prospects.

***Our second amended and restated certificate of incorporation requires that the Court of Chancery of the State of Delaware and, to the extent enforceable, the federal district courts of the United States of America be the***

***exclusive forums for substantially all disputes between us and our stockholders, which may have the effect of discouraging lawsuits against our directors and officers.***

Our second amended and restated certificate of incorporation requires, to the fullest extent permitted by law, other than any claim to enforce a duty or liability created by the Exchange Act or other claim for which federal courts have exclusive jurisdiction, that derivative actions brought in our name, actions against directors, officers and employees for breach of fiduciary duty and other similar actions may be brought only in the Court of Chancery in the State of Delaware and, if brought outside of the State of Delaware, the stockholder bringing such suit will be deemed to have consented to service of process on such stockholder's counsel. Our second amended and restated certificate of incorporation further provides that the federal district courts of the United States of America are the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. These provisions may have the effect of discouraging lawsuits against our directors and officers. If a court were to find either exclusive forum provision in our second amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could seriously harm our business. For example, the Court of Chancery of the State of Delaware determined in December 2018 that the exclusive forum provision of federal district courts of the United States of America for resolving any complaint asserting a cause of action arising under the Securities Act is not enforceable. However, this decision may be reviewed and ultimately overturned by the Delaware Supreme Court. If the Court of Chancery's decision were to be overturned, we would enforce the federal district court exclusive forum provision in our second amended and restated certificate of incorporation.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

We lease primarily all of our offices and facilities. Our corporate headquarters currently consists of approximately 12,000 square feet in an office building located at 220 Germantown Pike, Suite 250, Plymouth Meeting, Pennsylvania, 19462. In addition to our corporate headquarters, we lease facilities for our operating locations, billing centers, and other warehouse and office space. All facilities are leased pursuant to operating leases. We believe that our facilities are suitable and adequate for our planned needs.

**Item 3. Legal Proceedings**

AdaptHealth is involved in investigations, claims, lawsuits and other proceedings arising in the ordinary course of its business. These matters involve personnel and employment issues, regulatory matters, personal injury, contract and other proceedings arising in the ordinary course of business, which have not resulted in any material losses to date. Although AdaptHealth does not expect the outcome of these proceedings will have a material adverse effect on its financial condition or results of operations, such matters are inherently unpredictable. Therefore, AdaptHealth could incur judgments or enter into settlements or claims that could materially impact its financial condition or results of operations.

**Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

**Market Information**

Our Class A Common Stock is currently listed on Nasdaq under the symbol "AHCO" and our public warrants are quoted on the OTC Pink marketplace operated by OTC Markets Group, Inc. under the symbol "AHCOW." Through November 8, 2019, our Class A Common Stock and warrants were quoted under the symbols "DFB" and "DFBW," respectively. Each whole warrant entitles the holder to purchase one share of common stock at a price of $11.50 per share, subject to adjustment as described in our registration statement. Only whole warrants are exercisable and only whole warrants will trade. The warrants will expire on the fifth anniversary of the Closing, at 5:00 p.m., New York City time, or earlier upon redemption or liquidation.

As of March 3, 2020, there were 40 holders of record of shares of our Class A Common Stock, 18 holders of record of shares of our Class B Common Stock and 26 holders of record of our warrants. Such numbers do not include beneficial owners holding our securities through nominee names. There is no public market for our Class B Common Stock.

**Dividend Policy**

We have not paid any cash dividends on our Common Stock to date. The payment of cash dividends in the future will be dependent upon our revenues and earnings, if any, capital requirements and general financial condition. The payment of any cash dividends will be within the discretion of our board of directors at such time. In addition, our board of directors is not currently contemplating and does not anticipate declaring any stock dividends in the foreseeable future. Further, our ability to declare dividends may be limited by restrictive covenants contained in any of our existing or future indebtedness.

**Recent Sales of Unregistered Securities**

Other than as follows, we had no sales of unregistered equity securities during the period covered by this report that were not previously reported in a Current Report on Form 8-K.

*Unit Exchanges*

Since the Closing of the Business Combination, the Company has issued 1,050,000 shares of Class A Common Stock to certain members of AdaptHealth Holdings in exchange for an equal number of shares of Class B Common Stock and AdaptHealth Units pursuant to the Exchange Agreement, dated as of November 8, 2019, between the Company, AdaptHealth Holdings and holders of AdaptHealth Units. The shares of Class A Common Stock were issued pursuant to the exemption from registration contained in Section 4(a)(2) of the Securities Act.

*Plan-Related Issuances*

Since the Closing of the Business Combination, the Company has approved the grant to certain of its officers, directors and employees of (i) 416,250 restricted shares of Class A Common Stock and (ii) options to purchase an aggregate of 3,416,666 shares of its Class A Common Stock under the AdaptHealth Corp. 2019 Stock Incentive Plan. The shares of Class A Common Stock and options are being issued pursuant to the exemption from registration contained in Rule 701 promulgated under Section 3(b) of the Securities Act.

**Issuer Purchases of Equity Securities**

None.

**Item 6. Selected Financial Data**

The following table shows selected historical consolidated financial information for the periods and as of the dates indicated. The selected historical consolidated financial information as of and for the years ended December 31, 2019 and 2018 was derived from the audited historical consolidated financial statements included elsewhere in this report. The selected historical consolidated financial information as of and for the years ended December 31, 2017 and 2016 was derived from the audited historical consolidated financial statements not included in this report.

Historical results are not necessarily indicative of future operating results. The selected historical consolidated financial information should be read in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" as well as our historical consolidated financial statements and accompanying notes included elsewhere in this report.

| (in thousands) | Year Ended December 31, | | | |
|---|---|---|---|---|
| **Consolidated Statement of Operations Data:** | **2019** | **2018** | **2017** | **2016** |
| Total net revenue | $ 529,644 | $ 345,278 | $ 192,559 | $ 174,316 |
| Operating income | $ 29,697 | $ 31,091 | 16,088 | $ 2,323 |
| Net (loss) income attributable to AdaptHealth Corp. | $ (14,996) | $ 23,260 | $ 9,687 | $ (4,183) |

| (in thousands) | | | | |
|---|---|---|---|---|
| **Consolidated Statement of Operations Data:** | | | | |
| Net cash provided by operating activities | $ 60,418 | $ 68,427 | $ 45,931 | $ 29,935 |
| Net cash used in investing activities | $ (84,870) | $ (96,284) | $ (15,077) | $ (2,676) |
| Net cash provided by (used in) financing activities | $ 76,144 | $ 48,769 | $ (30,263) | $ (27,580) |

| (in thousands) | December 31, | | |
|---|---|---|---|
| **Balance Sheet Data:** | **2019** | **2018** | **2017** |
| Total assets | $ 547,034 | $ 368,957 | $ 111,984 |
| Total long-term debt, including current portion | $ 396,833 | $ 134,185 | $ 20,312 |
| Total stockholders' equity (deficit) / members' equity (deficit) | $ (29,248) | $ 102,769 | $ (637) |

The following table sets forth EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex:

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| **(in thousands)** | **2019** | **2018** | **2017** | **2016** |
| | (unaudited) | | | |
| EBITDA | $ 90,142 | $ 77,569 | $ 43,580 | $ 28,886 |
| Adjusted EBITDA | $ 123,021 | $ 84,447 | $ 45,035 | $ 33,104 |
| Adjusted EBITDA less Patient Equipment Capex | $ 75,600 | $ 45,083 | $ 19,186 | $ 7,625 |

The following table reconciles net income (loss) attributable to AdaptHealth Corp., the most directly comparable GAAP measure, to EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex:

| (in thousands) | Year Ended December 31, 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| | | (unaudited) | | |
| Net (loss) income attributable to AdaptHealth Corp. | $ (14,996) | $ 23,260 | $ 9,687 | $ (4,183) |
| Income attributable to noncontrolling interest | 2,111 | 1,077 | 580 | 563 |
| Interest expense excluding change in fair value of interest rate swaps | 27,878 | 8,000 | 5,041 | 5,761 |
| Interest expense (income) - change in fair value of interest rate swaps | 11,426 | (547) | — | — |
| Income tax expense (benefit) | 1,156 | (2,098) | 249 | (208) |
| Depreciation | 62,567 | 47,877 | 27,816 | 26,563 |
| Loss from discontinued operations, net of tax | — | — | 207 | 390 |
| **EBITDA** | **90,142** | **77,569** | **43,580** | **28,886** |
| Loss on extinguishment of debt, net(a) | 2,121 | 1,399 | 324 | — |
| Equity-based compensation expense(b) | 11,070 | 884 | 49 | 49 |
| Transaction costs(c) | 15,984 | 2,514 | — | — |
| Severance(d) | 2,301 | 1,920 | 826 | 430 |
| Non-recurring expenses | 534 | 161 | 256 | 3,739 |
| Earnout liability activity(e) | 869 | — | — | — |
| **Adjusted EBITDA** | **123,021** | **84,447** | **45,035** | **33,104** |
| Less: Patient equipment capex(f) | (47,421) | (39,364) | (25,849) | (25,479) |
| **Adjusted EBITDA less Patient Equipment Capex** | **$ 75,600** | **$ 45,083** | **$ 19,186** | **$ 7,625** |

(a) Represents write offs of deferred financing costs and prepayment penalty expense related to refinancing of debt offset by gain on debt extinguishment.

(b) Represents amortization of equity-based compensation to employees, including expense resulting from accelerated vesting and modification of certain awards.

(c) Represents transaction costs related to acquisitions, the 2019 Recapitalization, and the Business Combination.

(d) Represents severance costs related to acquisition integration and internal AdaptHealth restructuring and workforce reduction activities.

(e) Represents fair value adjustments and other charges associated with earnout liabilities from acquisitions.

(f) Represents the value of the patient equipment received during the respective period without regard to whether the equipment is purchased or financed through lease transactions.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read in conjunction with AdaptHealth Corp.'s ("AdaptHealth" or the "Company") consolidated financial statements and the accompanying notes included in this report. All amounts presented are in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), except as noted. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from management's expectations. Factors that could cause such differences include, but are not limited to, those discussed in Item 1A, *"Risk Factors"*, of this report on Form 10-K.

**AdaptHealth Corp. Overview**

AdaptHealth is a leading provider of home healthcare equipment, supplies and related services in the United States. The Company focuses primarily on providing (i) sleep therapy equipment, supplies and related services (including CPAP and bi PAP services) to individuals suffering from obstructive sleep apnea, (ii) home medical equipment to patients discharged from acute care and other facilities, (iii) oxygen and related chronic therapy services in the home and (iv) other HME medical devices and supplies on behalf of chronically ill patients with diabetes care, wound care, urological, ostomy and nutritional supply needs. The Company services beneficiaries of Medicare, Medicaid and commercial insurance payors. As of December 31, 2019, AdaptHealth serviced approximately 1.2 million patients annually in 49 states through its network of 173 locations in 35 states. Following its acquisition of PCS from McKesson Corporation in January 2020, AdaptHealth services over approximately 1.4 million patients annually in all 50 states through its network of 187 locations in 38 states. The Company's principal executive offices are located at 220 West Germantown Pike, Suite 250, Plymouth Meeting, Pennsylvania 19462.

**Trends and Factors Affecting AdaptHealth's Future Performance**

Significant trends and factors that AdaptHealth believes may affect its future performance include:

- ***Home Medical Equipment Growth.*** According to CMS, the HME industry has grown from $40 billion in 2010 to $56 billion in 2018 (representing a 4.3% CAGR), of which AdaptHealth's total addressable market for its sleep therapy, oxygen services, mobility products and hospice HME business lines comprised approximately $12 billion to $15 billion in 2018. During that time Medicaid data shows a continued shift of long-term services and supports (LTSS) spending into the home, with 57% of that spending going to home and community-based services in 2016. According to CMS, the HME market is projected to continue to grow at a 6.1% CAGR over the next nine years. As a result of the acquisition of the diabetic, wound care, ostomy and urological supplies business of PCS in January 2020, the Company believes it has more than doubled its addressable market to more than $25 billion.

- ***Aging U.S. Population.*** The population of adults aged 65 and older in the U.S., a significant group of end users of AdaptHealth's products and services, is expected to continue to grow and thus grow AdaptHealth's market opportunity. According to CMS, in the U.S., the population of adults between the ages of 65 and 84 is expected to grow at a 2.5% CAGR through 2030, while the population of adults over 85 is projected to grow at a 2.9% CAGR during that same time period. Not only is the elderly population expected to grow, but they are also expected to make up a larger percentage of the total U.S. population. According to the U.S. Census Bureau, the U.S. geriatric population was approximately 15% of the total population in 2014 and is expected to grow to approximately 24% of the total population by 2060.

- ***Increasing Prevalence of Chronic Conditions.*** HME is necessary to help treat significant health issues affecting millions of Americans, such as chronic obstructive pulmonary disease, congestive heart failure, obstructive sleep apnea and diabetes.

- ***Increasing Prevalence of and Preference for In-Home Treatments.*** The number of conditions that can be treated in the home continues to grow, with recent additions including chronic wound care, sleep testing, dialysis and chemotherapy. In home care is also increasingly becoming the preferred method of treatment, particularly for the elderly population. According to the AARP Public Policy Institute, 90% of patients over age 55 have indicated a preference to receive care in the home rather than in an institutional setting.

- ***Home Care is the Lowest Cost Setting.*** Not only is in-home care typically just as effective as care delivered in an inpatient setting, but it has also proven to be more cost effective. This is especially important within the context of government pressures to lower the cost of care, pushing clinicians to seek care settings that are less costly than hospitals and inpatient facilities. On a daily basis, home healthcare has been estimated by Cain Brothers & Company, LLC to be approximately seven times less expensive than care provided in skilled nursing facilities, the closest acuity site of care. In-home care offers a significant cost reduction opportunity relative to facility based care without sacrificing quality.

Certain additional items may impact the comparability of the historical results presented below with AdaptHealth's future performance, such as the cost of being a public company. To operate as a public company, AdaptHealth will be required to continue to implement changes in certain aspects of its business and develop, manage, and train management level and other employees to comply with ongoing public company requirements, including compliance with Section 404 and the evaluation of the effectiveness of internal controls over financial reporting. AdaptHealth will also incur new expenses as a public company, including expenses associated with public reporting obligations, proxy statements and stockholder meetings, stock exchange fees, transfer agent fees, SEC and Financial Industry Regulatory Authority filing fees and offering expenses.

***Key Components of Operating Results***

***Net Revenue.*** Net revenues are recorded for services that AdaptHealth provides to patients for home healthcare equipment and related services. AdaptHealth's primary service lines are (i) sleep therapy equipment, supplies and related services (including CPAP and bi-PAP services) to individuals suffering from OSA, (ii) home medical equipment to patients discharged from acute care and other facilities and (iii) respiratory, including oxygen and related chronic therapy services in the home. Net revenues also include other services and supplies, primarily related to orthotics, enteral and hospice. Revenues are recorded either (x) at a point in time for the sale of supplies and disposables, or (y) over the service period for equipment rental (including, but not limited to, CPAP machines, hospital beds, wheelchairs and other equipment), at amounts estimated to be received from patients or under reimbursement arrangements with Medicare, Medicaid and other third-party payors, including private insurers. For the year ended December 31, 2019, approximately 60% and 40% of revenues were recognized at a point in time and over the service period, respectively. For the year ended December 31, 2018, approximately 55% and 45% of revenues were recognized at a point in time and over the service period, respectively. Net revenues are net of related provision for doubtful accounts and implicit price concessions. Provision for doubtful accounts consists of billed charges that are ultimately deemed uncollectible due to a patient's or a third-party payor's inability or unwillingness to pay. The amount is based on management's best estimate of the net realizable value of accounts receivable. Variable consideration in the form of implicit price concessions that is not expected to be collected from customers are recorded as a direct reduction of net revenues.

The Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* (ASC 606), effective January 1, 2019, using the modified retrospective transition method. Results for reporting periods beginning after January 1, 2019 are presented under ASC 606, while comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company's adoption of ASC 606 primarily impacts the presentation of revenues due to the inclusion of variable consideration in the form of implicit price concessions contained in certain of its contracts with customers. Under ASC 606, amounts estimated to be uncollectible are generally considered implicit price concessions that are a direct reduction to net revenues. Prior to adoption of ASC 606, such amounts were classified as provision for doubtful accounts.

***Cost of Net Revenue.*** Cost of net revenues includes the cost of non-capitalized medical equipment and supplies, distribution expenses, labor costs, facilities rental costs, third-party revenue cycle management costs and depreciation for capitalized patient equipment. Distribution expenses represents the cost incurred to coordinate and deliver products and services to the patients. Included in distribution expenses are leasing, maintenance, licensing and fuel costs for the vehicle fleet; salaries, benefits and other costs related to drivers and dispatch personnel; and amounts paid to couriers.

***General and Administrative Expenses.*** General and administrative expenses consist of corporate support costs including information technology, human resources, finance, contracting, legal, compliance, equity-based compensation, transaction expenses and other administrative costs.

***Depreciation, Excluding Patient Equipment Depreciation.*** Depreciation expense includes depreciation charges for capital assets other than patient equipment (which is included as part of the cost of net revenues).

**Factors Affecting AdaptHealth's Operating Results**

AdaptHealth's operating results and financial performance are influenced by certain unique events during the periods discussed herein, including the following:

**Acquisitions**

AdaptHealth accounts for its acquisitions in accordance with FASB ASC Topic 805, *Business Combinations*, and the operations of the acquired entities are included in the historical results of AdaptHealth for the periods following the closing of the acquisition. The most significant of these acquisitions impacting the comparability of AdaptHealth's operating results in 2019 compared to 2018 were PPS HME Holdings ("PP"S) acquired in May 2018, Verus Healthcare, Inc. ("Verus") acquired in May 2018, Home Medical Express, Inc. ("HMEI") acquired in July 2018, Med Way Medical, Inc. ("Med Way") acquired in December 2018, Continued Care of Long Island, Inc. ("CCLI") acquired in October 2018, SleepMed Therapies, Inc. ("SleepMed") acquired in July 2019, and Gould's Discount Medical, LLC ("Gould's") acquired in January 2019. Refer to Note 3, *Acquisitions*, included in our consolidated financial statements for the year ended December 31, 2019 included in this report for additional information regarding AdaptHealth's acquisitions.

**Debt and Recapitalization**

On March 20, 2019, AdaptHealth entered into the Third Amended and Restated Credit and Guaranty Agreement and restructured its debt borrowings with its bank group. The debt restructuring consisted of $425 million in credit facilities, which includes a $300 million Initial Term Loan (the "Credit Facility Term Loan"), $50 million Delayed Draw Term Loan (the "Delayed Draw Loan"), and $75 million Revolving Credit Facility (the "New Revolver"), all with maturities in March 2024. The Credit Facility Term Loan may consist of Base Rate Loans or LIBOR Rate Loans (as defined in the agreement)."

On March 20, 2019, AdaptHealth entered into a Note and Unit Purchase Agreement with certain affiliates of BlueMountain Capital Management, LLC. In connection with the agreement, membership interests in AdaptHealth Holdings were purchased for $20 million, and AdaptHealth also signed a promissory note agreement with a principal amount of $100 million (the "BM Note"). The outstanding principal amount under the BM Note was due on the tenth anniversary of the agreement and bore interest at the following rates (a) for the period starting on the closing date and ending on the seventh anniversary, a rate of 12% per annum, with 6% payable in cash and 6% payment in kind, and (b) for the period starting on the day after the seventh anniversary of the closing date and ending on the maturity date, a rate equal to the greater of (i) 15% per annum or (ii) the twelve-month LIBOR plus 12% per annum.

The transactions consummated with respect to the Third Amended and Restated Credit and Guaranty Agreement and the Note and Unit Purchase Agreement are hereinafter referred to as the "2019 Recapitalization."

In connection with the closing of the Business Combination, the Company amended its credit facility primarily to (i) increase the amount available under the Delayed Draw Loan from $50 million to $100 million, and (ii) revise the Consolidated Total Leverage Ratio thresholds and lower the applicable margin to determine the variable quarterly interest rate under the credit facility. In addition, the Company repaid $50.0 million under the Credit Facility Term Loan using the proceeds received from the transactions completed as part of the Business Combination; such repayment was applied to the principal payments required to be paid through September 2023. In addition, the Company repaid $31.5 million that was outstanding under the New Revolver. Further, in connection with the closing of the Business Combination, the BM Note was replaced with a new amended and restated promissory note with a principal amount of $100 million. In addition, certain affiliates of BlueMountain Capital Management, LLC converted certain of its members' equity interests to a $43.5 million promissory note. The new $100 million promissory note, together with the $43.5 million promissory note, are collectively referred to herein as the New Promissory Note. The outstanding principal amount under the New Promissory Note is due on November 8, 2029 and bears interest at the following rates (a) for the period starting on the closing date and ending on the seventh anniversary, a rate of 12% per annum, with 6% payable in cash and 6% Payment in Kind ("PIK"), and (b) for the period starting on the day after the seventh anniversary of the closing date and ending on the maturity date, a rate equal to the greater of (i) 15% per annum or (ii) the twelve-month LIBOR plus 12% per annum. The Company has the option to pay the PIK interest in cash.

### Seasonality

AdaptHealth's business is somewhat sensitive to seasonal fluctuations. Its patients are generally responsible for a greater percentage of the cost of their treatment or therapy during the early months of the year due to co-insurance, co-payments and deductibles, and therefore may defer treatment and services of certain therapies until meeting their annual deductibles. In addition, changes to employer insurance coverage often go into effect at the beginning of each calendar year which may impact eligibility requirements and delay or defer treatment. These factors may lead to lower net revenue and cash flow in the early part of the year versus the latter half of the year. Additionally, the increased incidence of respiratory infections during the winter season may result in initiation of additional respiratory services such as oxygen therapy for certain patient populations. AdaptHealth's quarterly operating results may fluctuate significantly in the future depending on these and other factors.

### Key Business Metrics

AdaptHealth focuses on net revenue, EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex as it reviews its performance. Total net revenue is comprised of net sales revenue and net revenue from fixed monthly equipment reimbursements less a provision for doubtful accounts and implicit price concessions. Net sales revenue consists of revenue recognized at a point in time for the sale of supplies and disposables. Net revenue from fixed monthly equipment reimbursements consists of revenue recognized over the service period for equipment (including, but not limited to, CPAP machines, hospital beds, wheelchairs and other equipment).

| | Three months ended | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | March 31, 2019 | | June 30, 2019 | | September 30, 2019 | | December 31, 2019 | | | |
| **Net Revenue (in thousands)** | **Dollars** | **Revenue Percentage** | **Dollars** | **Revenue Percentage** | **Dollars** | **Revenue Percentage** | **Dollars** | **Revenue Percentage** | **Total** | **Revenue Percentage** |
| | (Unaudited) | | | | | | | | | |
| Net sales revenue - Point in time | | | | | | | | | | |
| Sleep | $ 47,127 | 39.4 % | $ 50,433 | 40.6 % | $ 59,117 | 43.3 % | $ 67,865 | 45.4 % | $ 224,542 | 42.4 % |
| Respiratory | 1,279 | 1.1 % | 1,445 | 1.2 % | 1,397 | 1.0 % | 1,659 | 1.1 % | 5,780 | 1.1 % |
| HME | 11,042 | 9.2 % | 10,966 | 8.8 % | 11,963 | 8.8 % | 11,977 | 8.0 % | 45,948 | 8.7 % |
| Other | 9,509 | 8.0 % | 10,151 | 8.2 % | 10,587 | 7.8 % | 9,934 | 6.6 % | 40,181 | 7.5 % |
| Total Net sales revenue | $ 68,957 | 57.7 % | $ 72,995 | 58.8 % | $ 83,064 | 60.9 % | $ 91,435 | 61.1 % | $ 316,451 | 59.7 % |
| | | | | | | | | | | |
| Net revenue from fixed monthly equipment reimbursements | | | | | | | | | | |
| Sleep | $ 18,057 | 15.1 % | $ 18,944 | 15.3 % | $ 20,761 | 15.2 % | $ 23,084 | 15.4 % | $ 80,846 | 15.3 % |
| Respiratory | 20,429 | 17.1 % | 20,010 | 16.1 % | 19,646 | 14.4 % | 21,333 | 14.3 % | 81,418 | 15.4 % |
| HME | 10,370 | 8.7 % | 10,294 | 8.3 % | 11,103 | 8.1 % | 11,445 | 7.7 % | 43,212 | 8.2 % |
| Other | 1,686 | 1.4 % | 1,910 | 1.5 % | 1,877 | 1.4 % | 2,244 | 1.5 % | 7,717 | 1.4 % |
| Total Net revenue from fixed monthly equipment reimbursements | $ 50,542 | 42.3 % | $ 51,158 | 41.2 % | $ 53,387 | 39.1 % | $ 58,106 | 38.9 % | $ 213,193 | 40.3 % |
| | | | | | | | | | | |
| Total net revenue | | | | | | | | | | |
| Sleep | $ 65,184 | 54.5 % | $ 69,377 | 55.9 % | $ 79,878 | 58.5 % | $ 90,949 | 60.8 % | $ 305,388 | 57.7 % |
| Respiratory | 21,708 | 18.2 % | 21,455 | 17.3 % | 21,043 | 15.4 % | 22,992 | 15.4 % | 87,198 | 16.5 % |
| HME | 21,412 | 17.9 % | 21,260 | 17.1 % | 23,066 | 16.9 % | 23,422 | 15.7 % | 89,160 | 16.9 % |
| Other | 11,195 | 9.4 % | 12,061 | 9.7 % | 12,464 | 9.2 % | 12,178 | 8.1 % | 47,898 | 8.9 % |
| Total net revenue | $ 119,499 | 100.0 % | $ 124,153 | 100.0 % | $ 136,451 | 100.0 % | $ 149,541 | 100.0 % | $ 529,644 | 100.0 % |

| Net Revenue (in thousands) | Three months ended March 31, 2018 Dollars | Revenue Percentage | June 30, 2018 Dollars | Revenue Percentage | September 30, 2018 Dollars | Revenue Percentage | December 31, 2018 Dollars | Revenue Percentage | Total | Revenue Percentage |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | (Unaudited) | | | | | |
| Net sales revenue - Point in time | | | | | | | | | | |
| Sleep | $ 12,205 | 21.8 % | $ 25,760 | 32.8 % | $ 41,226 | 40.4 % | $ 44,394 | 40.9 % | $ 123,585 | 35.8 % |
| Respiratory | 1,069 | 1.9 % | 1,193 | 1.5 % | 1,267 | 1.2 % | 1,382 | 1.3 % | 4,911 | 1.4 % |
| HME | 9,069 | 16.2 % | 9,289 | 11.8 % | 8,938 | 8.7 % | 9,428 | 8.7 % | 36,724 | 10.6 % |
| Other | 5,472 | 9.8 % | 6,043 | 7.8 % | 6,062 | 6.0 % | 7,074 | 6.4 % | 24,651 | 7.2 % |
| Total Net sales revenue | $ 27,815 | 49.7 % | $ 42,285 | 53.9 % | $ 57,493 | 56.3 % | $ 62,278 | 57.3 % | $ 189,871 | 55.0 % |
| | | | | | | | | | | |
| Net revenue from fixed monthly equipment reimbursements | | | | | | | | | | |
| Sleep | $ 7,534 | 13.5 % | $ 11,709 | 14.9 % | $ 16,102 | 15.8 % | $ 17,359 | 16.0 % | $ 52,704 | 15.3 % |
| Respiratory | 12,167 | 21.7 % | 15,627 | 19.9 % | 19,246 | 18.8 % | 19,301 | 17.8 % | 66,341 | 19.2 % |
| HME | 8,354 | 14.9 % | 8,770 | 11.2 % | 9,180 | 9.0 % | 9,638 | 8.8 % | 35,942 | 10.4 % |
| Other | 114 | 0.2 % | 94 | 0.1 % | 135 | 0.1 % | 77 | 0.1 % | 420 | 0.1 % |
| Total Net revenue from fixed monthly equipment reimbursements | $ 28,169 | 50.3 % | $ 36,200 | 46.1 % | $ 44,663 | 43.7 % | $ 46,375 | 42.7 % | $ 155,407 | 45.0 % |
| | | | | | | | | | | |
| Total net revenue | | | | | | | | | | |
| Sleep | $ 19,739 | 35.3 % | $ 37,469 | 47.7 % | $ 57,328 | 56.2 % | $ 61,753 | 56.9 % | $ 176,289 | 51.1 % |
| Respiratory | 13,236 | 23.6 % | 16,820 | 21.4 % | 20,513 | 20.0 % | 20,683 | 19.1 % | 71,252 | 20.6 % |
| HME | 17,423 | 31.1 % | 18,059 | 23.0 % | 18,118 | 17.7 % | 19,066 | 17.5 % | 72,666 | 21.0 % |
| Other | 5,586 | 10.0 % | 6,137 | 7.9 % | 6,197 | 6.1 % | 7,151 | 6.5 % | 25,071 | 7.3 % |
| Total net revenue | $ 55,984 | 100.0 % | $ 78,485 | 100.0 % | $ 102,156 | 100.0 % | $ 108,653 | 100.0 % | $ 345,278 | 100.0 % |

**Results of Operations**

***Comparison of Year Ended December 31, 2019 and Year Ended December 31, 2018.***

The following table summarizes AdaptHealth's consolidated results of operations for the years ended December 31, 2019 and December 31, 2018:

| (in thousands, except percentages) | Year Ended December 31, 2019 Dollars | Revenue Percentage | 2018 Dollars | Revenue Percentage | Increase/(Decrease) Dollars | Percentage |
|---|---|---|---|---|---|---|
| | | | (unaudited) | | | |
| Revenue: | | | | | | |
| Revenue, net of contractual allowances and discounts | | | $ 361,054 | | | |
| Provision for doubtful accounts (1) | | | (15,776) | | | |
| **Net revenue** | **$ 529,644** | **100.0 %** | **345,278** | **100.0 %** | **$ 184,366** | **53.4 %** |
| Costs and expenses: | | | | | | |
| Cost of net revenue | 440,386 | 83.1 % | 293,384 | 85.0 % | 147,002 | 50.1 % |
| General and administrative expenses | 56,493 | 10.7 % | 18,069 | 5.2 % | 38,424 | 212.7 % |
| Depreciation, excluding patient equipment depreciation | 3,069 | 0.6 % | 2,734 | 0.8 % | 335 | 12.3 % |
| **Total costs and expenses** | **499,948** | **94.4 %** | **314,187** | **91.0 %** | **185,761** | **59.1 %** |
| **Operating income** | **29,696** | **5.6 %** | **31,091** | **9.0 %** | **(1,395)** | **(4.5)%** |
| Interest expense, net | 39,304 | 7.4 % | 7,453 | 2.2 % | 31,851 | 427.4 % |
| Loss on extinguishment of debt, net | 2,121 | 0.4 % | 1,399 | 0.4 % | 722 | NM % |
| **(Loss) income before income taxes** | **(11,729)** | **(2.2)%** | **22,239** | **6.4 %** | **(33,968)** | **(152.7)%** |
| Income tax expense (benefit) | 1,156 | 0.2 % | (2,098) | (0.6)% | 3,254 | NM |
| **Net (loss) income** | **(12,885)** | **(2.4)%** | **24,337** | **7.0 %** | **(37,222)** | **(152.9)%** |
| Income attributable to noncontrolling interests | 2,111 | 0.4 % | 1,077 | 0.3 % | 1,034 | 96.0 % |
| **Net (loss) income attributable to AdaptHealth Corp.** | **$ (14,996)** | **(2.8)%** | **$ 23,260** | **6.7 %** | **$ (38,256)** | **(164.5)%** |

(1) The Company adopted ASC 606 effective January 1, 2019, the effects of which have not been reflected in prior periods. The Company's adoption of ASC 606 primarily impacts the presentation of revenues due to the inclusion of variable consideration in the form of implicit price concessions contained in certain of its contracts with customers. Under ASC 606, amounts estimated to be uncollectible are generally considered implicit price concessions that are a direct reduction to net revenue. Prior to adoption of ASC 606, such amounts were classified as provision for doubtful accounts. For the year ended December 31, 2019, the Company recorded approximately $27.5 million of implicit price concessions as a direct reduction of net revenue that would have been recorded as provision for doubtful accounts prior to the adoption of ASC 606.

***Net Revenue.*** Net revenue for the year ended December 31, 2019 was $529.6 million compared to $345.3 million for the year ended December 31, 2018, an increase of $184.4 million or 53.4%. The increase in net revenue was driven primarily by acquisitions, which increased revenue by approximately $156.3 million. The remaining increase in net revenue was attributable to organic growth resulting from demographic growth in core markets and CPAP resupply sales and marketing initiatives. For the year ended December 31, 2019, sales revenue (recognized at a point in time) comprised approximately 60% of total net revenue, compared to approximately 55% of total net revenue for the year ended December 31, 2018. The increase in sales revenue was driven primarily by the Verus and SleepMed acquisitions, which are predominantly CPAP resupply businesses and therefore have a high sales revenue mix, as well as strong organic growth in this category. For the year ended December 31, 2019, revenue from fixed monthly equipment reimbursements comprised approximately 40% of total net revenue, compared to approximately 45% of total net revenue for the year ended December 31, 2018.

***Cost of Net Revenue.*** Cost of net revenue for the year ended December 31, 2019 was $440.4 million compared to $293.4 million for the year ended December 31, 2018, an increase of $147.0 million or 50.1%. Cost of net revenue as a percentage of net revenue was 83.1% of net revenue for the year ended December 31, 2019, compared to 85.0% of net revenue for the year ended December 31, 2018. The 1.9% decrease in cost of net revenue as a percentage of net revenue is due in part to lower labor expense due to an increased usage of a global workforce, offset by an increase to expense of approximately $0.9 million associated with earnout liability activity relating to acquisitions. The $147.0 million increase in cost of net revenue is primarily attributable to acquisition growth.

***General and Administrative Expenses.*** General and administrative expenses for the year ended December 31, 2019 were $56.5 million compared to $18.1 million for the year ended December 31, 2018, an increase of $38.4 million or 212.7%. General and administrative expenses as a percentage of net revenue was 10.7% for the year ended December 31, 2019, and 5.2% for the year ended December 31, 2018. General and administrative expenses for the year ended December 31, 2019 included $11.1 million in equity-based compensation expense, $15.6 million in transaction costs, $1.4 million in severance expenses and $0.3 million in other non-recurring expenses. General and administrative expenses for the year ended December 31, 2018 included $0.9 million in equity-based compensation expense, and $2.4 million in transaction costs. Excluding the impact of equity-based compensation expense, transaction costs, severance and other non-recurring expenses, general and administrative expenses as a percentage of net revenue was 5.3% and 4.3% for the years ended December 31, 2019 and 2018, respectively. The $38.4 million increase was primarily comprised of an increase in labor costs of $21.0 million which included a $10.2 million increase in equity-based compensation expense, and an increase in other general and administrative expenses of $17.4 million of which $13.1 million was transaction related. Excluding the impact attributable to equity-based compensation and transaction costs, the increase was a result of increased support costs related to acquisition growth as well as incremental costs associated with operating as a public company.

***Interest Expense.*** Interest expense for the year ended December 31, 2019 was $39.3 million compared to $7.5 million for the year ended December 31, 2018. The increase in interest expense was driven by higher long-term debt obligations to fund acquisitions as well as the 2019 Recapitalization. Additionally, during the year ended December 31, 2019, AdaptHealth recorded non-cash interest expense representing the change in fair value of its interest rate swap agreements of $11.4 million, as compared to non-cash interest income of $0.5 million recorded in the year ended December 31, 2018; such amounts would only be paid out if the interest rate swap agreements were terminated. On August 22, 2019, in accordance with the provisions of FASB ASC 815, *Derivatives and Hedging, and FASB ASU No. 2017-12, Targeted Improvements to Accounting for Hedging Activities*, AdaptHealth designated its swaps as effective

cash flow hedges. Accordingly, subsequent to August 22, 2019, changes in the fair value of its interest rate swaps are recorded as a component of other comprehensive income in equity rather than interest expense.

***Loss on Extinguishment of Debt.*** Loss on extinguishment of debt for the year ended December 31, 2019 was $2.1 million which was a result of the write-off of deferred financing costs related to the 2019 Recapitalization. Loss on extinguishment of debt for the year ended December 31, 2018 was $1.4 million which was the result of the write-off of deferred financing costs and prepayment penalties incurred related to a debt restructuring that occurred in February 2018 offset by gain on debt extinguishment.

***Income Tax Expense.*** Income tax expense for the year ended December 31, 2019 was $1.1 million compared to income tax benefit of $2.1 million for the year ended December 31, 2018. The increase in income tax expense was primarily related to increased pre-tax income associated with the tax paying entities coupled with increased losses in entities that are not subject to tax at the entity level. During the year ended December 31, 2018, AdaptHealth reversed a previously established valuation allowance on deferred tax assets as a result of its profitability over the previous two years, resulting in an income tax benefit of $7.2 million recorded during that period.

**EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex**

AdaptHealth uses EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex, which are financial measures that are not prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, to analyze its financial results and believes that they are useful to investors, as a supplement to U.S. GAAP measures. In addition, AdaptHealth's ability to incur additional indebtedness and make investments under its existing credit agreement is governed, in part, by its ability to satisfy tests based on a variation of Adjusted EBITDA less Patient Equipment Capex.

AdaptHealth defines EBITDA as net income (loss) attributable to AdaptHealth Corp., plus net income attributable to noncontrolling interests, interest expense (income), income tax expense (benefit), and depreciation.

AdaptHealth defines Adjusted EBITDA as EBITDA (as defined above), plus loss on extinguishment of debt, equity-based compensation expense, transaction costs, severance, earnout liability activity, and other non-recurring expenses.

AdaptHealth defines Adjusted EBITDA less Patient Equipment Capex as Adjusted EBITDA (as defined above) less patient equipment acquired during the period without regard to whether the equipment was purchased or financed through lease transactions.

AdaptHealth believes Adjusted EBITDA less Patient Equipment Capex is useful to investors in evaluating AdaptHealth's financial performance. AdaptHealth's business requires significant investment in equipment purchases to maintain its patient equipment inventory. Some equipment title transfers to patients' ownership after a prescribed number of fixed monthly payments. Equipment that does not transfer wears out or oftentimes is not recovered after a patient's use of the equipment terminates. AdaptHealth uses this metric as the profitability measure in its incentive compensation plans that have a profitability component and to evaluate acquisition opportunities, where it is most often used for purposes of contingent consideration arrangements. In addition, AdaptHealth's debt agreements contain covenants that use a variation of Adjusted EBITDA less Patient Equipment Capex for purposes of determining debt covenant compliance. For purposes of this metric, patient equipment capital expenditure is measured as the value of the patient equipment received during the accounting period without regard to whether the equipment is purchased or financed through lease transactions.

EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex should not be considered as measures of financial performance under U.S. GAAP, and the items excluded from EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex are significant components in understanding and assessing financial performance. Accordingly, these key business metrics have limitations as an analytical tool. They should not be considered as an alternative to net income or any other performance measures derived in accordance with U.S. GAAP or as an alternative to cash flows from operating activities as a measure of AdaptHealth's liquidity.

The following unaudited table presents the reconciliation of net income (loss) attributable to AdaptHealth, to EBITDA, Adjusted EBITDA and Adjusted EBITDA less Patient Equipment Capex for the years ended December 31, 2019 and 2018:

| (in thousands) | Year Ended December 31, 2019 | Year Ended December 31, 2018 |
|---|---|---|
| | (Unaudited) | |
| Net (loss) income attributable to AdaptHealth Corp. | $ (14,996) | $ 23,260 |
| Income attributable to noncontrolling interests | 2,111 | 1,077 |
| Interest expense excluding change in fair value of interest rate swaps | 27,878 | 8,000 |
| Interest expense (income) - change in fair value of interest rate swaps | 11,426 | (547) |
| Income tax expense (benefit) | 1,156 | (2,098) |
| Depreciation | 62,567 | 47,877 |
| **EBITDA** | **90,142** | **77,569** |
| Loss on extinguishment of debt, net(a) | 2,121 | 1,399 |
| Equity-based compensation expense(b) | 11,070 | 884 |
| Transaction costs(c) | 15,984 | 2,514 |
| Severance(d) | 2,301 | 1,920 |
| Non-recurring expenses | 534 | 161 |
| Earnout liability activity(e) | 869 | — |
| **Adjusted EBITDA** | **123,021** | **84,447** |
| Less: Patient equipment capex(f) | (47,421) | (39,364) |
| **Adjusted EBITDA less Patient Equipment Capex** | **$ 75,600** | **$ 45,083** |

(a) Represents write offs of deferred financing costs and prepayment penalty expense related to refinancing of debt offset by gain on debt extinguishment.

(b) Represents amortization of equity-based compensation to employees, including expense resulting from accelerated vesting and modification of certain awards.

(c) Represents transaction costs related to acquisitions, the 2019 Recapitalization, and the Business Combination.

(d) Represents severance costs related to acquisition integration and internal AdaptHealth restructuring and workforce reduction activities.

(e) Represents fair value adjustments and other charges associated with earnout liabilities from acquisitions.

(f) Represents the value of the patient equipment received during the respective period without regard to whether the equipment is purchased or financed through lease transactions.

**Liquidity and Capital Resources**

AdaptHealth's principal sources of liquidity are its operating cash flows, borrowings under its credit agreements and proceeds from equity issuances. AdaptHealth has used these funds to meet its capital requirements, which consist of salaries, labor, benefits and other employee-related costs, product and supply costs, third-party customer service, billing and collections and logistics costs, capital expenditures including patient equipment, acquisitions and debt service. Our future capital expenditure requirements will depend on many factors, including its patient volume and revenue growth rates. AdaptHealth's capital expenditures are made in advance of patients beginning service. Certain operating costs are incurred at the beginning of the equipment service period and during initial patient set up. AdaptHealth may be required to seek additional equity or debt financing in connection with its business growth. In the event that additional financing is required from outside sources, AdaptHealth may not be able to raise it on acceptable terms or at all. If additional

capital is unavailable when desired, AdaptHealth's business, results of operations, and financial condition would be materially and adversely affected. AdaptHealth believes that its expected operating cash flows, together with its existing cash, cash equivalents, and amounts available under its credit facility, will continue to be sufficient to fund its operations and growth strategies for at least the next 12 months.

As of December 31, 2019, AdaptHealth had $76.9 million of cash and cash equivalents and $160.5 million available under the Third Amended and Restated Credit and Guaranty Agreement (including $100.0 million available under the Delayed Draw Loan and $60.5 million available under its Revolving Credit Facility after consideration of stand-by letters of credit outstanding of $2.5 million).

On March 20, 2019, AdaptHealth entered into the Third Amended and Restated Credit and Guaranty Agreement and restructured its debt borrowings with its bank group. The credit agreement consisted of $425 million in credit facilities, which included a $300 million Credit Facility Term Loan, a $50 million Delayed Draw Term Loan and a $75 million New Revolver, all with maturities in March 2024.

The Credit Facility Term Loan may consist of Base Rate Loans or LIBOR Rate Loans (as defined in the agreement). Each LIBOR Rate Loan bears interest quarterly at variable rates based upon the sum of (a) the LIBOR Rate for such interest period, plus (b) an applicable margin based upon the AdaptHealth's Consolidated Total Leverage Ratio. Each Base Rate Loan bears interest quarterly at variable rates based upon the sum of (a) the Base Rate (as defined in the agreement), plus (b) an applicable margin based upon the AdaptHealth's Consolidated Total Leverage Ratio. The applicable margin was set at 3.50% and 2.50% for LIBOR Rate Loans and Base Rate Loans, respectively, following the closing of the transaction and are reset each quarter. As of December 31, 2019, AdaptHealth had $246.3 million outstanding under the Credit Facility Term Loan (4.55% interest rate at December 31, 2019). The Credit Facility Term Loan required quarterly principal repayments of $1.875 million beginning June 30, 2019 through March 31, 2021, quarterly principal repayments of $3.75 million beginning June 30, 2021 through December 31, 2023, and the unpaid principal amount of the Credit Facility Term Loan is due at maturity in March 2024. In November 2019, the Company repaid $50.0 million under the Credit Facility Term Loan using the proceeds received from the transactions completed as part of the Business Combination; such repayment was applied to the principal payments required to be paid through September 2023. In addition, in November 2019, the Company amended its credit facility primarily to (i) increase the amount available under the Delayed Draw Loan from $50 million to $100 million, and (ii) revise the Consolidated Total Leverage Ratio thresholds and lower the applicable margin to determine the variable quarterly interest rate under the credit facility.

The Delayed Draw Loan allows up to $100 million to be drawn in order to fund permitted acquisitions and to pay fees and transaction costs associated with such acquisitions, and has an availability period from the first business day immediately following the closing date of the credit agreement (March 20, 2019) to the earliest of (a) the Credit Facility Term Loan maturity date (March 2024), (b) 24 months following the closing date, or (c) the date of the termination of the commitment. The Delayed Draw Loan may consist of Base Rate Loans or LIBOR Rate Loans. As of December 31, 2019, AdaptHealth did not have any borrowings outstanding under the Delayed Draw Loan.

The New Revolver allows up to $75 million to be drawn in order to (1) finance working capital, make capital expenditures and for other general corporate purposes in an amount not to exceed $25 million, and (2) finance permitted acquisitions and to pay fees and transaction costs associated with such acquisitions in an amount not to exceed $50 million. As of December 31, 2019, AdaptHealth had $12 million outstanding under the New Revolver. Amounts outstanding under the New Revolver are due at maturity in March 2024. The interest rate under the New Revolver was 4.55% at December 31, 2019.

Under the credit agreement, AdaptHealth is subject to various agreements that contain a number of restrictive covenants that, among other things, impose operating and financial restrictions on AdaptHealth. Financial covenants include a total leverage ratio and a fixed charges coverage ratio, as defined in the agreement. Additionally, under the terms of the credit agreement, AdaptHealth may be required to repay principal based on excess cash flow, as defined. AdaptHealth was in compliance with all debt covenants as of December 31, 2019.

On March 20, 2019, AdaptHealth signed a Note and Unit Purchase Agreement with certain affiliates of BlueMountain Capital Management, LLC. In connection with the agreement, AdaptHealth entered into a promissory note agreement with a principal amount of $100 million (the "BM Note"). The outstanding principal amount under the BM Note was due on the tenth anniversary of the agreement and bore interest at the following rates (a) for the period starting on the closing date and ending on the seventh anniversary, a rate of 12% per annum, with 6% payable in cash and 6% payment in kind, and (b) for the period starting on the day after the seventh anniversary of the closing date and ending on the maturity date, a rate equal to the greater of (i) 15% per annum or (ii) the twelve-month LIBOR plus 12% per annum. In November 2019, in connection with the closing of the Business Combination, the BM Note was replaced with a new amended and restated promissory note with a principal amount of $100 million. In addition, certain affiliates of BlueMountain Capital Management, LLC converted certain of its members' equity interests to a $43.5 million promissory note. The new $100 million promissory note, together with the $43.5 million promissory note, are collectively referred to herein as the New Promissory Note. The outstanding principal amount under the New Promissory Note is due on the tenth anniversary of the closing date of the Business Combination and bears interest at the following rates (a) for the period starting on the closing date and ending on the seventh anniversary, a rate of 12% per annum, with 6% payable in cash and 6% Payment in Kind, and (b) for the period starting on the day after the seventh anniversary of the closing date and ending on the maturity date, a rate equal to the greater of (i) 15% per annum or (ii) the twelve-month LIBOR plus 12% per annum. The Company has the option to pay the PIK interest in cash.

At December 31, 2019, AdaptHealth's working capital was $30.5 million, as compared to a working capital deficit of $44.9 million at December 31, 2018. A significant portion of AdaptHealth's assets consists of accounts receivable from third-party payors that are responsible for payment for the equipment and the services that AdaptHealth provides.

***Cash Flow.*** The following table presents selected data from AdaptHealth's consolidated statement of cash flows:

| | Year Ended December 31, | |
|---|---|---|
| **(in thousands)** | **2019** | **2018** |
| | **(unaudited)** | |
| Net cash provided by operating activities | $ 60,418 | $ 68,427 |
| Net cash used in investing activities | (84,870) | (96,284) |
| Net cash provided by financing activities | 76,144 | 48,769 |
| Net increase in cash and cash equivalents | 51,692 | 20,912 |
| Cash at beginning of year | 25,186 | 4,274 |
| Cash at end of year | $ 76,878 | $ 25,186 |

Net cash provided by operating activities for the year ended December 31, 2019 was $60.4 million compared to $68.4 million for the year ended December 31, 2018, a decrease of $8.0 million. The decrease was primarily the result of a $37.2 million decrease in net income (loss) partially resulting from a $13.5 million increase in transaction costs and a $31.9 million increase in interest expense in 2019 compared to 2018, a net increase of $52.2 million in non-cash charges primarily from depreciation, provision for doubtful accounts, non-cash interest expense relating to the Company's interest rate swaps, equity-based compensation expense and write-off of deferred financing costs, a change in deferred taxes of $3.1 million, and a $26.1 million increase in cash used resulting from the change in operating assets and liabilities, primarily resulting from the change in accounts receivable and accounts payable and accrued expenses for the period.

Net cash used in investing activities for the year ended December 31, 2019 was $84.9 million compared to $96.3 million for the year ended December 31, 2018. The use of funds in the year ended December 31, 2019 consisted of $21.4 million for equipment and other fixed asset purchases and $63.5 million for acquisitions, including the Gould's Acquisition, the SleepMed acquisition, and the acquisition of Choice Medical Healthcare, Inc. in the fourth quarter of 2019. The use of funds in the year ended December 31, 2018 consisted of $10.0 million for equipment and other fixed asset purchases and $86.3 million for acquisitions, including the Verus acquisition and the PPS acquisition.

Net cash provided by financing activities for the year ended December 31, 2019 was $76.1 million compared to $48.8 million for the year ended December 31, 2018. Net cash provided by financing activities for the year ended December 31, 2019 was primarily related to the 2019 Recapitalization and the Business Combination, and consisted of $360.5 million of borrowings from long-term debt and lines of credit, $20.0 million of proceeds from the sale of members' interests, net proceeds of $148.9 million from the transactions completed in connection with the Business Combination, and proceeds of $100.0 million from a preferred debt issuance, offset by total repayments of $274.9 million on long-term debt and capital lease obligations, payments of $9.0 million for financing costs, payments of $0.8 million for equity issuance costs, payment of $3.7 million for the redemption of members' interests, payment of $13.0 million for earnout liabilities in connection with the Verus Acquisition and the HMEI Acquisition, distributions to members of $250.0 million, distributions to noncontrolling interests of $1.3 million, and net payments of $0.6 million relating to tax withholdings associated with equity-based compensation activity. For the year ended December 31, 2018, net cash provided by financing activities consisted of $164.8 million of borrowings from long-term debt and lines of credit, offset by total repayments of $112.0 million on long-term debt, lines of credit and capital lease obligations, and payments of $2.7 million for deferred financing costs, $1.0 million for debt prepayment penalties and distributions to noncontrolling interests of $0.3 million.

**Critical Accounting Policies and Significant Estimates**

The discussion and analysis of the Company's financial condition and results of operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of the Company's consolidated financial statements requires its management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosures of contingent assets and liabilities. The Company's management bases its estimates, assumptions and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Different assumptions and judgments would change the estimates used in the preparation of the Company's consolidated financial statements which, in turn, could change the results from those reported. In addition, actual results may differ from these estimates and such differences could be material to the Company's financial position and results of operations.

Critical accounting policies and significant estimates are those that the Company's management considers the most important to the portrayal of the Company's financial condition and results of operations because they require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company's critical accounting policies and significant estimates in relation to its consolidated financial statements include those related to revenue recognition, accounts receivable, business combinations, and goodwill valuation.

***Revenue Recognition***

The Company generates revenues for services and related products that the Company provides to patients for home medical equipment, related supplies, and other items. The Company's revenues are recognized in the period in which services and related products are provided to customers and are recorded either at a point in time for the sale of supplies and disposables, or over the fixed monthly service period for equipment.

Revenues are recognized when control of the promised good or service is transferred to customers, in an amount that reflects the consideration to which the Company expects to receive from patients or under reimbursement arrangements with Medicare, Medicaid and third-party payors, in exchange for those goods and services.

Performance obligations are determined based on the nature of the services provided. The majority of the Company's services and related products represent a bundle of services that are not capable of being distinct and as such, are treated as a single performance obligation satisfied over time as services are rendered.

The Company determines the transaction price based on contractually agreed-upon amounts or rates, adjusted for estimates of variable consideration, such as implicit price concessions. The Company utilizes the expected value

method to determine the amount of variable consideration that should be included to arrive at the transaction price, using contractual agreements and historical reimbursement experience within each payor type. The Company applies constraint to the transaction price, such that net revenue is recorded only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur in the future. If actual amounts of consideration ultimately received differ from the Company's estimates, the Company adjusts these estimates, which would affect net revenue in the period such adjustments become known.

Sales revenue is recognized upon transfer of control of products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. Revenues for the sale of durable medical equipment and related supplies, including oxygen equipment, ventilators, wheelchairs, hospital beds and infusion pumps, are recognized at the time of delivery.

The Company provides certain equipment to patients which is reimbursed periodically in fixed monthly payments for as long as the patient is using the equipment and medical necessity continues (in certain cases, the fixed monthly payments are capped at a certain amount). The equipment provided to the patient is based upon medical necessity as documented by prescriptions and other documentation received from the patient's physician. The patient generally does not negotiate or have input with respect to the manufacturer or model of the equipment prescribed by their physician and delivered by the Company. Once initial delivery of this equipment is made to the patient for initial setup, a monthly billing process is established based on the initial setup service date. The Company recognizes the fixed monthly revenue ratably over the service period as earned, less estimated adjustments, and defers revenue for the portion of the monthly bill that is unearned. No separate revenue is earned from the initial setup process. Included in fixed monthly revenue are unbilled amounts for which the revenue recognition criteria had been met as of period-end but were not yet billed to the payor. The estimate of net unbilled fixed monthly revenue recognized is based on historical trends and estimates of future collectability.

The Company's billing system contains payor-specific price tables that reflect the fee schedule amounts in effect or contractually agreed upon by various government and commercial payors for each item of equipment or supply provided to a customer. Revenues are recorded based on the applicable fee schedule. The Company has established a contractual allowance to account for adjustments that result from differences between the payment amount received and the expected realizable amount. If the payment amount received differs from the net realizable amount, an adjustment is recorded to revenues in the period that these payment differences are determined. The Company reports revenues in its consolidated financial statements net of such adjustments.

The Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (ASC 606), effective January 1, 2019, using the modified retrospective transition method. The Company's adoption of ASC 606 primarily impacts the presentation of revenues due to the inclusion of variable consideration in the form of implicit price concessions contained in certain of its contracts with customers. Under ASC 606, amounts estimated to be uncollectible are generally considered implicit price concessions that are a direct reduction to net revenue.

***Accounts Receivable***

Due to the continuing changes in the healthcare industry and third-party reimbursement environment, certain estimates are required to record accounts receivable at their net realizable values. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. The complexity of third-party billing arrangements and laws and regulations governing Medicare and Medicaid may result in adjustments to amounts originally recorded.

The Company performs a periodic analysis to review the valuation of accounts receivable and collectability of outstanding balances. Management's evaluation takes into consideration such factors as historical bad debt experience, business and economic conditions, trends in healthcare coverage, other collection indicators and information about specific receivables. The Company's evaluation also considers the age and composition of the outstanding amounts in determining their estimated net realizable value.

Receivables are considered past due when not collected by established due dates. Specific patient balances are written off after collection efforts have been followed and the account has been determined to be uncollectible. Revisions in reserve estimates are recorded as an adjustment to net revenue or provision for doubtful accounts in the period of revision.

Included in accounts receivable are earned but unbilled accounts receivables. Billing delays, ranging from several days to several weeks, can occur due to the Company's policy of compiling required payor specific documentation prior to billing for its services rendered. In the event that a third-party payor does not accept the claim, the customer is ultimately responsible for payment for the products or services. Under ASC 606, the Company recognizes revenue in the statements of operations and contract assets on the consolidated balance sheets only when services have been provided. Since the Company has performed its obligation under the contract, it has unconditional rights to the consideration recorded as contract assets and therefore classifies those billed and unbilled contract assets as accounts receivable.

***Business Combinations***

The Company applies the acquisition method of accounting for business acquisitions. The results of operations of the businesses acquired by the Company are included as of the respective acquisition date. The acquisition-date fair value of the consideration transferred, including the fair value of any contingent consideration, is allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. To the extent the acquisition-date fair value of the consideration transferred exceeds the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed, such excess is allocated to goodwill. Patient relationships, medical records and patient lists are not reported as separate intangible assets due to the regulatory requirements and lack of contractual agreements but are part of goodwill. Customer related relationships are not reported as separate intangible assets but are part of goodwill as authorizing physicians are under no obligation to refer the Company's services to their patients, who are free to change physicians and service providers at any time. The Company may adjust the preliminary purchase price allocation, as necessary, for up to one year after the acquisition closing date if it obtains more information regarding asset valuations and liabilities assumed that existed but were not available at the acquisition date. Acquisition related expenses are recognized separately from the business combination and are expensed as incurred.

***Valuation of Goodwill***

The Company has a significant amount of goodwill on its balance sheet that resulted from the business acquisitions the Company has made in recent years. Goodwill is not amortized and is tested for impairment annually and upon the occurrence of a triggering event or change in circumstance indicating a possible impairment. Such changes in circumstance can include, among others, changes in the legal environment, reimbursement environment, operating performance, and/or future prospects. The Company performs its annual impairment review of goodwill during the fourth quarter (December 31st) of each year.

The impairment testing can be performed on either a quantitative or qualitative basis. During 2019 and 2018, the Company utilized a qualitative analysis for its annual impairment test and determined that there were no triggering events that would indicate that it is "more likely than not" that the carrying value of the Company's reporting unit is higher than the respective fair value. As a result, the Company did not record any goodwill impairment charges.

***Recent Accounting Pronouncements***

Recently issued accounting pronouncements that may be relevant to the Company's operations but have not yet been adopted are outlined in Note 2 (cc), *Recently Issued Accounting Pronouncements*, to its consolidated financial statements included elsewhere in this report.

**Related Party Transactions**

*Executive Loan*

On December 31, 2014, an executive entered into a loan agreement to borrow approximately $1.0 million from the Company in order to acquire membership interests. Monthly, interest-only payments were due at a rate of 1.9% per annum, and the principal was due in full at maturity on December 31, 2021. The principal and accrued interest under the loan were forgiven by the Company in connection with the transactions completed as part of the Business Combination.

*Vendor Relationships*

The Company and two of its executive officers owned equity in SnapWorx, LLC, a vendor of the Company that provides workflow technology services. Each individual owned less than 1% of SnapWorx, LLC. The Company and each individual sold its ownership in Snap Worx, LLC in February 2020.

The Company and two of its executive officers and shareholders own equity in Parachute Health, a vendor of the Company that provides automated order intake software. Each individual owns less than 1% of Parachute Health.

The expense related to Snap Worx LLC and Parachute Health was approximately $6.5 million and $3.5 million for the years ended December 31, 2019 and 2018, respectively.

**Policies and Procedures for Related Party Transactions**

Our board of directors has adopted a written related party transaction policy that sets forth the following policies and procedures for the review and approval or ratification of related party transactions.

A "Related Party Transaction" is a transaction, arrangement or relationship in which the post combination company or any of its subsidiaries was, is or will be a participant, the amount of which involved exceeds $120,000, and in which any Related Person had, has or will have a direct or indirect material interest. A "Related Person" means:

- any person who is, or at any time during the applicable period was, one of the post combination company's officers or one of the post combination company's directors;
- any person who is known by the post combination company to be the beneficial owner of more than 5% of our voting stock;
- any immediate family member of any of the foregoing persons, which means any child, stepchild, parent, stepparent, spouse, sibling, mother in law, father in law, son in law, daughter in law, brother in law or sister in law of a director, an officer or a beneficial owner of more than 5% of our voting stock, and any person (other than a tenant or employee) sharing the household of such director, officer or beneficial owner of more than 5% of our voting stock; and
- any firm, corporation or other entity in which any of the foregoing persons is a partner or principal or in a similar position or in which such person has a 10% or greater beneficial ownership interest.

**Off-Balance Sheet Arrangements**

As of December 31, 2019, the Company did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

**Commitments and Contingencies**

In the normal course of business, the Company is subject to loss contingencies, such as legal proceedings and claims arising out of its business that cover a wide range of matters. In accordance with the Financial Accounting Standards Board Accounting Standards Codification Topic 450, *Accounting for Contingencies*, the Company records accruals for such loss contingencies when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company's management believes any liability that may ultimately result from its resolution will not have a material adverse effect on the Company's financial conditions or results of operations.

Other contingencies arising in the normal course of business relate to acquisitions and the related contingent purchase prices and deferred payments.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

This item is not applicable to smaller reporting companies.

**Item 8. Financial Statements and Supplementary Dat a**

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

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**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors
AdaptHealth Corp:

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of AdaptHealth Corp. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity (deficit) / members' equity (deficit), and cash flows for each of the years then ended, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years then ended, in conformity with U.S. generally accepted accounting principles.

*Change in Accounting Principle*

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for revenue as of January 1, 2019 due to the adoption of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*.

*Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2015.

Philadelphia, Pennsylvania
March 6, 2020

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Consolidated Balance Sheets**

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 76,878,134 | $ 25,185,681 |
| Accounts receivable | 78,619,230 | 53,016,649 |
| Inventory | 13,239,037 | 7,672,646 |
| Prepaid and other current assets | 12,678,423 | 4,915,277 |
| Total current assets | 181,414,824 | 90,790,253 |
| Equipment and other fixed assets, net | 63,559,080 | 61,601,350 |
| Goodwill | 266,790,518 | 202,436,212 |
| Other assets | 6,851,892 | 5,049,628 |
| Deferred tax asset | 27,505,379 | 9,079,190 |
| Total Assets | $ 546,121,693 | $ 368,956,633 |
| **Liabilities and Stockholders' Equity (Deficit) / Members' Equity (Deficit)** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 102,728,093 | $ 85,558,419 |
| Current portion of capital lease obligations | 19,749,854 | 20,814,404 |
| Current portion of long-term debt | 1,721,132 | 7,089,976 |
| Contract liabilities | 9,556,423 | 7,508,428 |
| Other liabilities | 17,138,684 | 14,705,719 |
| Total current liabilities | 150,894,186 | 135,676,946 |
| Long-term debt, less current portion | 395,111,563 | 127,094,723 |
| Capital lease obligations, less current portion | 233,139 | 172,467 |
| Other long-term liabilities | 29,131,012 | 3,243,839 |
| Total Liabilities | 575,369,900 | 266,187,975 |
| Commitments and contingencies (note 2(p)) | | |
| Stockholders' Equity (Deficit) / Members' Equity (Deficit) | | |
| Class A Common Stock, par value of $0.0001 per share, 210,000,000 shares authorized; 40,816,292 shares issued and outstanding as of December 31, 2019 | 4,082 | — |
| Class B Common Stock, par value of $0.0001 per share, 35,000,000 shares authorized; 31,563,799 shares issued and outstanding as of December 31, 2019 | 3,156 | — |
| Preferred Stock, par value of $0.0001 per share, 5,000,000 shares authorized; 0 shares issued and outstanding as of December 31, 2019 | — | — |
| Additional paid-in capital | 11,252,052 | — |
| Accumulated deficit | (27,209,514) | — |
| Members' interest | — | 113,274,181 |
| Controlling interest members' deficit | — | (13,370,648) |
| Accumulated other comprehensive income | 1,431,029 | — |
| Total stockholders' equity (deficit) / members' equity (deficit) attributable to AdaptHealth Corp. | (14,519,195) | 99,903,533 |
| Noncontrolling interests in subsidiaries | (14,729,012) | 2,865,125 |
| Total Stockholders' Equity (Deficit) / Members' Equity (Deficit) | (29,248,207) | 102,768,658 |
| Total Liabilities and Stockholders' Equity (Deficit) / Members' Equity (Deficit) | $ 546,121,693 | $ 368,956,633 |

See accompanying notes to consolidated financial statements.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Consolidated Statements of Operations**

| | Year Ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| Revenue: | | |
| Revenue, net of contractual allowances and discounts | | $ 361,053,975 |
| Provision for doubtful accounts | | (15,775,638) |
| Net revenue | $ 529,644,247 | 345,278,337 |
| Costs and expenses: | | |
| Cost of net revenue | 440,386,387 | 293,384,635 |
| General and administrative expenses | 56,492,554 | 18,068,821 |
| Depreciation, excluding patient equipment depreciation | 3,068,477 | 2,733,807 |
| Total costs and expenses | 499,947,418 | 314,187,263 |
| Operating income | 29,696,829 | 31,091,074 |
| Interest expense, net | 39,304,488 | 7,452,737 |
| Loss on extinguishment of debt, net | 2,121,451 | 1,398,929 |
| (Loss) income before income taxes | (11,729,110) | 22,239,408 |
| Income tax expense (benefit) | 1,156,002 | (2,097,705) |
| Net (loss) income | (12,885,112) | 24,337,113 |
| Income attributable to noncontrolling interests | 2,110,783 | 1,076,766 |
| Net (loss) income attributable to AdaptHealth Corp. | $ (14,995,895) | $ 23,260,347 |
| | | |
| Net (loss) income per common share: | | |
| Basic and diluted | $ (0.66) | $ 1.95 |
| Weighted average shares outstanding for net (loss) income attributable to AdaptHealth Corp.: | | |
| Basic and diluted | 22,557,213 | 11,899,898 |

See accompanying notes to consolidated financial statements.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income (Loss)**

| | Year Ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| Net (loss) income | $ (12,885,112) | $ 24,337,113 |
| Other comprehensive income: | | |
| Interest rate swap agreements, net of reclassification adjustment | 2,536,836 | — |
| Comprehensive (loss) income | (10,348,276) | 24,337,113 |
| | | |
| Net income attributable to noncontrolling interests | 2,110,783 | 1,076,766 |
| Comprehensive (loss) income attributable to AdaptHealth Corp. | $ (12,459,059) | $ 23,260,347 |

See accompanying notes to consolidated financial statements.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Consolidated Statements of Changes in Stockholders' Equity (Deficit) / Members' Equity (Deficit)**

| | Class A Common Stock | | Class B Common Stock | | Preferred Stock | | Additional | | Controlling interest | | Accumulated other | Noncontrolling | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | paid-in capital | Members' interest | members' deficit | Accumulated Deficit | comprehensive income | interests in subsidiaries | Total |
| Balance, December 31, 2017 | — | $ — | — | $ — | — | $ — | $ — | $ 33,455,223 | $ (36,180,242) | $ — | $ — | $ 2,088,359 | $ (636,660) |
| Accrued return on members' interest | — | — | — | — | — | — | — | 316,403 | (316,403) | — | — | — | — |
| Issuance of members' interest for acquisitions | — | — | — | — | — | — | — | 78,484,832 | — | — | — | — | 78,484,832 |
| Cashless exercise of members' interest | — | — | — | — | — | — | — | 134,350 | (134,350) | — | — | — | — |
| Equity-based compensation | — | — | — | — | — | — | — | 883,373 | — | — | — | — | 883,373 |
| Distributions to noncontrolling interest | — | — | — | — | — | — | — | — | — | — | — | (300,000) | (300,000) |
| Net income | — | — | — | — | — | — | — | — | 23,260,347 | — | — | 1,076,766 | 24,337,113 |
| Balance, December 31, 2018 | — | $ — | — | $ — | — | $ — | $ — | $ 113,274,181 | $ (13,370,648) | $ — | $ — | $ 2,865,125 | $ 102,768,658 |
| Activity prior to the Business Combination: | | | | | | | | | | | | | |
| Issuance of members' interest, net of offering costs of $837,156 | — | — | — | — | — | — | — | 19,162,844 | — | — | — | — | 19,162,844 |
| Redemption of members' interest | — | — | — | — | — | — | — | (2,112,500) | (1,600,955) | — | — | — | (3,713,455) |
| Distributions to members | — | — | — | — | — | — | — | — | (250,000,000) | — | — | — | (250,000,000) |
| Distributions to noncontrolling interest | — | — | — | — | — | — | — | — | — | — | — | (1,338,383) | (1,338,383) |
| Equity-based compensation | — | — | — | — | — | — | — | 6,914,677 | — | — | — | — | 6,914,677 |
| Net income (loss) | — | — | — | — | — | — | — | — | (16,315,045) | — | — | 1,531,838 | (14,783,207) |
| Effects of the Business Combination: | | | | | | | | | | | | | |
| Recapitalization | 27,796,166 | 2,780 | 34,113,799 | 3,411 | — | — | — | (137,239,202) | 281,286,648 | (63,289,710) | — | (47,995,919) | 32,768,008 |
| Proceeds from sale of Class A Common Stock | 12,500,000 | 1,250 | — | — | — | — | — | — | — | 69,561,286 | — | 55,437,464 | 125,000,000 |
| Redemption of Class B Common Stock | — | — | (2,000,000) | (200) | — | — | — | — | — | (11,129,806) | — | (8,869,994) | (20,000,000) |
| Conversion of equity to long-term debt | — | — | — | — | — | — | — | — | — | (24,207,763) | — | (19,292,237) | (43,500,000) |
| Forgiveness of employee loan | — | — | — | — | — | — | — | — | — | 537,329 | — | 428,221 | 965,550 |
| Activity subsequent to the Business Combination: | | | | | | | | | | | | | |
| Equity-based compensation | — | — | — | — | — | — | 4,155,398 | — | — | — | — | — | 4,155,398 |
| Shares withheld to pay withholding taxes | (29,874) | (3) | — | — | — | — | (283,805) | — | — | — | — | — | (283,808) |
| Exchange of Class B Common Stock to Class A Common Stock | 550,000 | 55 | (550,000) | (55) | — | — | (820,121) | — | — | — | — | 820,121 | — |
| Net income (loss) | — | — | — | — | — | — | — | — | — | 1,319,150 | — | 578,945 | 1,898,095 |
| Equity activity resulting from Tax Receivable Agreement | — | — | — | — | — | — | 8,200,580 | — | — | — | — | — | 8,200,580 |
| Change in fair value of interest rate swaps, net of reclassification adjustment | — | — | — | — | — | — | — | — | — | — | 1,431,029 | 1,105,807 | 2,536,836 |
| Balance, December 31, 2019 | 40,816,292 | $ 4,082 | 31,563,799 | $ 3,156 | — | $ — | $ 11,252,052 | $ — | $ — | $ (27,209,514) | $ 1,431,029 | $ (14,729,012) | $ (29,248,207) |

See accompanying notes to consolidated financial statements.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

| | Year Ended December 31, 2019 | Year Ended December 31, 2018 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net (loss) income | $ (12,885,112) | $ 24,337,113 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Depreciation | 62,566,500 | 47,876,835 |
| Equity-based compensation | 11,070,075 | 883,373 |
| Deferred income tax | 895,298 | (2,875,895) |
| Change in fair value of interest rate swaps, net of reclassification adjustment | 11,425,921 | (546,832) |
| Gain on change in fair value of contingent consideration | (150,000) | — |
| Provision for doubtful accounts | — | 15,775,638 |
| Amortization of deferred financing costs | 1,311,573 | 477,781 |
| Write-off of deferred financing costs | 2,121,451 | 1,219,205 |
| Forgiveness of employee loan | 965,550 | — |
| Gain on debt extinguishment | — | (800,000) |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable | (20,197,521) | (22,042,721) |
| Due from affiliates and related parties | — | 700,791 |
| Inventory | (1,305,350) | 2,309,508 |
| Prepaid and other assets | (9,558,118) | (1,579,969) |
| Accounts payable and accrued expenses | 14,157,579 | 2,691,981 |
| Net cash provided by operating activities | 60,417,846 | 68,426,808 |
| Cash flows from investing activities: | | |
| Purchases of equipment and other fixed assets | (21,331,581) | (9,949,930) |
| Payments for business acquisitions, net of cash acquired | (63,538,392) | (86,334,011) |
| Net cash used in investing activities | (84,869,973) | (96,283,941) |
| Cash flows from financing activities: | | |
| Proceeds from borrowings on long-term debt | 305,000,000 | 140,000,000 |
| Payments on long-term debt | (194,071,757) | (24,830,307) |
| Proceeds from issuance of promissory note payable | 100,000,000 | — |
| Increase in cash from the Business Combination | 43,911,748 | — |
| Proceed from sale of Class A Common Stock | 125,000,000 | — |
| Proceeds from issuance of members' interests | 20,000,000 | — |
| Payments for equity issuance costs | (837,156) | — |
| Payments for redemptions of Class B Common Stock | (20,000,000) | — |
| Payments of deferred financing costs | (9,027,753) | (2,715,849) |
| Payments on capital leases | (37,271,512) | (27,936,993) |
| Borrowings on lines of credit | 55,500,000 | 24,750,000 |
| Payments on lines of credit | (43,500,000) | (59,218,647) |
| Distributions to members | (250,000,000) | — |
| Payments for redemption of members' interests | (3,713,455) | — |
| Payments of contingent consideration | (13,000,000) | — |
| Payments for debt prepayment penalties | — | (979,724) |
| Payments for tax withholdings from equity-based compensation activity, net | (507,152) | — |
| Distributions to noncontrolling interests | (1,338,383) | (300,000) |
| Net cash provided by financing activities | 76,144,580 | 48,768,480 |
| Net increase in cash and cash equivalents | 51,692,453 | 20,911,347 |
| Cash and cash equivalents at beginning of year | 25,185,681 | 4,274,334 |
| Cash and cash equivalents at end of year | $ 76,878,134 | $ 25,185,681 |
| Supplemental disclosures: | | |
| Cash paid for interest | $ 23,074,703 | $ 7,327,942 |
| Cash paid for income taxes | 1,318,330 | 405,205 |
| Noncash investing and financing activities: | | |
| Equipment acquired under capital lease obligations | 36,267,634 | 27,079,171 |
| Unpaid equipment and other fixed asset purchases at end of year | 8,514,047 | 12,557,763 |
| Seller note issued in connection with an acquisition | 2,000,000 | — |
| Contingent purchase price in connection with acquisitions | 12,625,000 | 15,250,000 |
| Deferred purchase price in connection with acquisitions | 1,572,500 | 500,000 |
| Conversion of equity to debt | 43,500,000 | 16,845,937 |

See accompanying notes to consolidated financial statements.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**December 31, 2019 and 2018**

## (1) Nature of Business

AdaptHealth Corp. and subsidiaries (AdaptHealth or the Company), f/k/a DFB Healthcare Acquisitions Corp. (DFB), a Delaware corporation, was originally formed in November 2017 as a publicly traded special purpose acquisition company for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, or similar business combination involving one or more businesses.

On July 8, 2019, AdaptHealth Holdings LLC (AdaptHealth Holdings) entered into an Agreement and Plan of Merger (the Merger Agreement), as amended on October 15, 2019, with DFB, pursuant to which AdaptHealth Holdings combined with DFB (the Business Combination). The merger was approved by DFB's stockholders, and the Business Combination closed on November 8, 2019. AdaptHealth Holdings was the accounting acquirer in the merger, which was treated as a reverse recapitalization. Accordingly, for accounting purposes, the merger was treated as the equivalent of AdaptHealth Holdings issuing stock for the net assets of DFB, accompanied by a recapitalization. The net assets of DFB were stated at historical costs in the Company's consolidated financial statements, with no goodwill or intangible assets recorded. In connection with the Business Combination, the name of the combined company was changed to AdaptHealth Corp.

Pursuant to the Merger Agreement, on the closing date, the Company contributed cash to AdaptHealth Holdings in exchange for AdaptHealth Holdings common unit interests equal to the number of shares of the Company's Class A Common Stock outstanding on the closing date. In connection with the Business Combination, the Company also issued and sold in a private placement an aggregate of 12,500,000 shares of Class A Common Stock for aggregate consideration of $125,000,000. In addition, the Company (1) issued 17,386,201 shares of Class A Common Stock to certain members of AdaptHealth Holdings in exchange for their interests in AdaptHealth Holdings, and (2) issued 32,113,799 shares of Class B Common Stock to certain members of AdaptHealth Holdings who retained their common unit interests in AdaptHealth Holdings.

The number of shares issued and outstanding of the Company immediately following the closing of the Business Combination is summarized in the table below:

| | Class A Common Stock | Class B Common Stock |
|---|---|---|
| Total shares outstanding prior to the Business Combination | 31,250,000 | — |
| Less: redemption of public shares | (20,840,035) | — |
| Add: shares issued in private placement | 12,500,000 | — |
| Add: shares issued in connection with the Business Combination | 17,386,201 | 32,113,799 |
| Total shares outstanding at the closing date of the Business Combination | 40,296,166 | 32,113,799 |

Following the completion of the Business Combination, substantially all of the Company's assets and operations are held and conducted by AdaptHealth Holdings and its subsidiaries, and the Company's only assets are equity interests which represented a 56% controlling ownership of AdaptHealth Holdings as of November 8, 2019.

Following the completion of the Business Combination, certain members of AdaptHealth Holdings who retained their common unit interests in AdaptHealth Holdings, held the remaining 44% noncontrolling ownership as of November 8, 2019. These members hold common unit interests of AdaptHealth Holdings and a corresponding number of non-economic Class B Common stock, which enables the holder to one vote per share.

Unless the context otherwise requires, "the Company", "we," "us," and "our" refer, for periods prior to the completion of the Business Combination, to AdaptHealth Holdings and its subsidiaries and, for periods upon or after the completion of the Business Combination, to AdaptHealth Corp. and its subsidiaries, including AdaptHealth Holdings and its subsidiaries.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**December 31, 2019 and 2018**

AdaptHealth is a leading provider of home healthcare equipment and related services in the United States. AdaptHealth focuses primarily on providing (i) sleep therapy equipment, supplies and related services (including CPAP and bi-PAP services) to individuals suffering from obstructive sleep apnea (OSA), (ii) home medical equipment to patients discharged from acute care and other facilities and (iii) oxygen and related chronic therapy services in the home. AdaptHealth also provides hospice-focused home medical equipment (HME) services, wound therapy and nutritional HME services. AdaptHealth services beneficiaries of Medicare, Medicaid and commercial insurance payors.

**(2) Summary of Significant Accounting Policies**

***(a) Basis of Presentation***

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

As discussed in Note 1, *Nature of Business*, the Business Combination was accounted for as a reverse recapitalization, with DFB treated as the acquired company and AdaptHealth Holdings as the acquirer, for financial reporting purposes. Therefore, the equity structure has been restated to that of the Company.

The Company is an "emerging growth company," as defined in Section 2(a) of the Securities Act of 1933, as amended, (the Securities Act), as modified by the Jumpstart our Business Startups Act of 2012, (the JOBS Act), and it may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in its periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

Further, Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that an emerging growth company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such an election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an emerging growth company, will adopt the new or revised standard at the time private companies adopt the new or revised standard. This may make comparison of the Company's consolidated financial statements with another public company which is neither an emerging growth company nor an emerging growth company which has opted out of using the extended transition period difficult or impossible because of the potential differences in accounting standards used.

***(b) Basis of Consolidation***

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

### *(c) Accounting Estimates*

The preparation of consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements, and reported amounts of revenues and expenses during the reporting period. Management bases these estimates and assumptions upon historical experience, existing and known circumstances, authoritative accounting pronouncements and other factors that management believes to be reasonable. Significant areas requiring the use of management estimates relate to revenue recognition and the valuation of accounts receivable (implicit price concession), income taxes, contingent consideration, equity-based compensation, interest rate swaps, and long-lived assets, including goodwill. Actual results could differ from those estimates.

### *(d) Revenue Recognition*

The Company generates revenues for services and related products that the Company provides to patients for home medical equipment, related supplies, and other items. The Company's revenues are recognized in the period in which services and related products are provided to customers and are recorded either at a point in time for the sale of supplies and disposables, or over the fixed monthly service period for equipment.

Revenues are recognized when control of the promised good or service is transferred to customers, in an amount that reflects the consideration to which the Company expects to receive from patients or under reimbursement arrangements with Medicare, Medicaid and third-party payors, in exchange for those goods and services.

The Company determines the transaction price based on contractually agreed-upon amounts or rates, adjusted for estimates of variable consideration, such as implicit price concessions. The Company utilizes the expected value method to determine the amount of variable consideration that should be included to arrive at the transaction price, using contractual agreements and historical reimbursement experience within each payor type. The Company applies constraint to the transaction price, such that net revenue is recorded only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur in the future. If actual amounts of consideration ultimately received differ from the Company's estimates, the Company adjusts these estimates, which would affect net revenue in the period such adjustments become known.

Sales revenue is recognized upon transfer of control of products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. Revenues for the sale of durable medical equipment and related supplies, including oxygen equipment, ventilators, wheelchairs, hospital beds and infusion pumps, are recognized at the time of delivery.

The Company provides certain equipment to patients which is reimbursed periodically in fixed monthly payments for as long as the patient is using the equipment and medical necessity continues (in certain cases, the fixed monthly payments are capped at a certain amount). The equipment provided to the patient is based upon medical necessity as documented by prescriptions and other documentation received from the patient's physician. The patient generally does not negotiate or have input with respect to the manufacturer or model of the equipment prescribed by their physician and delivered by the Company. Once initial delivery of this equipment is made to the patient for initial setup, a monthly billing process is established based on the initial setup service date. The Company recognizes the fixed monthly revenue ratably over the service period as earned, less estimated adjustments, and defers revenue for the portion of the monthly bill that is unearned. No separate revenue is earned from the initial setup process. Included in fixed monthly revenue are unbilled amounts for which the revenue recognition criteria had been met as of period-end but were not yet billed to the payor. The estimate of net unbilled fixed monthly revenue recognized is based on historical trends and estimates of future collectability.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**December 31, 2019 and 2018**

The Company's billing system contains payor-specific price tables that reflect the fee schedule amounts in effect or contractually agreed upon by various government and commercial payors for each item of equipment or supply provided to a customer. Revenues are recorded based on the applicable fee schedule. The Company has established a contractual allowance to account for adjustments that result from differences between the payment amount received and the expected realizable amount. If the payment amount received differs from the net realizable amount, an adjustment is recorded to revenues in the period that these payment differences are determined. The Company reports revenues in its consolidated financial statements net of such adjustments.

The Company's business is somewhat sensitive to seasonal fluctuations. Its patients are generally responsible for a greater percentage of the cost of their treatment or therapy during the early months of the year due to co-insurance, co-payments and deductibles, and therefore may defer treatment and services of certain therapies until meeting their annual deductibles. In addition, changes to employer insurance coverage often go into effect at the beginning of each calendar year which may impact eligibility requirements and delay or defer treatment. These factors may lead to lower net revenue and cash flow in the early part of the year versus the latter half of the year. Additionally, the increased incidence of respiratory infections during the winter season may result in initiation of additional respiratory services such as oxygen therapy for certain patient populations. The Company's net revenue and quarterly operating results may fluctuate significantly in the future depending on these and other factors.

***Adoption of ASC 606***

The Company adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (ASC 606), effective January 1, 2019, using the modified retrospective transition method. There was no cumulative effect on the opening balance of accumulated deficit as a result of adopting the standard as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under ASC 606, while comparative information has not been revised and continues to be reported under the accounting standards in effect for those periods.

The Company's adoption of ASC 606 primarily impacts the presentation of revenues due to the inclusion of variable consideration in the form of implicit price concessions contained in certain of its contracts with customers. Under ASC 606, amounts estimated to be uncollectible are generally considered implicit price concessions that are a direct reduction to net revenue. Prior to adoption of ASC 606, such amounts were classified as provision for doubtful accounts. For the year ended December 31, 2019, the Company recorded $27,515,952 of implicit price concessions as a direct reduction of net revenue that would have been recorded as provision for doubtful accounts prior to the adoption of ASC 606. The adoption of ASC 606 is not expected to have a material impact on net income or loss on an ongoing basis.

Under ASC 606, the Company recognizes revenue in the consolidated statements of operations and contract assets on the consolidated balance sheets only when services have been provided. Since the Company has performed its obligation under the contract, it has unconditional rights to the consideration recorded as contract assets and therefore classifies those billed and unbilled contract assets as accounts receivable.

Under ASC 606, fixed monthly payments that the Company receives from customers in advance of providing services represent contract liabilities. Such payments primarily relate to patients who are billed monthly in advance and are recognized over the period as earned.

*Disaggregation of net revenue*

The Company disaggregates net revenue from contracts with customers by payor type and by core service lines. The Company believes that disaggregation of net revenue into these categories achieves the disclosure objectives to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The payment terms and conditions within the Company's revenue-generating contracts vary by payor type and payor source.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**December 31, 2019 and 2018**

The composition of net revenue by payor type for the years ended December 31, 2019 and 2018 are as follows:

| | Year Ended December 31, 2019 | Year Ended December 31, 2018 |
|---|---|---|
| Government | $ 168,686,247 | $ 128,278,922 |
| Insurance | 300,360,975 | 178,726,197 |
| Patient pay | 60,597,025 | 38,273,218 |
| Net revenue | $ 529,644,247 | $ 345,278,337 |

The composition of net revenue by core service lines for the years ended December 31, 2019 and 2018 are as follows:

| | Year Ended December 31, 2019 | Year Ended December 31, 2018 |
|---|---|---|
| Net sales revenue - Point in time | | |
| Sleep | $ 224,542,433 | $ 123,585,029 |
| Respiratory | 5,779,842 | 4,910,755 |
| HME | 45,948,275 | 36,724,311 |
| Other | 40,180,387 | 24,651,320 |
| Total Net sales revenue | $ 316,450,937 | $ 189,871,415 |
| | | |
| Net revenue from fixed monthly equipment reimbursements | | |
| Sleep | $ 80,846,378 | $ 52,703,572 |
| Respiratory | 81,417,997 | 66,341,108 |
| HME | 43,212,228 | 35,941,985 |
| Other | 7,716,707 | 420,257 |
| Total Net revenue from fixed monthly equipment reimbursements | $ 213,193,310 | $ 155,406,922 |
| | | |
| Total net revenue | | |
| Sleep | $ 305,388,811 | $ 176,288,601 |
| Respiratory | 87,197,839 | 71,251,863 |
| HME | 89,160,503 | 72,666,296 |
| Other | 47,897,094 | 25,071,577 |
| Total net revenue | $ 529,644,247 | $ 345,278,337 |

***(e) Accounts Receivable***

Due to the continuing changes in the healthcare industry and third-party reimbursement environment, certain estimates are required to record accounts receivable at their net realizable values. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. The complexity of third-party billing arrangements and laws and regulations governing Medicare and Medicaid may result in adjustments to amounts originally recorded.

The Company performs a periodic analysis to review the valuation of accounts receivable and collectability of outstanding balances. Management's evaluation takes into consideration such factors as historical bad debt experience, business and economic conditions, trends in healthcare coverage, other collection indicators and information about specific receivables. The Company's evaluation also considers the age and composition of the outstanding amounts in determining their estimated net realizable value.

Receivables are considered past due when not collected by established due dates. Specific patient balances are written off after collection efforts have been followed and the account has been determined to be uncollectible. Revisions in reserve estimates are recorded as an adjustment to net revenue in the period of revision.

The Company's allowance for uncollectible accounts was $21,840,787 as of December 31, 2018.

Included in accounts receivable are earned but unbilled accounts receivables. Billing delays, ranging from several days to several weeks, can occur due to the Company's policy of compiling required payor specific documentation prior to billing for its services rendered. In the event that a third-party payor does not accept the claim, the customer is ultimately responsible for payment for the products or services. The Company recorded unbilled revenue of $8,611,272 and $4,002,067 as of December 31, 2019 and 2018, respectively. Under ASC 606, the Company recognizes revenue in the consolidated statements of operations and contract assets on the consolidated balance sheets only when services have been provided. Since the Company has performed its obligation under the contract, it has unconditional rights to the consideration recorded as contract assets and therefore classifies those billed and unbilled contract assets as accounts receivable.

### *(f) Fair Value of Financial Instruments*

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, prepaid and other current assets, accounts payable and accrued expenses. The carrying values of the Company's financial instruments approximate their fair value based on their short-term nature.

The borrowings under the Company's long-term debt arrangements, which were amended in November 2019 in connection with the Business Combination, bear interest at the variable rates described in Note 10, *Debt*, and therefore management believes approximates fair value.

### *(g) Fair Value Accounting*

FASB ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC 820), creates a single definition of fair value, establishes a framework for measuring fair value in U.S. GAAP and expands disclosures about fair value measurements. ASC 820 emphasizes that fair value is a market-based measurement, not an entity specific measurement, and states that a fair value measurement is to estimate the price at which an orderly transaction to sell an asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Assets and liabilities adjusted to fair value in the balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair value.

Level inputs, as defined by ASC 820, are as follows:

| Level input | Input definition |
|---|---|
| Level 1 | Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date. |
| Level 2 | Inputs, other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date. |
| Level 3 | Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. |

Refer to Note 6, *Fair Value of Assets and Liabilities*, for additional information.

***(h) Cash and Cash Equivalents***

The Company considers all short-term highly liquid investments with a maturity of three months or less to be cash equivalents. Cash represents cash on hand and deposits held at banks. The Company maintains cash in demand deposit accounts with federally insured banks. At times, the balances in these accounts may be in excess of federally insured limits. Cash and cash equivalents consist of the following:

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Cash | $ 22,863,543 | $ 9,058,782 |
| Money market accounts | 54,014,591 | 16,126,899 |
| Total | $ 76,878,134 | $ 25,185,681 |

***(i) Inventory***

Inventory consists of equipment and medical supplies and is stated at the lower of cost or market value. Cost is determined by the first-in-first-out method. These finished goods are charged to cost of net revenue in the period in which products and related services are provided to customers.

***(j) Equipment and Other Fixed Assets***

Equipment and other fixed assets are stated at cost less accumulated depreciation or, when acquired as part of a business combination, fair value at date of acquisition. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The useful lives for patient medical equipment correlate with the medical reimbursement periods. Computer equipment, vehicles and other assets are depreciated over the estimated useful lives of the assets. Major expenditures for property acquisitions and those expenditures that substantially increase useful lives are capitalized. Expenditures for maintenance, repairs and minor replacements are expensed as incurred.

The useful lives of property and equipment for purposes of computing depreciation are:

| | |
|---|---|
| Patient medical equipment | 13 months - 5 years |
| Vehicles | 5 years |
| Other | 2 - 7 years |

***(k) Impairment of Long-Lived Assets***

The Company's long-lived assets, such as equipment and other fixed assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. The Company did not incur any impairment charges on equipment and other fixed assets for the years ended December 31, 2019 and 2018.

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets.

***(l) Valuation of Goodwill***

The Company has a significant amount of goodwill on its balance sheet that resulted from the business acquisitions the Company has made in recent years. Goodwill is not amortized and is tested for impairment annually and

upon the occurrence of a triggering event or change in circumstances indicating a possible impairment. Such changes in circumstance can include, among others, changes in the legal environment, reimbursement environment, operating performance, and/or future prospects. The Company performs its annual impairment review of goodwill during the fourth quarter of each year.

The impairment testing can be performed on either a quantitative or qualitative basis. During 2019 and 2018, the Company utilized a qualitative analysis for its annual impairment test and determined that there were no triggering events that would indicate that it is "more likely than not" that the carrying value of the Company's reporting unit is higher than the respective fair value. As a result, the Company did not record any goodwill impairment charges.

***(m) Business Combinations***

The Company applies the acquisition method of accounting for business acquisitions. The results of operations of the businesses acquired by the Company are included as of the respective acquisition date. The acquisition-date fair value of the consideration transferred, including the fair value of any contingent consideration, is allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. To the extent the acquisition-date fair value of the consideration transferred exceeds the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed, such excess is allocated to goodwill. Patient relationships, medical records and patient lists are not reported as separate intangible assets due to the regulatory requirements and lack of contractual agreements but are part of goodwill. Customer related relationships are not reported as separate intangible assets but are part of goodwill as authorizing physicians are under no obligation to refer the Company's services to their patients, who are free to change physicians and service providers at any time. The Company may adjust the preliminary purchase price allocation, as necessary, for up to one year after the acquisition closing date if it obtains more information regarding asset valuations and liabilities assumed that existed but were not available at the acquisition date. Acquisition related expenses are recognized separately from the business combination and are expensed as incurred.

***(n) Deferred Financing Costs***

Costs incurred in connection with the Company's borrowings, referred to as deferred financing costs, are capitalized and included on the accompanying consolidated balance sheets in other assets for costs associated with revolving credit facilities, and as a debt reduction for costs associated with term loans. Deferred financing costs are amortized to interest expense using the effective interest method over the term of the related financing agreement. Refer to Note 8, *Deferred Financing Costs*, for additional information.

***(o) Deferred Rent***

The Company's operating leases for its office and warehouse leases include scheduled rent increases. The Company has accounted for the leases to provide straight-line charges to operations over the life of the leases. Deferred rent is recorded and amortized to the extent the total minimum rental payments allocated to the current period and expensed on a straight-line basis exceed or are less than the cash payments required. Deferred rent is included in accounts payable and accrued expenses and other long-term liabilities on the accompanying consolidated balance sheets based on when the payments will be made. See Note 14, *Lease Commitments*, for additional information.

***(p) Commitments and Contingencies***

In the normal course of business, the Company is subject to loss contingencies, such as legal proceedings and claims arising out of its business that cover a wide range of matters. In accordance with FASB ASC Topic 450, *Accounting for Contingencies*, the Company records accruals for such loss contingencies when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Significant judgement is required to determine both probability and the estimated amount. The Company reviews at least quarterly and adjusts accordingly to

reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information. At this time, the Company has no accrual related to lawsuits, claims, investigations and proceedings.

In connection with the Company's acquisition of PPS HME Holdings LLC (PPS), the Company assumed a Corporate Integrity Agreement (CIA) at one of PPS' subsidiaries, Braden Partners L.P. d/b/a Pacific Pulmonary Services (BP). The CIA was entered into with the Office of Inspector General of the U.S. Department of Health and Human Services (OIG). The CIA has a five-year term which expires in April 2022. In connection with the acquisition and integration of PPS by AdaptHealth, the OIG confirmed that the requirements of the CIA imposed upon BP would only apply to the operations of BP and therefore no operations of any other AdaptHealth affiliate are subject to the requirements of the CIA following the acquisition.

### *(q) Advertising Costs*

Advertising costs are charged to expense as incurred. The Company's advertising costs for the years ended December 31, 2019 and 2018 were $2,144,730 and $1,788,220, respectively, and are primarily included in cost of net revenue in the accompanying consolidated statements of operations.

### *(r) Equity-based Compensation*

The Company accounts for its equity-based compensation in accordance with FASB ASC Topic 718, *Compensation-Stock Compensation*, which establishes accounting for share-based awards exchanged for employee services and requires companies to expense the estimated fair value of these awards over the requisite employee service period. Equity-based compensation expense related to these grants is included within general and administrative expenses in the accompanying consolidated statements of operations. The Company measures and recognizes equity-based compensation expense for such awards granted to employees based on their estimated fair values on the date of grant. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period in the Company's consolidated financial statements. Equity-based compensation expense is recognized on a straight-line basis over the requisite service period. See Note 11, *Stockholders' Equity*, for additional information

### *(s) Cost of Net Revenue*

Cost of net revenue includes the cost of products and supplies sold to patients, patient equipment depreciation and other operating expenses. At December 31, 2019, the Company operated through its network of 173 locations in 35 states, from which customers are provided equipment, supplies and services. The Company also includes in cost of net revenue the salaries, labor and benefits costs incurred at the Company's operating facilities for service personnel, offshore labor expenses, occupancy costs (rent, utilities, property taxes, etc.), and other expenses (software expenses, billing fees, IT related costs, general business supplies, etc.) incurred to operate the businesses. Cost of net revenue for the years ended December 31, 2019 and 2018 consisted of the following:

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Cost of products, supplies and patient equipment depreciation | $ 215,927,438 | $ 140,034,522 |
| Salaries, labor and benefits | 154,030,773 | 107,484,610 |
| Occupancy | 13,407,384 | 8,869,386 |
| Other operating costs | 57,020,792 | 36,996,117 |
| Total | $ 440,386,387 | $ 293,384,635 |

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**December 31, 2019 and 2018**

***(t) General and Administrative Expenses***

General and administrative expenses (G&A) primarily include expenses related to corporate salaries and benefits, legal, equity-based compensation, transaction costs and other business support functions. Included in G&A during the years ended December 31, 2019 and 2018 are salaries, labor and benefits expenses (including equity-based compensation) of $31,651,728 and $10,653,547, respectively.

***(u) Business Segment***

The Company's chief operating decision-makers are its Chief Executive Officer and President, who make resource allocation decisions and assesses performance based on financial information presented on an aggregate basis. There are no segment managers who are held accountable by the chief operating decision-maker, or anyone else, for any planning, strategy and key decision-making regarding operations. The corporate office is responsible for contract negotiation with vendors and payors and corporate compliance with healthcare laws and regulations. Accordingly, the Company has a single reportable segment and operating segment structure.

***(v) Concentration of Credit Risk***

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and trade accounts receivable. 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 and believes it is not exposed to any significant credit risk on cash and cash equivalents. As of December 31, 2019, and 2018, less than 10% of the Company's net accounts receivable are from patients under co-pay or private plan arrangements. Credit evaluations, account monitoring procedures and a third party collection agent are utilized to minimize the risk of loss. Collateral is not required.

Cost-containment efforts of governmental organizations, primarily Medicare, could have a material adverse effect on the Company's sales and profitability. Medicare typically awards contracts on a category-by-category basis through a competitive bidding process. Bids are generally solicited from multiple distributors with intention of driving down pricing. The Company was previously in a protected three year window which expired in 2016. The Company was able to maintain protection for the round 2 recompete contracts that became effective on July 1, 2016, however, all Medicare Durable Medical Equipment, Prosthetics, Orthotics, & Supplies (DMEPOS) Competitive Bidding Program contracts expired on December 31, 2018. Subsequent to December 31, 2018 any registered suppliers can provide equipment and services in all areas. As a result, there is a temporary gap in the entire DMEPOS Competitive Bidding Program that the Centers for Medicare & Medicaid Services (CMS) expects will last until December 31, 2020.

On March 7, 2019, CMS announced plans to consolidate the competitive bidding areas (CBAs) included in the Round 1 2017 and Round 2 Recompete DMEPOS Competitive Bidding Programs into a single round of competition named "Round 2021." Round 2021 contracts are scheduled to become effective on January 1, 2021 and extend through December 31, 2023. The bid window for the Round 2021 DMEPOS Competitive Bidding Program closed on September 18, 2019.

For each CBA, providers will submit bids to CMS offering to supply certain covered items of DME in the CBA at certain prices. A number of products in the Company's product lines are included on the list of products subject to Round 2021. The competitive bidding process has historically put pressure on the amount the Company is reimbursed in the markets in which it exists, as well as in areas that are not subject to the Competitive Bidding Program. The rates required to win future competitive bids could continue to compress reimbursement rates. The Company will continue to monitor developments regarding the competitive bidding program. While the Company cannot predict the outcome of the competitive bidding program on its business in the future nor the Medicare payment rates that will be in effect in

future years for the items subjected to competitive bidding, the program may materially adversely affect its financial condition and results of operations.

### *(w) Concentration of Customers*

The Company provides and distributes medical equipment and health care services, including home oxygen, respiratory medications and sleep therapy equipment and services, to both commercial organizations and directly to end users. This results in a customer concentration relating to Medicare's service reimbursement programs. During the years ended December 31, 2019 and 2018, the Company derived approximately 32% and 37% of its net revenue from government healthcare programs, including Medicare and Medicaid, respectively. Concentration of credit risk with respect to other payors is limited due to the large number of such payors and varied geographical locations.

### *(x) Self-Insurance Risk*

The Company is subject to workers' compensation, auto liability and employee medical claims, which are primarily self-insured; however, the Company maintains certain stop-loss and other insurance coverage which it believes to be appropriate. Provisions for estimated settlements relating to the workers' compensation and medical plans are provided in the period of the related claim on a case-by-case basis plus an amount for incurred but not reported claims. Differences between the amounts accrued and subsequent settlements are recorded in operations in the period of settlement.

### *(y) Derivative Instruments*

The Company recognizes all derivative instruments as either assets or liabilities in the accompanying consolidated balance sheets at fair value. Derivative instruments consist of interest rate swap agreements. The interest rate swap agreements are used to manage interest rate risk associated with the Company's variable rate debt. The Company utilizes the interest rate swap agreements to modify the Company's exposure to interest rate risk by converting a portion of its variable rate borrowings to a fixed rate. See Note 7, *Derivative Instruments and Hedging Activities*, for additional information.

### *(z) Income Taxes*

Prior to the completion of the Business Combination, the Company was a limited liability company and was treated as a partnership for federal and state income tax purposes. As such, income and loss from operations of the Company were allocated to the members for inclusion in their tax returns. In addition, there were regular C-corporations included in the Company's structure where taxes were paid at the entity level. The C-corporations used the asset and liability method of accounting for income taxes as described below.

Following the Business Combination, the Company uses the asset and liability method of accounting for income taxes, under which deferred tax assets and liabilities are recognized for the future tax consequences of (i) temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities and (ii) operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are based on enacted tax rates applicable to the future period when those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period the rate change is enacted. A valuation allowance is provided for deferred tax assets when it is more likely than not the deferred tax assets will not be realized. The Company's deferred tax calculations and valuation allowance requires management to make certain estimates about future operations. Changes in state or federal tax laws, as well as changes in the Company's financial condition or the carrying value of existing assets and liabilities, could affect those estimates. The effect of a change in tax rates is recognized as income or expense in the period that the rate is enacted.

FASB ASC 740, *Income Taxes*, prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties at December 31, 2019 and 2018. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position. The Company is subject to income tax examinations by major taxing authorities since inception.

***(aa) Net Income (Loss) Per Share***

Net income (loss) per share is based upon the weighted average number of common shares outstanding during the respective periods. The Company follows the provisions of the authoritative guidance for determining whether instruments granted in equity-based compensation transactions are participating securities for purposes of calculating net income (loss) per common share. See Note 12, *Net Income (Loss) Per Share*.

***(bb) Recently Adopted Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (ASU 2014-09) (Accounting Standards Codification (ASC) Topic 606)*, which supersedes all existing revenue recognition requirements, including guidance specific to the healthcare industry. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services, and requires enhanced disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This guidance allows for adoption using a full retrospective method, or a modified retrospective method. Subsequent to the issuance of ASU 2014-09, the FASB also issued several updates related to ASU 2014-09 including deferring its adoption date. The Company adopted ASC 606 effective January 1, 2019 using the modified retrospective transition method. The new standard impacted amounts presented in certain captions on the Company's consolidated statements of operations, as upon adoption, the majority of amounts previously classified as provision for doubtful accounts are reflected as implicit price concessions, and therefore a direct reduction to revenue, net of contractual allowances and discounts. Other than as described above, the standard did not have a material impact on the Company's consolidated financial position, results of operations and cash flows. However, expanded disclosures were required. There was no cumulative effect on the opening balance of accumulated deficit as a result of adopting the standard as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under ASC 606, while comparative information has not been revised and continues to be reported under the accounting standards in effect for those periods.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (ASC 805): Clarifying the Definition of a Business (ASU 2017-01)*, which provides guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The adoption of ASU 2017-01 was effective for the Company on January 1, 2018. The adoption of ASU 2017-01 did not have a material impact on the Company's consolidated financial condition and results of operations.

***(cc) Recently Issued Accounting Pronouncements***

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), which amended authoritative guidance on accounting for leases. The new provisions require that a lessee of operating leases recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The lease liability will be equal to the present value of lease payments, with the right-of-use asset equal to the lease liability. The classification criteria for distinguishing between finance (or capital) leases and operating leases are substantially similar to the previous lease guidance, but with no explicit bright lines. As such,

operating leases will result in straight-line rent expense similar to current practice. For short term leases (term of 12 months or less), a lessee is permitted to make an accounting election not to recognize lease assets and lease liabilities, which would generally result in lease expense being recognized on a straight-line basis over the lease term. The new guidance was required for the Company for the annual reporting period beginning January 1, 2020, and interim reporting periods beginning January 1, 2021. However, in November 2019, the FASB issued ASU No. 2019-10, *Financial Instruments - Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which extended the adoption date of the new standard for the Company. The Company is now required to adopt the new standard for the annual reporting period beginning January 1, 2021, and interim reporting periods beginning January 1, 2022. The standard requires a transition adoption election using either 1) a modified retrospective approach with periods prior to the adoption date being recast or 2) a prospective adoption approach with a cumulative-effect adjustment recognized to the opening balance of retained earnings on the adoption date with prior periods not recast. The Company anticipates adopting this standard using the prospective adoption approach and electing the practical expedients allowed under the standard. The adoption of this standard is expected to have a material impact on the Company’s financial position. The Company is still evaluating the impact on its results of operations and does not expect the adoption of this standard to have an impact on liquidity.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (ASC Topic 350): Simplifying the Test for Goodwill Impairment*, which will eliminate the requirement to calculate the implied fair value of goodwill, commonly referred to as “Step 2” in the current goodwill impairment test. An entity will still have the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. This guidance will be effective for annual and interim impairment tests performed in annual reporting periods beginning after December 15, 2020, and early adoption is permitted for annual or interim impairment tests performed after January 1, 2017. The Company is still evaluating the impact that this standard will have on the Company’s results of operations.

**(3) Acquisitions**

During the years ended December 31, 2019 and 2018, the Company made several acquisitions to strengthen its current market share in existing markets or to expand into new markets. Each of the Company’s acquisitions was accounted for using the acquisition method pursuant to the requirements of FASB ASC Topic 805, *Business Combinations*, and are included in the accompanying consolidated financial statements since the respective acquisition date. The goodwill generated from these acquisitions is attributable to expected growth and cost synergies and the expected contribution of each acquisition to the overall Company strategy. The goodwill from these acquisitions is expected to be deductible for tax purposes. Also, see subsection, “Pro-forma information” of this Note 3 for further pro-forma information on revenue and operating income.

Certain estimated fair values of the net assets of acquired businesses as determined below are subject to change resulting from such items as working capital adjustments post-acquisition. As a result, the acquisition accounting for certain acquired businesses could change in subsequent periods resulting in adjustments to goodwill once finalized.

***Year ended December 31, 2019***

On January 2, 2019, the Company purchased 100% of the stock of Gould’s Discount Medical, LLC (Goulds). Goulds is headquartered in Louisville, Kentucky and provides home medical equipment, supplies, and respiratory products such as home oxygen and sleep apnea equipment. The total consideration was $24,264,344, inclusive of an initial cash payment of $20,764,344, the issuance of a promissory note in the amount of $2,000,000 (payable in six equal quarterly installments commencing on September 30, 2019 and accruing 5.0% interest annually), and estimated potential contingent earn-out payments in an aggregate amount up to $1,500,000 based on certain financial metrics for the years ended December 31, 2020 and 2021. The estimated contingent earn-out liability of $1,500,000 was included in other long-term liabilities at December 31, 2019 in the accompanying consolidated balance sheets based on the expected payment dates.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**December 31, 2019 and 2018**

On July 5, 2019, the Company purchased certain assets relating to the durable medical equipment business of SleepMed Therapies, Inc. (SleepMed). SleepMed is a durable medical equipment company headquartered in Atlanta, GA and provides positive airway pressure devices and related supplies to customers in their homes or other alternative site care facilities. The total consideration was $15,405,000, inclusive of an initial cash payment of $11,405,000 and estimated potential contingent earn-out payments in an aggregate amount up to $4,000,000. The estimated contingent earn-out liability was recorded as part of the acquisition accounting based on its estimated fair value at the acquisition date. Subsequent to the acquisition, based on certain events that occurred during the fourth quarter of 2019, it was determined that the fair value of the contingent earn-out liability decreased from the amount initially recorded. Accordingly, the Company recorded a reduction to cost of net revenue of $2,000,000 during the quarter ended December 31, 2019 and reduced the estimated contingent earn-out liability to $2,000,000, which is included in other long-term liabilities at December 31, 2019 in the accompanying consolidated balance sheets based on the expected payment date.

On October 31, 2019, the Company purchased 100% of the stock of Choice Medical Healthcare, Inc. (Choice). Choice is headquartered in Salt Lake City, Utah and provides products and services relating to continuous positive airway pressure devices and related supplies. The acquisition date fair value of the consideration was $18,683,832, inclusive of an initial cash payment of $12,483,832 and potential contingent earn-out payments in an aggregate amount up to $12,500,000, which were determined to have an acquisition date fair value of $6,200,000. The estimated contingent earn-out liability of $6,200,000 was included other long-term liabilities at December 31, 2019 in the accompanying consolidated balance sheets based on the expected payment dates.

During the year ended December 31, 2019, the Company also completed acquisitions of multiple individually immaterial businesses. The total consideration was $21,139,579, inclusive of initial cash payments of $18,642,079, potential deferred payments of $1,572,500 and estimated potential earn-out payments in an aggregate amount up to $925,000. Subsequent to the acquisition accounting for these transactions, it was determined that the fair value of the contingent earn-out liabilities decreased from the amount initially recorded. Accordingly, the Company recorded a reduction to cost of net revenue of $525,000 during the quarter ended December 31, 2019. Of the remaining estimated contingent earn-out liabilities, $200,000 and $200,000 is included in other current liabilities and other long-term liabilities, respectively, at December 31, 2019 in the accompanying consolidated balance sheets based on the expected payment dates. The results of these acquired companies were immaterial to the Company's results for the year ended December 31, 2019.

The following table summarizes the allocation of the purchase price to the estimated fair values of the net assets acquired at the date of the transactions:

| | Goulds | SleepMed | Choice | Other | Total |
|---|---|---|---|---|---|
| Cash | $ — | — | — | 91,894 | 91,894 |
| Accounts receivable | 3,968,011 | — | 758,558 | 678,491 | 5,405,060 |
| Inventory | 2,452,777 | 266,759 | 33,880 | 1,507,625 | 4,261,041 |
| Prepaid and other current assets | 11,835 | — | 110,212 | — | 122,047 |
| Equipment and other fixed assets | 3,352,330 | 1,401,491 | 107,120 | 6,107,790 | 10,968,731 |
| Goodwill | 17,947,636 | 14,064,750 | 18,908,961 | 14,348,123 | 65,269,470 |
| Contract liabilities | (509,000) | (328,000) | (22,000) | (849,995) | (1,708,995) |
| Accounts payable and accrued expenses | (2,959,245) | — | (1,212,899) | (744,349) | (4,916,493) |
| Net assets acquired | $ 24,264,344 | 15,405,000 | 18,683,832 | 21,139,579 | 79,492,755 |

***Year ended December 31, 2018***

On May 17, 2018, as set forth in a Contribution and Exchange Agreement, the members of PPS contributed all of their membership units in PPS to AdaptHealth LLC, a subsidiary of AdaptHealth Holdings, in exchange for cash

consideration of $7,000,000 and members' interests with a value of $48,484,848. PPS provides home oxygen, respiratory medications and sleep therapy equipment and services. Prior to the May 17, 2018 transaction, in May 2017, MedStar Surgical & Breathing Equipment, Inc (MedStar), a subsidiary of AdaptHealth LLC, entered into an Administrative Services Agreement with Braden Partners L.P. (BP), a subsidiary of PPS. Under the agreement, MedStar provides management, consulting and administrative support to all BP's business operations. During 2018, prior to the May 17, 2018 transaction, AdaptHealth Holdings recorded management fee income of $576,458 related to this agreement, which is included in net revenue less provision for doubtful accounts in the accompanying consolidated statements of operations for the year ended December 31, 2018. At May 17, 2018, AdaptHealth Holdings had accounts receivable of $1,715,430 with BP, which primarily related to unpaid management fees, which was settled as part of the May 17, 2018 transaction. The settlement of this receivable was included in the total consideration for purposes of the acquisition accounting for the transaction.

On May 17, 2018, AdaptHealth Holdings entered into an Agreement and Plan of Merger with Verus Healthcare, Inc. (Verus) in which AdaptHealth Holdings purchased 100% of the stock of Verus for total consideration of $100,399,268, inclusive of cash payments of $58,399,284, issuance of members' interests with a value of $13,154,047, issuance of convertible notes of $16,845,937, and contingent consideration of $12,000,000. Verus is headquartered in Tennessee and provides and distributes various types of medical equipment and health care services, including respiratory medications, sleep therapy equipment and services and nutrition products, to both commercial organizations and directly to end users. The contingent consideration was based on the achievement of certain financial targets after the transaction. Verus achieved these targets and amounts were paid in February 2019; accordingly, the contingent consideration was included within other current liabilities in the accompanying consolidated balance sheets at December 31, 2018. The parties intended that the convertible notes would convert to equity which occurred on December 31, 2018; such convertible notes converted to members' interests. During 2018, the Company recorded $293,400 of interest expense relating to the convertible notes.

On July 31, 2018, AdaptHealth Holdings purchased 100% of the stock of Home Medical Express, Inc. (HME) for total consideration of $13,250,000, inclusive of an initial cash payment of $9,000,000, an escrow payment of $1,000,000, and estimated potential earn-out payments of up to $3,250,000. HME is headquartered in Illinois and provides respiratory and durable medical equipment and services. The escrow payment was made at closing and was due to the sellers on the first anniversary of the closing date, subject to certain conditions after the closing date, with any amounts not paid to the sellers to be paid back to the Company. Refer to Note 5, *Goodwill*, for additional information. The estimated potential earn-out payments were based upon the achievement of certain financial targets for the first and second years after the transaction ($1,625,000 each year). Based on HME's actual results during the first year after closing, $1,000,000 of the first-year payout was earned and paid to the sellers during the year ended December 31, 2019 which reduced the initial contingent earn-out liability. As part of a separate arrangement executed in September 2019, the Company provided the sellers with the potential to receive the unearned portion of the first-year payout based on revised financial targets through the end of 2019, which were achieved. As a result, $625,000 was recorded in other current liabilities at December 31, 2019 in the accompanying consolidated balance sheets.

On December 31, 2018, the Company purchased 100% of the stock of a durable medical equipment company headquartered in Utah. The company provides respiratory, durable medical equipment and hospice services to its customers. The total consideration paid was $5,350,000, inclusive of a cash payment of $4,850,000 and a deferred payment of $500,000, which is due following the second anniversary of the closing date subject to certain conditions after the closing date. At December 31, 2019 and 2018, the $500,000 deferred payment is included within other long-term liabilities in the accompanying consolidated balance sheets based upon the estimated payment date. In addition, the sellers have the potential to receive earn-out payments up to a maximum of $5,000,000 which are based on the achievement of certain financial targets for the three years subsequent to the transaction. Based on the available information at the acquisition date, management determined that the targets relating to the earn-out payments were not probable of achievement, and therefore these potential payments were not reflected in the acquisition accounting for the transaction. Based on the financial results subsequent to the transaction, it was determined that $1,000,000 of the

potential earn-out payments under the agreement was earned and an additional $2,000,000 is expected to be earned. As a result, $3,000,000 was included in cost of net revenue for the year ended December 31, 2019 in the accompanying consolidated statements of operations, of which $1,000,000 and $2,000,000 is included in other current liabilities and other long-term liabilities, respectively, at December 31, 2019 in the accompanying consolidated balance sheets, based on the expected payment dates.

During the year ended December 31, 2018, the Company also completed acquisitions of multiple individually immaterial businesses for total cash consideration of $8,099,000. The results of these acquired companies were immaterial to the Company's results for the year ended December 31, 2018.

The following table summarizes the allocation of the purchase price to the estimated fair values of the net assets acquired at the date of the transactions:

| | PPS | Verus | HME | Other | Total |
|---|---|---|---|---|---|
| Cash | $ 407,456 | 1,449,817 | 100,000 | 57,000 | 2,014,273 |
| Accounts receivable | 12,126,481 | 7,795,765 | 2,200,774 | 445,000 | 22,568,020 |
| Inventory | 1,344,535 | 2,923,211 | 75,493 | 674,678 | 5,017,917 |
| Prepaid and other current assets | 995,048 | 466,114 | 35,960 | — | 1,497,122 |
| Equipment and other fixed assets | 20,357,062 | 5,895,113 | 2,165,448 | 3,229,983 | 31,647,606 |
| Deferred tax asset | — | 6,525,269 | — | — | 6,525,269 |
| Other assets | 1,927,355 | 838,008 | 37,956 | — | 2,803,319 |
| Goodwill | 49,660,338 | 91,829,157 | 13,230,987 | 10,037,339 | 164,757,821 |
| Accounts payable and accrued expenses | (20,484,673) | (11,963,664) | (3,180,531) | (995,000) | (36,623,868) |
| Contract liabilities | (1,677,813) | (306,194) | (341,667) | — | (2,325,674) |
| Capital lease obligations | (6,395,438) | (3,793,103) | (1,074,420) | — | (11,262,961) |
| Deferred tax liability | (321,974) | — | — | — | (321,974) |
| Other long-term liabilities | (738,099) | (1,260,225) | — | — | (1,998,324) |
| Net assets acquired | $ 57,200,278 | 100,399,268 | 13,250,000 | 13,449,000 | 184,298,546 |

*Pro-Forma Information (unaudited)*

The unaudited pro-forma financial information has been provided for illustrative purposes only. The unaudited pro-forma financial information does not purport to be indicative of the actual results that would have been achieved by the combined companies for the periods presented, or of the results that may be achieved by the combined companies in the future. Future results may vary significantly from the results reflected in the following unaudited pro-forma financial information because of future events and transactions, as well as other factors, many of which are beyond the Company's control.

The unaudited pro-forma combined financial information presented below has been prepared by adjusting the historical results of the Company to include the historical results of the significant acquisitions described above. The unaudited pro-forma financial information does not include any adjustments to reflect the impact of cost savings or other synergies that may result from these acquisitions. As noted above, the unaudited pro-forma financial information does not purport to be indicative of the actual results that would have been achieved by the combined companies for the periods presented or that may be achieved by the combined company in the future.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**December 31, 2019 and 2018**

The information in the following table represents net revenue and operating income for the years ended December 31, 2019 and 2018 had the Company consolidated its 2019 and 2018 significant acquisitions in those periods.

| | Year ended December 31, | |
|---|---|---|
| **Pro-forma financial information:** | **2019** | **2018** |
| Net revenue | $ 551,754,097 | $ 477,649,368 |
| Operating income | 31,304,194 | 25,352,321 |

The above results do not include interest expense associated with debt incurred to fund the cash consideration paid for the acquisitions.

*Results of Businesses Acquired*

The amount of net revenue and operating income of the significant acquisitions in 2019 and 2018 since the respective acquisition dates included in the Company's consolidated statements of operations for the years ended December 31, 2019 and 2018 are as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| Net revenue | $ 53,295,178 | $ 107,047,267 |
| Operating income (loss) | 7,406,919 | (6,597,299) |

**(4) Equipment and Other Fixed Assets**

Equipment and other fixed assets as of December 31, 2019 and 2018 are as follows:

| | **2019** | **2018** |
|---|---|---|
| Patient medical equipment | $ 112,070,831 | $ 123,881,314 |
| Vehicles | 4,461,041 | 3,903,819 |
| Other | 15,474,589 | 12,704,131 |
| | 132,006,461 | 140,489,264 |
| Less accumulated depreciation | (68,447,381) | (78,887,914) |
| | $ 63,559,080 | $ 61,601,350 |

For the years ended December 31, 2019 and 2018, the Company recorded depreciation expense of $62,566,500 and $47,876,835, respectively. During the years ended December 31, 2019 and 2018, the Company wrote off $72,784,264 and $231,090 of fully depreciated patient medical equipment, respectively.

## (5) Goodwill

The change in the carrying amount of goodwill for the years ended December 31, 2019 and 2018 were as follows:

| | Gross carrying amount | Accumulated impairment losses | Net carrying amount |
|---|---|---|---|
| Balance at December 31, 2017 | $ 38,628,391 | — | 38,628,391 |
| Acquired goodwill during the period | 164,757,821 | — | 164,757,821 |
| Decrease | (950,000) | — | (950,000) |
| Balance at December 31, 2018 | $ 202,436,212 | — | 202,436,212 |
| Acquired goodwill during the period | 65,269,470 | — | 65,269,470 |
| Receipt of prior escrow payment | (504,000) | | (504,000) |
| Decrease | (411,164) | — | (411,164) |
| Balance at December 31, 2019 | $ 266,790,518 | — | 266,790,518 |

As discussed in Note 3, *Acquisitions*, in connection with the acquisition of HME in 2018, the Company made an escrow payment of $1,000,000 that would either be due to the sellers or paid back to the Company within one year subject to certain conditions after closing. Based on the outcome of such conditions, the Company received $504,000 of the escrow funds during the year ended December 31, 2019 and recorded that amount as a reduction of goodwill. The other decreases in the table above primarily relates to working capital and other measurement period adjustments relating to businesses that were acquired by the Company during 2018.

## (6) 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 (i.e. “the exit price”) in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various valuation approaches, including quoted market prices and discounted cash flows. A hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect a company’s judgment concerning the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. The fair value hierarchy is broken down into three levels based on the reliability of inputs.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the Company’s degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases an asset or liability is classified in its entirety based on the lowest level of input that is significant to the measurement of fair value.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company’s own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Company uses prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition in the future may cause the Company’s financial instruments to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3. During the years ended December 31, 2019 and 2018, the Company did not have any reclassifications in levels.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**December 31, 2019 and 2018**

The following table presents the valuation of the Company's financial assets and liabilities as of December 31, 2019 and 2018 measured at fair value on a recurring basis. The fair value estimates presented herein are based on information available to management as of December 31, 2019 and 2018. These estimates are not necessarily indicative of the amounts the Company could ultimately realize.

| | Level 1 | Level 2 | Level 3 | Fair Value |
|---|---|---|---|---|
| **December 31, 2019** | | | | |
| **Assets** | | | | |
| Money market accounts | $ 54,014,591 | $ — | $ — | $ 54,014,591 |
| Total assets measured at fair value | $ 54,014,591 | $ — | $ — | $ 54,014,591 |
| | | | | |
| **Liabilities** | | | | |
| Acquisition-related contingent consideration obligations-short term | $ — | $ — | $ 4,825,000 | $ 4,825,000 |
| Acquisition-related contingent consideration obligations-long term | — | — | 9,900,000 | 9,900,000 |
| Interest rate swap agreements | — | 8,339,288 | — | 8,339,288 |
| Total liabilities measured at fair value | $ — | $ 8,339,288 | $ 14,725,000 | $ 23,064,288 |

| | Level 1 | Level 2 | Level 3 | Fair Value |
|---|---|---|---|---|
| **December 31, 2018** | | | | |
| **Assets** | | | | |
| Money market accounts | $ 16,126,899 | $ — | $ — | $ 16,126,899 |
| Interest rate swap agreement | — | 943,134 | — | 943,134 |
| Total assets measured at fair value | $ 16,126,899 | $ 943,134 | $ — | $ 17,070,033 |
| | | | | |
| **Liabilities** | | | | |
| Acquisition-related contingent consideration obligations-short term | $ — | $ — | $ 13,625,000 | $ 13,625,000 |
| Acquisition-related contingent consideration obligations-long term | — | — | 1,625,000 | 1,625,000 |
| Interest rate swap agreements | — | 396,302 | — | 396,302 |
| Total liabilities measured at fair value | $ — | $ 396,302 | $ 15,250,000 | $ 15,646,302 |

*Interest Rate Swaps*

The Company uses interest rate swap agreements to manage interest rate risk by converting a portion of its variable rate borrowings to a fixed rate and recognizes these derivative instruments as either assets or liabilities in the accompanying consolidated balance sheets at fair value. The valuation of these derivative instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of the Company's interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash payments receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. To comply with the provisions of FASB ASC Topic 820, *Fair Value Measurement*, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

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**December 31, 2019 and 2018**

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with the Company's derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and the respective counterparties. The Company has determined that the significance of the impact of the credit valuation adjustments made to its derivative contracts, which determination was based on the fair value of each individual contract, was not significant to the overall valuation. As a result, all of the Company's derivatives held as of December 31, 2019 and 2018 were classified as Level 2 of the fair value hierarchy. Refer to Note 7, *Derivative Instruments and Hedging Activities*, for additional information regarding the Company's derivative instruments.

Financial Instruments Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3):

*Contingent Consideration*

The Company estimates the fair value of acquisition-related contingent consideration obligations by applying the income approach using a probability-weighted discounted cash flow model. This fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value. Each period, the Company evaluates the fair value of acquisition-related contingent consideration obligations. The Company records any increases in the fair value as contingent consideration expense and decreases in the fair value as a reduction of contingent consideration expense. Contingent consideration obligations of $14,725,000 were outstanding at December 31, 2019 which relate to business acquisitions that occurred during the years ended December 31, 2019 and 2018. Contingent consideration obligations of $15,250,000 were outstanding at December 31, 2018 which related to business acquisitions in May 2018 and July 2018, of which $13,000,000 was paid during the year ended December 31, 2019.

A reconciliation of the Company's contingent consideration liabilities related to acquisitions is as follows:

| **Year Ended December 31, 2019** | **Beginning Balance** | **Additions** | **Payments** | **Gain** | **Ending Balance** |
|---|---|---|---|---|---|
| Contingent consideration | $ 15,250,000 | $ 12,625,000 | $ (13,000,000) | $ (150,000) | $ 14,725,000 |
| Total Level 3 liabilities | $ 15,250,000 | $ 12,625,000 | $ (13,000,000) | $ (150,000) | $ 14,725,000 |
| | | | | | |
| **Year Ended December 31, 2018** | | | | | |
| Contingent consideration | $ — | $ 15,250,000 | $ — | $ — | $ 15,250,000 |
| Total Level 3 liabilities | $ — | $ 15,250,000 | $ — | $ — | $ 15,250,000 |

The Company's non-financial assets measured on a non-recurring basis were as follows:

| | As of December 31, | |
|---|---|---|
| | **2019** | **2018** |
| Significant unobservable inputs (Level 3): | | |
| Goodwill (annual impairment assessment) | $ 266,790,518 | $ 202,436,212 |

**(7) Derivative Instruments and Hedging Activities**

FASB ASC Topic 815, *Derivatives and Hedging* (ASC 815), provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the

Company's objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As discussed in Note 6, *Fair Value of Assets and Liabilities*, and as required by ASC 815, the Company records all derivatives on its consolidated balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the earnings effect of the hedged forecasted transactions in a cash flow hedge.

The Company is exposed to certain risk arising from economic conditions. The Company principally manages its exposures to interest rate risk through the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage differences in the amount, timing and duration of the Company's known or expected cash payments principally related to the Company's variable rate borrowings.

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in accumulated other comprehensive income and subsequently reclassified into interest expense in the same period during which the hedged transaction affects earnings. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. In the twelve months subsequent to December 31, 2019, the Company estimates that an additional $3,526,000 will be reclassified as a reduction to interest expense.

As of December 31, 2019 and 2018, the Company had outstanding interest rate derivatives with third parties in which the Company pays a fixed interest rate and receives a rate equal to the one-month LIBOR. The notional associated with the swap agreements was $250,000,000 and $85,000,000 as of December 31, 2019 and 2018, respectively, and have maturity dates at certain dates through March 2024. Prior to August 22, 2019, the interest rate swap agreements were not designated as cash flow hedging instruments for accounting purposes and accordingly changes in fair value of the interest rate swap agreements were recorded in earnings. On August 22, 2019, in accordance with the provisions of ASC 815 and FASB ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, the Company designated its swaps as effective cash flow hedges of interest rate risk. Accordingly, subsequent to August 22, 2019, changes in the fair value of the interest rate swaps are recorded as a component of accumulated other comprehensive income within stockholders' equity and subsequently reclassified into interest expense in the same period during which the hedged transaction affects earnings.

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**December 31, 2019 and 2018**

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the consolidated balance sheets at December 31, 2019 and 2018:

| | As of December 31, 2019 | |
|---|---|---|
| | Balance Sheet Location | Fair Value Asset (Liability) |
| Derivatives designated as hedging instruments: | | |
| Interest rate swap agreements | Other current liabilities | $ (2,157,324) |
| Interest rate swap agreements | Other long-term liabilities | (6,181,964) |
| Total derivatives designated as hedging instruments | | $ (8,339,288) |

| | As of December 31, 2018 | |
|---|---|---|
| | Balance Sheet Location | Fair Value Asset (Liability) |
| Derivatives not designated as hedging instruments: | | |
| Interest rate swap agreements | Prepaid and other current assets | $ 943,134 |
| Interest rate swap agreements | Other current liabilities | (396,302) |
| Total derivatives not designated as hedging instruments | | $ 546,832 |

The table below presents the effect of cash flow hedge accounting on accumulated other comprehensive income during the year ended December 31, 2019. There was no effect on accumulated other comprehensive income during the year ended December 31, 2018.

| | Year Ended December 31, 2019 | | |
|---|---|---|---|
| | Amount of Gain or (Loss) Recognized in OCI on Derivative | Location of Gain or (Loss) Reclassified from Accumulated OCI into Income | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income |
| Derivatives in cash flow hedging relationships: | | | |
| Interest rate swap agreements | $ 3,469,643 | Interest expense | $ 932,807 |
| Total | $ 3,469,643 | | $ 932,807 |

The table below presents the effect of the Company's derivative financial instruments that were not designated as hedging instruments on the consolidated statements operations during the year ended December 31, 2019 and 2018 and represents the change in fair value of the Company's interest rate swap agreements during such periods:

| | Year Ended December 31, 2019 | |
|---|---|---|
| | Location of Gain or (Loss) Recognized in Loss on Derivative | Amount of Gain or (Loss) Recognized in Loss on Derivative |
| Derivatives Not Designated as Hedging Instruments: | | |
| Interest rate swap agreements | Interest Expense | $ (12,358,728) |
| Total | | $ (12,358,728) |

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**December 31, 2019 and 2018**

| | Year Ended December 31, 2018 | |
|---|---|---|
| | Location of Gain or (Loss) Recognized in Income on Derivative | Amount of Gain or (Loss) Recognized in Income on Derivative |
| Derivatives Not Designated as Hedging Instruments: | | |
| Interest rate swap agreements | Interest Expense | $ 546,832 |
| Total | | $ 546,832 |

**(8) Deferred Financing Costs**

The change in the carrying amount of deferred financing costs for the years ended December 31, 2019 and 2018 was as follows:

| | 2019 | 2018 |
|---|---|---|
| Balance at January 1 | $ 2,258,253 | $ 1,342,379 |
| Capitalized fees | 9,027,753 | 2,612,860 |
| Amortization | (1,311,573) | (477,781) |
| Write-off due to debt refinancing | (2,121,451) | (1,219,205) |
| Balance at December 31 | $ 7,852,982 | $ 2,258,253 |

Amortization expense relating to deferred financing costs was $1,311,573 and $477,781 during the years ended December 31, 2019 and 2018, respectively, and is included in interest expense in the accompanying consolidated statements of operations. The write-off of deferred financing costs is included in loss on extinguishment of debt, net in the accompanying consolidated statements of operations for the years ended December 31, 2019 and 2018.

The December 31, 2019 balance of deferred financing costs of $7,852,982 is estimated to be recorded to amortization expense as follows: $1,566,363 in 2020, 2021, 2022 and 2023, $840,068 in 2024, and $747,462 thereafter.

**(9) Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses as of December 31, 2019 and 2018 consisted of the following:

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Accounts payable | $ 79,237,323 | $ 70,603,562 |
| Employee related accruals | 12,319,746 | 9,142,347 |
| Self insurance reserves | 1,166,014 | 1,304,335 |
| Accrued interest | 4,021,660 | 404,015 |
| Other | 5,983,350 | 4,104,160 |
| Total | $ 102,728,093 | $ 85,558,419 |

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**December 31, 2019 and 2018**

**(10) Debt**

The following is a summary of long term-debt as of December 31, 2019 and 2018:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Secured term loans | $ 246,250,000 | $ 134,875,000 |
| Revolving credit facility | 12,000,000 | — |
| Note payable | 143,500,000 | — |
| Seller note (see Note 3) | 1,666,667 | — |
| Other | 58,518 | 171,942 |
| Unamortized deferred financing fees | (6,642,490) | (862,243) |
| | 396,832,695 | 134,184,699 |
| Current portion | (1,721,132) | (7,089,976) |
| Long-term portion | $ 395,111,563 | $ 127,094,723 |

Interest expense related to long-term debt agreements, including amortization of deferred financing costs and payments made under the Company's interest rate swap agreements, for the years ended December 31, 2019 and 2018 was $27,849,699 and $7,418,959, respectively.

In March 2019, the Company entered into several agreements, amendments and new financing facilities (herein after referred to as the March 2019 Recapitalization Transactions). In connection with the March 2019 Recapitalization Transactions, the Company signed the Third Amended and Restated Credit and Guaranty Agreement and restructured its debt borrowings with its bank group. In November 2019, in connection with the Business Combination, the Company amended its credit facility primarily to (i) increase the amount available under the Delayed Draw Term Loan from $50,000,000 to $100,000,000 (see below), and (ii) revise the Consolidated Total Leverage Ratio thresholds and lower the applicable margin to determine the variable quarterly interest rate under the credit facility.

The maturity of total debt, excluding unamortized deferred financing fees, at December 31, 2019 is as follows.

| Twelve months ended December 31, | |
|---|---|
| 2020 | $ 1,721,132 |
| 2021 | 4,053 |
| 2022 | — |
| 2023 | 2,500,000 |
| 2024 | 255,750,000 |
| Thereafter | 143,500,000 |
| Total debt maturity | $ 403,475,185 |

***Long-Term Debt***

The debt restructuring completed as part of the March 2019 Recapitalization Transactions consisted of $425,000,000 in credit facilities, which included a $300,000,000 Initial Term Loan (Credit Facility Term Loan), $50,000,000 Delayed Draw Term Loan (Delayed Draw), and $75,000,000 Revolving Credit Facility (New Revolver), all with maturities in March 2024. As noted above, in November 2019, the Company amended its credit facility to increase the amount available under the Delayed Draw from $50,000,000 to $100,000,000. The Credit Facility Term Loan and Delayed Draw loan may consist of Base Rate Loans or LIBOR Rate Loans (as defined in the agreement). Each LIBOR Rate Loan bears interest quarterly at variable rates based upon the sum of (a) the LIBOR Rate for such interest period, plus (b) an applicable margin based upon the Company's Consolidated Total Leverage Ratio. Each Base Rate Loan

bears interest quarterly at variable rates based upon the sum of (a) the Base Rate (as defined in the agreement), plus (b) an applicable margin based upon the Company's Consolidated Total Leverage Ratio. The applicable margin was set at 3.50% and 2.50% for LIBOR Rate Loans and Base Rate Loans, respectively, following the closing of the transaction and are reset each quarter. Per the agreement, the Delayed Draw loan carries 0.5% of unused fee per annum, and the New Revolver carries 0.5% of unused line fee per annum. Under the debt restructuring, the Company is subject to various agreements that contain a number of restrictive covenants that, among other things, impose operating and financial restrictions on the Company. Financial covenants include a Total Leverage Ratio and a Fixed Charges Coverage Ratio, as defined in the agreement. Additionally, under the terms of the debt amendment, the Company may be required to repay principal based on excess cash flow, as defined.

The proceeds from the Credit Facility Term Loan were used to (1) repay existing amounts outstanding under the Company's credit facility of $151,875,000, (2) pay transaction costs, fees and expenses related to the consummation of the transactions contemplated under the agreement (see Note and Unit Purchase Agreement discussed below), (3) pay a distribution to AdaptHealth Holdings' members, and (4) redeem all of the AdaptHealth Holdings issued and outstanding Preferred Units, including the cumulative preferred dividends. The proceeds of any borrowings under the Delayed Draw loan will be used to finance Permitted Acquisitions (as defined in the agreement) and to pay fees and transaction costs associated with such acquisitions. The proceeds of any borrowings under the New Revolver will be for (1) an amount not to exceed $25,000,000 to finance working capital, make capital expenditures and for other general corporate purposes, and (2) an amount not to exceed $50,000,000 to finance Permitted Acquisitions and to pay fees and transaction costs associated with such acquisitions.

*Secured Term Loan*

In connection with the March 2019 debt restructuring the Company borrowed $300,000,000 under the Credit Facility Term Loan. The Credit Facility Term Loan requires quarterly principal repayments of $1,875,000 beginning June 30, 2019 through March 31, 2021, quarterly principal repayments of $3,750,000 beginning June 30, 2021 through December 31, 2023, and the unpaid principal amount of the Credit Facility Term Loan is due at maturity in March 2024. In November 2019, the Company repaid $50,000,000 under the Credit Facility Term Loan using the proceeds received from the transactions completed as part of the Business Combination; such repayment was applied to the principal payments required to be paid through September 2023. At December 31, 2019 there was $246,250,000 outstanding under the Credit Facility Term Loan. The interest rate under the Credit Facility Term Loan was 4.55% at December 31, 2019.

The Delayed Draw loan has an availability period from the first business day immediately following the closing date (March 2019) to the earliest of (a) the Credit Facility Term Loan maturity date, (b) twenty-four months following the closing date, or (c) the date of the termination of the commitment. During the year ended December 31, 2019 no amounts were borrowed under the Delayed Draw loan.

In February 2018, the Company signed the Second Amended and Restated Credit and Guaranty Agreement and refinanced its debt structure at that time. The refinancing consisted of $175,000,000, which included a $70,000,000 Initial Term Loan (Initial Term Loan), $80,000,000 Delayed Draw Term Loan (Delayed Draw Loan), and $25,000,000 Revolving Credit Facility (Revolver). The credit facilities bore interest quarterly at variable rates (6.02% at December 31, 2018). At December 31, 2018 there was $67,375,000 and $67,500,000 outstanding under the Initial Term Loan and Delayed Draw Loan, respectively, and there were no amounts outstanding under the Revolver. These amounts were repaid in connection with the March 2019 debt restructuring.

*Revolving Credit Facility*

During the year ended December 31, 2019, the Company borrowed $43,500,000 under the New Revolver. In November 2019, the Company repaid $31,500,000 under the New Revolver using the proceeds received from the

transactions completed as part of the Business Combination. At December 31, 2019, there was $12,000,000 outstanding under the New Revolver. The interest rate under the New Revolver was 4.55% at December 31, 2019. After consideration of stand-by letters of credit outstanding of $2,496,518, the remaining maximum borrowings available pursuant to the New Revolver were $60,503,482 at December 31, 2019.

*Note Payables*

In connection with the March 2019 Recapitalization Transactions, the Company signed a Note and Unit Purchase Agreement with an investor. Pursuant to the agreement, the Company signed a promissory note agreement with the investor with a principal amount of $100,000,000 (the Promissory Note). In connection with the transactions completed as part of the Business Combination, the Promissory Note was replaced with a new amended and restated promissory note with a principal amount of $100,000,000, and the investor converted certain of its members' interests to a $43,500,000 promissory note. The investor generated taxable income and a current federal and state income tax liability of approximately $5,870,000 on the exchange of its members' interests. Under the terms of the Merger Agreement, all investors indemnified the Company for all taxes attributable to periods prior to or on the closing date of the Business Combination. Accordingly, the Company has recorded an indemnification asset of such amount, included in Prepaid and other current assets, and a corresponding current liability, included in Other liabilities, in the accompanying consolidated balance sheets as of December 31, 2019.

The new $100,000,000 promissory note, together with the $43,500,000 promissory note, are collectively referred to herein as the New Promissory Note. The outstanding principal amount under the New Promissory Note is due on the tenth anniversary of the closing date of the Business Combination and bears interest at the following rates (a) for the period starting on the closing date and ending on the seventh anniversary, a rate of 12% per annum, with 6% payable in cash and 6% Payment in Kind (PIK), and (b) for the period starting on the day after the seventh anniversary of the closing date and ending on the maturity date, a rate equal to the greater of (i) 15% per annum or (ii) the twelve-month LIBOR plus 12% per annum. The Company has the option to pay the PIK interest in cash under the Promissory Note and the New Promissory Note, which it did during the year ended December 31, 2019, and thus no amounts were added to the principal balance during that period. If the Company elects to prepay the Promissory Note prior to the third anniversary of the Closing of the Business Combination, then such prepayment of the outstanding principal and accrued interest will be subject to a make-whole premium equal to 10% of the total amount of outstanding principal and accrued interest through the date of such prepayment. If the Company elects to prepay the Promissory Note prior to the fourth anniversary but after the third anniversary of the Closing of the Business Combination, then such prepayment of outstanding principal and accrued interest will be subject to a make-whole premium equal to 5% of the total amount of outstanding principal and accrued interest through the date of such prepayment.

In 2013, AdaptHealth Holdings issued a note payable of $5,500,000 to a former shareholder of an acquired company for repurchase of stock which was outstanding at December 31, 2017. In February 2018, in connection with a restructuring of its debt arrangement, AdaptHealth Holdings repaid the note payable for consideration of $4,700,000. In connection with the repayment of the note, the Company recorded a gain on extinguishment of debt of $800,000, which is included in Loss on extinguishment of debt, net, in the accompanying consolidated statements of operations for the year ended December 31, 2018.

*Term Note*

In May 2017 AdaptHealth Holdings entered into a $7,000,000 Term Loan Promissory Note (the Term Loan). As of December 31, 2017, $5,979,167 was outstanding under the Term Loan, which was repaid in full in February 2018 in connection with a debt restructuring completed by AdaptHealth Holdings. In connection with the repayment of the Term Loan, the Company incurred a prepayment penalty expense of $634,038, which is included in Loss on extinguishment of debt, net, in the accompanying consolidated statements of operations for the year ended December 31, 2018.

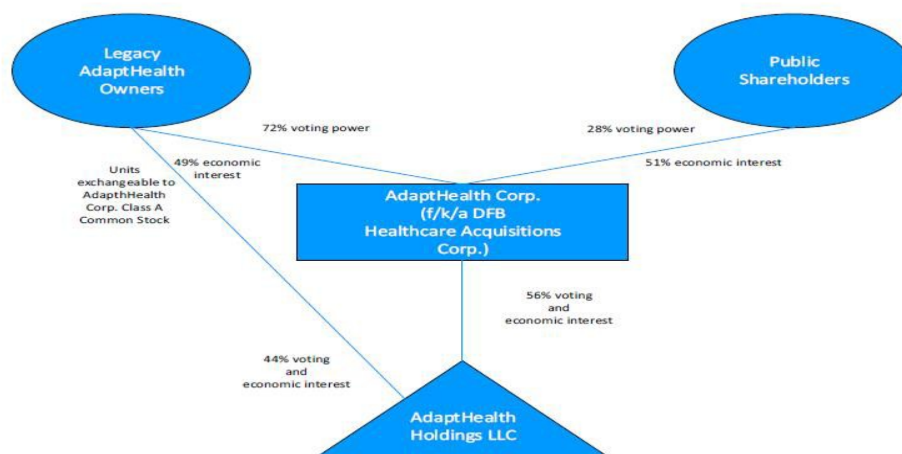
**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**December 31, 2019 and 2018**

**(11) Stockholders' Equity**

The completion of the Business Combination (the Closing) occurred on November 8, 2019, refer to Note 1, *Nature of Business*, for additional details regarding the Business Combination. The following table represents the structure of the combined company upon the Closing of the Business Combination:




Upon the Closing of the Business Combination, the former owners of AdaptHealth Holdings held approximately 49% of the economic interest in AdaptHealth Corp. and the former stockholders of DFB held the remaining approximate 51% of the economic interests in AdaptHealth Corp., both in the form of shares of the Company's Class A Common Stock .AdaptHealth Corp. owns approximately 56% of the combined company with the remaining 44% owned by the former owners of AdaptHealth Holdings in the form of common units representing limited liability company interests in AdaptHealth Holdings from and after the Closing (New AdaptHealth Units).

Following the Closing of the Business Combination, the combined results of DFB and AdaptHealth Holdings are consolidated, with the holders of Class A Common Stock owning an approximate 56% direct controlling interest and the holders of New AdaptHealth Units owning an approximate 44% direct noncontrolling economic interest shown as noncontrolling interest in the consolidated financial statements of the combined entity. The approximate 44% direct noncontrolling economic interest in AdaptHealth Holdings held by the current owners of AdaptHealth Holdings noted above is in the form of New AdaptHealth Units and are exchangeable on a one-to-one basis for Class A Common Stock. Following the Closing, 550,000 New AdaptHealth Units were exchanged for shares of Class A Common Stock, resulting in holders of New AdaptHealth Units owning an approximately 43% direct noncontrolling economic interest in AdaptHealth Holdings at December 31, 2019. The approximately 43% direct noncontrolling economic interest will continue to decrease as New AdaptHealth Units are exchanged for shares of Class A Common Stock.

The following table sets forth the net assets of DFB at the Closing:

| | |
|---|---|
| Cash and cash equivalents | $ 43,911,748 |
| Current assets | 70,763 |
| Current liabilities | (11,214,503) |
| Net assets of DFB | $ 32,768,008 |

The following table sets forth the sources and uses of cash in connection with the Business Combination:

| **Sources** | | |
|---|---|---|
| DFB's cash and cash equivalents on hand | $ | 43,911,748 |
| Private placement (1) | | 125,000,000 |
| Total Sources | $ | 168,911,748 |

| **Uses** | | |
|---|---|---|
| Cash to balance sheet (2) | $ | 52,845,206 |
| Legacy AdaptHealth Holdings LLC redemptions (3) | | 20,000,000 |
| Debt repayment (4) | | 81,500,000 |
| Transaction expenses (5) | | 14,566,542 |
| Total Uses | $ | 168,911,748 |

(1) Represents the issuance and sale, in a private placement consummated concurrently with the Closing, of 12,500,000 shares of Class A Common Stock.

(2) Represents remaining cash that will be used to fund operations and working capital needs of the Company after the closing of the Business Combination.

(3) Represents cash that was used to fund redemptions made by legacy AdaptHealth Holdings investors.

(4) Represents the amount of debt that the combined company paid down upon closing of the Business Combination.

(5) Represents the amount of transaction expenses paid in connection with the closing of the Business Combination, including costs incurred by the Company and accrued costs incurred by DFB prior to the closing of the Business Combination, that were paid upon closing.

In connection with the Business Combination, the Company filed its Second Amended and Restated Certificate of Incorporation to increase the total number of shares of all classes of capital stock which the Company is authorized to issue to 250,000,000 shares, consisting of 210,000,000 shares of Class A Common Stock with a par value of $0.0001 per share, 35,000,000 shares of Class B Common Stock with a par value of $0.0001 per share, and 5,000,000 shares of Preferred Stock with a par value of $0.0001 per share. Holders of common stock are entitled to one vote for each share. The shares of Preferred Stock shall be issued with such designations, voting and other rights and preferences as may be determined from time to time by the Company's board of directors. As of December 31, 2019, there were 40,816,292 shares of Class A Common Stock and 31,563,799 shares of Class B Common Stock outstanding. At December 31, 2019 there were no shares of Preferred Stock issued or outstanding.

*Warrants*

The Company has 12,666,666 warrants outstanding as of December 31, 2019. Each warrant is exercisable for one share of common stock at a price of $11.50 per share. The exercise price and number of common stock issuable upon exercise of the warrants may be adjusted in certain circumstances including in the event of a share dividend, or recapitalization, reorganization, merger or consolidation. However, the warrants will not be adjusted for issuance of common stock at a price below its exercise price.

*Contingent Consideration*

Pursuant to the Merger Agreement, the former owners of Adapthealth Holdings who received Class B Common Stock in connection with the Business Combination are entitled to receive an equity classified earn-out consideration to be paid in the form of New AdaptHealth Units (and a corresponding number of shares of Class B Common Stock) and the former owners of Adapthealth Holdings who received Class A Common Stock in connection with the Business Combination are entitled to receive earn-out consideration to be paid in the form of Class A Common Stock, if the 30-day volume-weighted average price of the Company's Class A Common Stock equals or exceeds certain hurdles set forth in the Merger Agreement. The former owners of AdaptHealth Holdings can potentially receive up to an additional 1,000,000 shares in December 2020, 2021 and 2022, for a total of 3,000,000 shares, as a part of the earn-out consideration. As of December 31, 2019, the hurdles have not been met.

*March 2019 Recapitalization Transactions*

As discussed in Note 10, *Debt*. in March 2019, the Company entered into several agreements, amendments and new financing facilities as part of the March 2019 Recapitalization Transactions. In addition to the debt proceeds received as part of these transactions, the Company also received proceeds of $20,000,000 for the purchase of members' interests pursuant to the Note and Unit Purchase Agreement. The proceeds from the March 2019 Recapitalization Transactions were used to (1) repay existing amounts outstanding under the Company's credit facility of $151,875,000, (2) pay transaction costs, fees and expenses related to the consummation of the Note and Unit Purchase Agreement, (3) pay a $250,000,000 distribution to AdaptHealth Holdings' members, and (4) redeem certain members' interests, including the cumulative preferred dividends, for $3,713,455.

*Equity-based Compensation*

AdaptHealth Holdings granted Incentive Units in June 2019 (the 2019 Incentive Units) and in April 2018 (the 2018 Incentive Units) to certain members of management. The Incentive Units were intended to constitute profits interests and were granted for purposes of enabling such individuals to participate in the long-term growth and financial success of the Company and were issued in exchange for services to be performed.

With respect to the 2019 Incentive Units, 50% of the awards vest in equal annual installments on each of the first, second, third and fourth anniversaries of the Vesting Commencement Date as defined in the agreements (which was determined to be May 20, 2019). The remaining 50% had vesting terms based upon the first to occur of a sale of AdaptHealth Holdings and the fourth anniversary of the Vesting Commencement Date, in either case, provided that the equity value of AdaptHealth Holdings at the time of such sale or fourth anniversary equals or exceeded a certain threshold as defined in the agreements, subject to the employee's continuous employment through each applicable vesting date. In connection with the Business Combination, the vesting conditions for this portion of the 2019 Incentive Units was changed to vest quarterly during the one-year period subsequent to the closing of the Business Combination. The grant date fair value of the 2019 Incentive Units, as calculated under an Option Pricing Method, was $4,511,120, and will be recognized as expense over the employees' requisite service period.

The 2018 Incentive Units vest 50% on the second anniversary of the Vesting Commencement Date as defined in the agreements (which was determined to be May 17, 2018), and 25% on the third and fourth anniversaries of the Vesting Commencement Date, subject to the employee's continuous employment with the Company through each applicable vesting date. The grant date fair value of the 2018 Incentive Units, as calculated under an Option Pricing Method, was $5,344,500, and will be recognized as expense over the employees' requisite service period.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**December 31, 2019 and 2018**

The assumptions used to determine the grant-date fair value of the 2019 Incentive Units and 2018 Incentive Units was as follows:

| | 2019 Incentive Units | 2018 Incentive Units |
|---|---|---|
| Expected volatility (1) | 40.0 % | 35.0 % |
| Risk-free interest rate (2) | 2.0 % | 2.3 % |
| Expected term (3) | 1.5 years | 1.5 years |
| Discount for lack of marketability (4) | 25.0 % | 30.0 % |

(1) The expected volatility is derived from the asset volatilities of comparable public companies.
(2) The risk-free interest rate is obtained from Standard and Poor's Capital IQ, and represents the yield on a treasury note as of the valuation date with the maturity matching the expected term.
(3) The expected term is based on management's estimate.
(4) The discount for lack of marketability is based on put option analyses using similar timing inputs.

In conjunction with the March 2019 Recapitalization Transactions, all holders of the 2018 Incentive Units received an advance for future distribution. These cash distributions were treated as a modification of the awards for accounting purposes. In conjunction with the Business Combination, the vesting of certain of the 2018 Incentive Units was accelerated. The 2019 Incentive Units and the 2018 Incentive Units were converted into members' interests prior to the Closing of the Business Combination.

In connection with the Business Combination, certain members of management were awarded shares of the Company's Class A Common Stock for services performed. The fair value of these immediately vested shares was $3,195,563 and was recognized as compensation cost on the grant date during the year ended December 31, 2019. In addition, in November 2019, the Company granted 15 shares of Class A Common Stock to each employee of the Company. The fair value of such shares was $313,979 and was recognized as compensation cost during the year ended December 31, 2019.

On November 7, 2019, the stockholders of the Company approved the AdaptHealth Corp. 2019 Stock Incentive Plan (the 2019 Plan), effective upon closing of the Business Combination. In connection with the 2019 Plan, the Company provides equity-based compensation to attract and retain employees while also aligning employees' interest with the interests of its stockholders. The 2019 Plan permits the grant of various equity-based awards to selected employees and directors. The 2019 Plan permits the grant of up to 8,000,000 shares of Class A Common Stock, subject to certain adjustments and limitations.

The following awards were granted in connection with the 2019 Plan during the year ended December 31, 2019:

- On November 21, 2019, the Company granted 410,000 shares of restricted stock to certain executive officers. On each of December 31, 2020, 2021 and 2022, one-third of the shares are eligible to vest based on the cumulative annual growth rate of the Company's stock based on the volume weighted average price during the ten trading days immediately preceding the vesting date (which is considered a market condition), subject to the employee's continuous employment with the Company at such vesting date. The grant-date fair value of the awards, using a Monte Carlo simulation analysis, was $1,193,100 and will be recognized as expense on a straight-line basis over the employees' requisite service period.

- On November 21, 2019, the Company granted 3,416,666 options to purchase shares of common stock of the Company to certain executive officers that have an exercise price of $11.50 per share. On each of December 31, 2020, 2021 and 2022, one-third of the shares are eligible to vest based on a performance condition relative to the achievement of certain defined financial metrics, subject to the employee's continuous employment through

the applicable vesting date. At December 31, 2019 management estimates that 50% of the shares will vest based on the projected achievement of such metrics. The grant-date fair value of the awards, using a Black-Scholes option pricing model, was $7,248,653 and will be recognized as expense on a straight-line basis over the employees' requisite service period if the awards are considered probable to vest.

The assumptions used to determine the grant-date fair value of stock options granted during the year ended December 31, 2019 were as follows:

| | 2019 |
|---|---|
| Expected volatility | 35.9 % |
| Risk-free interest rate | 1.7 % |
| Expected term | 6.0 years |
| Dividend yield | N/A |

- On November 21, 2019, the Company granted 460,000 shares of restricted stock to certain senior management employees. Such shares will vest 25% on December 31, 2020, 2021, 2022 and 2023, subject to the employee's continuous employment through the applicable vesting date. The grant-date fair value of the awards, based on the market price of the Company's common stock on the date of grant, was $3,730,600 and will be recognized as expense on a straight-line basis over the employees' requisite service period.

- On December 16, 2019, the Company granted 31,250 shares of restricted stock to its non-employee board members. Such shares will vest immediately prior to the Company's annual stockholders' meeting following the grant date, subject to the individual's continuous service through the applicable vesting date. The grant-date fair value of the awards, based on the market price of the Company's common stock on the date of grant, was $333,125 and will be recognized as expense on a straight-line basis over the vesting period.

The Company recorded equity-based compensation expense of $11,070,075 and $883,373 during the years ended December 31, 2019 and 2018, respectively, which is included in general and administrative expenses in the accompanying consolidated statements of operations. The expense recorded during the year ended December 31, 2019 included $2,694,201 in connection with the acceleration of vesting of the 2018 Incentive Units and $2,200,519 for the modification of the awards relating to the cash distributions discussed above. At December 31, 2019, there was $12,197,387 of unrecognized compensation expense related to equity-based compensation awards, which is expected to be recognized over a weighted-average term of 2.8 years. At December 31, 2019, 3,682,084 shares of the Company's Class A Common Stock are available for issuance under the 2019 Plan.

## (12) Net Income (Loss) Per Common Share

The Business Combination was accounted for as a reverse recapitalization by which AdaptHealth Holdings issued stock for the net assets of the Company accompanied by a recapitalization. Earnings per share has been recast for all historical periods to reflect the Company's capital structure for all comparative periods.

The Company excluded the effect of the warrants, unvested restricted stock and stock options from the computation of diluted net income (loss) per share in the year ended December 31, 2019 as their inclusion would have been anti-dilutive because the Company is in a net loss position for such period. The Company excluded the Class B Common Stock from the computation of diluted net income (loss) per share because the effect of including them would be anti-dilutive as a result of the Company being in a loss position for the year ended December 31, 2019.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

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**December 31, 2019 and 2018**

The following table sets forth the calculation of basic and diluted earnings per share for the periods indicated based on the weighted average number of common shares outstanding for the period subsequent to the transactions that occurred in connection with the Business Combination:

| | Year Ended December 31, 2019 | 2018 |
|---|---|---|
| Basic net (loss) income per common share | | |
| Numerator: | | |
| Basic net (loss) income attributable to AdaptHealth Corp. | $ (14,995,895) | $ 23,260,347 |
| | | |
| Denominator: | | |
| Basic and diluted weighted average shares outstanding | 22,557,213 | 11,899,898 |
| | | |
| Basic and diluted net (loss) income per share attributable to Class A shareholders | $ (0.66) | $ 1.95 |

**(13) Capital Lease Obligations**

The Company has acquired patient medical equipment and supplies, and office equipment through multiple capital leases. The capital lease obligations represent the present value of minimum lease payments under the respective agreement, payable monthly and bearing interest rates ranging from 0.0% to 10.2%. Interest expense related to capital leases was $161,629 and 287,210 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019, future annual minimum payments required under lease obligations are as follows:

| | |
|---|---|
| 2020 | $ 19,813,539 |
| 2021 | 255,652 |
| Total | 20,069,191 |
| Less amount representing interest | (86,198) |
| | 19,982,993 |
| Current portion | (19,749,854) |
| Long-term portion | $ 233,139 |

At December 31, 2019 and 2018, equipment under capital leases consisted of patient equipment with a cost basis of approximately $39,100,000 and $29,300,000, respectively, and accumulated depreciation of approximately $11,700,000 and $8,800,000, respectively. Depreciation expense for equipment purchased under capital leases is primarily included in cost of net revenue in the accompanying consolidated statements of operations.

**(14) Lease Commitments**

The Company leases its office facilities and office equipment under noncancelable lease agreements which expire at various dates through November 2028. Some of these lease agreements include an option to renew at the end of the term. The Company also leases certain patient medical equipment with such leases set to expire at various dates through November 2021. The Company also leases certain office facilities on a month to month basis. In some instances, the Company is also required to pay its pro rata share of real estate taxes and utility costs in connection with the premises. Some of the leases contain fixed annual increases of minimum rent. Accordingly, the Company recognizes rent expense on a straight-line basis and records the difference between the recognized rent expense and the amount payable under the lease as deferred rent. The deferred rent recorded in accounts payable and accrued expenses on the accompanying consolidated balance sheets at December 31, 2019 and 2018 was $1,124,702 and $741,167, respectively. The Company recorded $10,281,541 and $6,393,522 of rent expense for the years ended December 31, 2019 and 2018, respectively, which is primarily included in cost of net revenue in the accompanying consolidated statements of operations.

The minimum annual lease commitments under noncancelable leases with initial or remaining terms in excess of one year as of December 31, 2019 are as follows:

| | | |
|---|---|---|
| 2020 | $ | 12,291,753 |
| 2021 | | 7,811,982 |
| 2022 | | 5,632,124 |
| 2023 | | 4,492,642 |
| 2024 | | 3,082,588 |
| Thereafter | | 4,036,732 |
| | $ | 37,347,821 |

**(15) Retirement Plans**

At December 31, 2019 and 2018, the Company has a single consolidated retirement plan (the AdaptHealth Plan) which includes its subsidiaries' 401(k) plans with one exception: the Royal Homestar 401(k) plan is administered by a noncontrolling interest. The AdaptHealth Plan allows employees to contribute up to the annual limitation imposed by the Internal Revenue Code. The Company, at its discretion, may make matching and profit-sharing contributions to the AdaptHealth Plan. The Company recorded no matching or profit-sharing expense related to the AdaptHealth Plan for the years ended December 31, 2019 and 2018. The Company recorded an immaterial amount of matching or profit-sharing expense for the Royal Homestar 401(k) plan during the years ended December 31, 2019 and 2018.

**(16) Self-Insured Plans**

The Company was self-insured for its employees' medical, auto and workers' compensation claims during 2019 and 2018. The Company purchased medical stop loss insurance that covers the excess of each specific loss over $175,000 in 2019 and $150,000 in 2018, and aggregate losses that exceed the greater of the calculated aggregate stop loss threshold or the minimum aggregate stop loss threshold. In 2019 and 2018, the Company purchased workers' compensation stop loss insurance which has occurrence-based limits that vary by state based on statutory rules. The Company is subject to an aggregate annual limit. Self-insurance reserves include estimates of both known claims filed and estimates of claims incurred but not reported (IBNR). The Company uses historical paid claims information to estimate its claims liability. The liability for IBNR was $1,166,014, and $1,304,335 as of December 31, 2019 and 2018, respectively. This liability is included within accounts payable and accrued expenses in the accompanying consolidated balance sheets.

**(17) Commitments and Contingencies**

In the normal course of business, the Company is subject to loss contingencies, such as legal proceedings and claims arising out of its business that cover a wide range of matters. In accordance with FASB ASC Topic 450, *Accounting for Contingencies*, the Company records accruals for such loss contingencies when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Significant judgement is required to determine both probability and the estimated amount. The Company reviews at least quarterly and adjusts accordingly to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information. At this time, the Company has no accrual related to lawsuits, claims, investigations and proceedings.

**(18) Related Party Transactions**

As discussed in Note 10, *Debt*, the Company has an outstanding note payable with an investor with a principal amount of $143,500,000. This investor also has equity ownership in the Company.

At December 31, 2017, the Company had an outstanding balance of $1,123,181 payable to certain members of AdaptHealth Holdings. The payable was noninterest bearing and had no specific repayment terms. The Company repaid the amount in full during 2018.

In 2014, Ocean Home Health Supply LLC, a subsidiary of the Company, executed an agreement with a related party for software and billing services. The agreement was for one year and automatically renewed from year to year. This agreement was terminated effective December 31, 2018, therefore there was no expense related to the agreement during the year ended December 31, 2019. The expense for the year ended December 31, 2018 related to the agreement was $2,287,909.

On December 31, 2014, an executive of AdaptHealth Holdings borrowed $965,550 to acquire membership interests in AdaptHealth Holdings, which was recorded as a reduction to members' equity at that time. The principal was due in full at maturity on December 31, 2021. Monthly payments were due of interest only at a rate of 1.9% per annum starting in February 2015. As part of the transactions completed in connection with the Business Combination, the loan was forgiven, resulting in an expense of $965,550, which is included in general and administrative expenses in the accompanying statements of operations during the year ended December 31, 2019.

In 2014, AdaptHealth Holdings entered into a term loan (the Loan) with a private investment group (the Lender) who also had equity ownership. As of December 31, 2017, $8,642,144 was outstanding under this agreement, which was repaid in full in February 2018 in connection with a debt restructuring completed by AdaptHealth Holdings. In connection with the repayment of the Loan, the Company incurred a prepayment penalty expense of $345,686, which is included in Loss on extinguishment of debt, net, in the accompanying consolidated statements of operations for the year ended December 31, 2018.

The Company and two of its executive officers owned an equity interest in a vendor of the Company that provides workflow technology services. Each individual's equity ownership was less than 1%. The expense related to this vendor was $4,488,080 and $1,905,454 for the years ended December 31, 2019 and 2018, respectively. The Company accounted for this investment under the cost method of accounting based on its level of equity ownership. In February 2020, the Company and its executive officers sold its equity interest. The Company's investment had a carrying value of $1,455,000 and the Company received proceeds of $2,045,701 in connection with the transaction, resulting in a gain of $590,701 which will be recorded in the first quarter of 2020.

The Company and two of its executive officers and shareholders own an equity interest in a vendor of the Company that provides automated order intake software. Each individual's equity ownership is less than 1%. The expense related to this vendor was $1,964,266 and $1,636,919 for the years ended December 31, 2019 and 2018, respectively. The Company accounts for this investment under the cost method of accounting based on its level of equity ownership.

**(19) Income Taxes**

Prior to the completion of the Business Combination, AdaptHealth Holdings was a limited liability company and treated as a partnership for federal and state income tax purposes. A partnership is not a tax-paying entity for federal and state income tax purposes, and as such, the results of operations were allocated to the members for inclusion in their income tax returns. In addition, there are regular C-corporations included in the AdaptHealth Holdings group where taxes were paid at the entity level.

Following the Business Combination, the income of AdaptHealth Holdings will flow through to the Company and will be taxed at the federal and state levels accordingly. The noncontrolling interest will be allocated to the AdaptHealth Holdings members for inclusion in their income tax returns. The underlying C-corporations included in the AdaptHealth group will still be taxed at the entity level for both federal and state income taxes.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**December 31, 2019 and 2018**

The current and deferred income tax expense (benefit) for the years ended December 31, 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| Current: | | |
| Federal | $ (961,588) | $ — |
| State | 1,222,292 | 778,190 |
| | 260,704 | 778,190 |
| Deferred: | | |
| Federal | 673,664 | (1,549,549) |
| State | 221,634 | (1,326,346) |
| | 895,298 | (2,875,895) |
| Total income tax (benefit) expense | $ 1,156,002 | $ (2,097,705) |

A reconciliation of the effective income tax rate with the applicable statutory federal income tax rate for the years ended December 31, 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| Federal tax at statutory rate | 21.0 % | 21.0 % |
| Non-taxable income | (46.6)% | 0.8 % |
| State income taxes, net of federal benefit | (9.6)% | (3.2)% |
| Change in valuation allowance | 5.3 % | (32.3)% |
| Net operating loss write-offs | — | 3.6 % |
| Deferred adjustments | 18.1 | — % |
| Other | 1.9 % | 0.7 % |
| Effective income tax rate (benefit) | (9.9)% | (9.4)% |

Deferred income tax assets and liabilities are comprised of the following at December 31, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Deferred income tax assets: | | |
| Accounts receivable | $ 3,188,976 | $ 1,575,902 |
| Goodwill | 4,805,554 | 5,401,652 |
| Investment in partnership | 41,745,232 | — |
| Inventory | 60,677 | 54,239 |
| Accruals | 249,595 | 615,327 |
| Net operating losses and credits | 3,494,969 | 4,986,913 |
| Charitable contribution | 16,942 | 16,420 |
| Start-up / organizational costs | 509,221 | — |
| AMT credit | 208,056 | 208,056 |
| Total deferred income tax assets | 54,279,222 | 12,858,509 |
| Valuation allowance | (22,502,544) | — |
| Net deferred income tax assets | $ 31,776,678 | $ 12,858,509 |
| Deferred income tax liabilities: | | |
| Equipment and other fixed assets | (4,271,299) | (3,779,319) |
| Total deferred income tax liabilities | (4,271,299) | (3,779,319) |
| Noncurrent net deferred income tax assets | $ 27,505,379 | $ 9,079,190 |

Deferred income taxes are determined based on the temporary differences between the financial statement book basis and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that all, or some portion, of the deferred income tax assets will not be realized. The ultimate

realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities and projected future taxable income in making this assessment. Management evaluates the need for valuation allowances on the deferred income tax assets according to the provisions of FASB ASC 740, *Income Taxes*. In making this determination, management assesses all available evidence, both positive and negative, available at the time balance sheet date. This includes, but is not limited to, recent earnings, internally prepared income projections, and historical financial performance. A history of cumulative losses is a significant piece of negative evidence used in the assessment. At the date of the Business Combination, FASB ASC 740 requires the Company to record deferred taxes on the difference between the book and tax basis of its investment in AdaptHealth Holdings. The tax basis in the Company's investment in AdaptHealth Holdings exceeded the book basis at the date of the Business Combination, and therefore a deferred tax asset was recorded. The Company evaluated the realization of the deferred tax asset, and based on available evidence, a valuation allowance was recorded as the Company does not expect to realize the entire deferred tax asset. As of December 31, 2019, and 2018, the Company had a valuation allowance recorded against net deferred tax assets of $22,502,544, and $0, respectively.

As of December 31, 2019, and 2018, the Company had federal net operating loss carryforwards of $10,277,179 and $14,600,577, respectively. As of December 31, 2019, and 2018, the Company had state net operating losses of $21,864,894 and $32,963,779 respectively. Federal net operating losses generated after December 31, 2017 do not expire and the state rules vary by state. All of the Company's net operating losses in existence for federal and state purposes were generated in tax years prior to 2018. The net operating losses, if not used, will begin to expire in 2036.

The Company will recognize a tax benefit in the financial statements for an uncertain tax position only if management's assessment is that the position is "more likely than not" (i.e., a likelihood greater than 50 percent) to be allowed by the tax jurisdiction based solely on the technical merits of the position. The term "tax position" refers to a position in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring current or deferred income tax assets and liabilities for financial reporting purposes. As of December 31, 2019 and 2018, the Company had no uncertain tax positions that would require recognition or disclosure in the consolidated financial statements. The Company files income tax returns in the U.S. Federal jurisdiction and various state jurisdictions. Tax years 2015 and forward remain open for examination for Federal and state tax purposes.

The Company files income tax returns in the U.S. federal jurisdiction and in various state jurisdictions. The Company generally is no longer subject to U.S. or state examinations by tax authorities for taxable years prior to 2014, based on the U.S. statute of limitations. However, net operating losses utilized from prior years in subsequent years' tax returns are subject to examination until three years after the filing of subsequent years' tax returns.

*Tax Receivable Agreement*

The owners of AdaptHealth Holdings have the right to exchange their New AdaptHealth Units for shares of Class A Common Stock of the Company. As a result of such exchanges, the Company's membership interest in AdaptHealth Holdings will increase and its purchase price will be reflected in its share of the tax basis of AdaptHealth Holdings' tangible and intangible assets. Any resulting increases in tax basis are likely to increase tax depreciation and amortization deductions and, therefore, reduce the amount of income tax the Company would otherwise be required to pay in the future. Any such increase would also decrease gain (or increase loss) on future dispositions of the affected assets. At the closing of the Business Combination, there were exchanges of 3,480,466 New AdaptHealth Units resulting in approximately $33,600,000 of amortizable IRC Section 754 tax basis step-up in the tax-deductible goodwill of AdaptHealth Holdings. Through December 31, 2019, there were an additional 550,000 exchanges of New AdaptHealth Units that increased the amortizable IRC Section 754 tax basis step-up of tax-deductible goodwill by approximately $6,000,000.

At the closing of the Business Combination, DFB and AdaptHealth Holdings entered into a Tax Receivable Agreement (TRA) with certain sellers and AdaptHealth Holdings members. The TRA will generally provide for the payment by DFB to the corresponding sellers and AdaptHealth Holdings members of 85% of the net cash savings, if any, in U.S. federal, state and local income tax that DFB actually realizes (or is deemed to realize in certain circumstances) in periods after the closing of the Business Combination as a result of: (i) certain tax attributes of the corresponding sellers existing prior to the Business Combination; (ii) certain increases in tax basis resulting from exchanges of New AdaptHealth Units and shares of Class B Common Stock; (iii) imputed interest deemed to be paid by DFB as a result of payments it makes under the TRA; and (iv) certain increases in tax basis resulting from payments DFB makes under the TRA. Under the TRA, the benefits deemed realized by the Company as a result of the increase in tax basis attributable to the AdaptHealth Holdings members generally will be computed by comparing the actual income tax liability of the Company to the amount of such taxes that the Company would have been required to pay had there been no so increase in tax basis.

Estimating the amount of payments that may be made under the TRA depends on a variety of factors. The actual increase in tax basis and deductions, as well as the amount and timing of any payments under the TRA, will vary depending upon several factors, including:

- The timing of such exchanges – for instance, the increase in any tax deductions will vary depending on the fair value of the depreciable or amortizable assets of AdaptHealth Holdings at the time of each exchange, which fair value may fluctuate over time;
- The price of the Company’s Class A Common Stock at the time of the exchange – the increase in any tax deductions, and the tax basis increase in other assets of AdaptHealth Holdings is directly proportional to the price of the Company’s Class A Common Stock at the time of the exchange;
- The amount and timing of the Company’s income – the Company is required to pay 85% of the deemed benefits as and when deemed realized. If AdaptHealth Holdings does not have taxable income, the Company is generally not required (absent a change in control or circumstances requiring an early termination payment) to make payments under the TRA for that taxable year because no benefit will have been realized. However, any tax benefits that do not result in realized benefits in a given tax year likely will generate tax attributes that may be utilized to generate benefits in previous or future tax years. The utilization of such tax attributes will result in payments under the TRA; and
- Future tax rates of jurisdictions in which the Company has tax liability.

The TRA also provides that upon certain mergers, asset sales, other forms of business combinations or other changes of control, AdaptHealth Holdings’ (or its successor’s) obligations under the TRA would be based on certain assumptions defined in the TRA. As a result of these assumptions, AdaptHealth could be required to make payments under the TRA that are greater or less than the specified percentage of the actual benefits realized by the Company that are subject to the TRA. In addition, if AdaptHealth Holdings elects to terminate the TRA early, it would be required to make an early termination payment, which upfront payment may be made significantly in advance of the anticipated future tax benefits.

Payments generally are due under the TRA within a specified period following the filing of AdaptHealth Holdings’ U.S. federal and state income tax returns for the taxable year with respect to which the payment obligation arises. Payments under the TRA generally will be based on the tax reporting positions that AdaptHealth Holdings will determine. Although AdaptHealth Holdings does not expect the Internal Revenue Service (IRS) to challenge the Company’s tax reporting positions, AdaptHealth Holdings will not be reimbursed for any overpayments previously made under the TRA, but instead the overpayments will reduce future payments. As a result, in certain circumstances, payments could be made under the TRA in excess of the benefits that AdaptHealth Holdings realizes in respect of the tax attributes subject to the TRA.

**ADAPTHEALTH CORP. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**December 31, 2019 and 2018**

The term of the TRA generally will continue until all applicable tax benefits have been utilized or expired, unless the Company exercises its right to terminate the TRA and make an early termination payment.

In certain circumstances (such as certain changes in control, the election of the Company to exercise its right to terminate the agreement and make an early termination payment or an IRS challenge to a tax basis increase) it is possible that cash payments under the TRA may exceed actual cash savings.

At December 31, 2019, the Company recorded a liability relating to the TRA of approximately $10,800,000, which is included in other long-term liabilities in the accompanying consolidated balance sheets.

**(20) Subsequent Events**

*Acquisitions*

On January 2, 2020, the Company purchased 100% of the equity interests of NRE Holding Corporation (NRE), a subsidiary of McKesson Corporation (McKesson). In connection with the transaction, AdaptHealth Corp. acquired the Patient Care Solutions business (PCS) from McKesson. PCS provides wound care supplies, ostomy supplies, urological supplies, incontinence supplies, diabetic care supplies, and breast pumps directly to patients across the United States. The total cash paid at closing was approximately $15,000,000. In addition, the Company may be required to make an additional payment of $1,500,000 to McKesson after the closing of the transaction pursuant to the terms and conditions of a Transition Services Agreement executed in connection with the transaction.

On March 2, 2020, the Company purchased certain assets relating to the durable medical equipment business of Advanced Home Care, Inc. (Advanced). Advanced is a durable medical equipment company headquartered in North Carolina. The total consideration was $67,516,604, inclusive of an initial cash payment of $52,526,604, an escrow payment of $5,990,000, and a potential deferred payment up to $9,000,000 to be paid within six months subsequent to closing based on certain required conditions after closing. The initial cash payment was partially funded by proceeds of $50,000,000 borrowed under the Delayed Draw Loan.

On February 28, 2020, the Company purchased 100% of the membership interests of Healthline Medical Equipment, LLC, (Healthline). Healthline is headquartered in Texas and provides durable medical equipment and supplies to its customers. The total consideration was $38,433,188, inclusive of an initial cash payment of $29,433,188, an escrow payment of $3,000,000, and shares of Class A Common Stock with a value of $6,000,000, with such number of shares based on the volume-weighted average price of the Company's Class A Common Stock for the 20 consecutive trading days prior to closing.

As of the date the consolidated financial statements were available to be issued, the Company was in the process of determining the allocation of the purchase price to the fair value of the net assets acquired for these acquisitions.

*Other*

Subsequent to December 31, 2019, holders of New AdaptHealth Units and Class B Common Stock exchanged 500,000 New AdaptHealth Units together with a corresponding number of shares of Class B Common Stock for 500,000 shares of Class A Common Stock, which were then sold to unrelated third parties in a private transaction.

Subsequent to December 31, 2019, 3,050,746 warrants were exercised in cashless transactions resulting in the issuance of 857,990 shares of the Company's Class A Common Stock.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.

**Item 9A. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of our management, including our principal executive officer and principal financial and accounting officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter ended December 31, 2019, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, during the period covered by this report, our disclosure controls and procedures were not effective due to a material weakness in internal control over financial reporting described below. Notwithstanding the identified material weakness, management, including our principal executive officer and principal financial officer, believes the consolidated financial statements included in this Annual Report on Form 10-K fairly represent in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. GAAP.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial and accounting officer or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

*Material Weakness Remediation*

In connection with the audit of AdaptHealth's consolidated financial statements for the fiscal years ended December 31, 2019 and 2018, we identified a material weakness in our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, relating to the timeliness of our review controls over non-routine transactions. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our consolidated financial statements will not be prevented or detected on a timely basis.

Management continues to be actively engaged to take steps to remediate the material weakness, including (1) implementing processes to improve overall efficiency and accuracy of accounting and (2) hiring dedicated and experienced technical resources (including engaging a third-party consultant to assist management) to strengthen its corporate oversight over financial reporting and controls associated with complex accounting matters. While we have made significant progress, the material weakness cannot be considered remediated until the enhanced controls have operated effectively for a sufficient period of time.

*Changes in Internal Control over Financial Reporting*

The Company has been engaged in the process of the design and implementation of the Company's internal control over financial reporting in a manner commensurate with the scale of the Company's operations following the Business Combination. Except with respect to the changes in connection with such design and implementation and the implementation of the initiatives to remediate the material weakness noted above, there were no changes in the Company's internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Management's Report on Internal Controls Over Financial Reporting**

This report does not include a report of management's assessment regarding internal control over financial reporting ("ICFR") as allowed by the SEC for reverse acquisitions between an issuer and a private operating company when it is not possible to conduct an assessment of the private operating company's ICFR in the period between the consummation date of the reverse acquisition and the date of management's assessment of ICFR (see Section 215.02 of the SEC Division of Corporation Finance's Regulation S-K Compliance & Disclosure Interpretations). As discussed elsewhere in this Annual Report on Form 10-K, we completed the Business Combination on November 8, 2019, pursuant to which we acquired AdaptHealth Holdings and its subsidiaries. Prior to the Business Combination, we were a special purpose acquisition company formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, or similar business combination involving one or more businesses. As a result, previously existing internal controls are no longer applicable or comprehensive enough as of the assessment date as our operations prior to the Business Combination were insignificant compared to those of the consolidated entity post-Business Combination. The design of ICFR for the Company post-Business Combination has required and will continue to require significant time and resources from management and other personnel. As a result, management was unable, without incurring unreasonable effort or expense, to conduct an assessment of our ICFR as of December 31, 2019. If management were to conduct an assessment regarding the Company's ICFR, however, its scope would include the criteria set forth by the Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of The Treadway Commission.

**Item 9B. Other Information**

On March 5, 2020, we filed a Certificate of Correction to our second amended and restated certificate of incorporation to correct a scrivener's error in the number of authorized shares set forth in Section 4.1(a) thereof. The Certificate of Correction corrected the number of shares of Class A Common Stock and Class B Common Stock authorized for issuance by the Company to 210,000,000 and 35,000,000, respectively.

## PART III

**Item 10. Directors, Executive Officers, and Corporate Governance**

The information required by this item will be set forth in our definitive proxy statement with respect to our 2020 annual meeting of the stockholders to be filed on or before April 29, 2020 and is incorporated herein by reference.

**Item 11. Executive Compensation**

The information required by this item will be set forth in our definitive proxy statement with respect to our 2020 annual meeting of the stockholders to be filed on or before April 29, 2020 and is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item will be set forth in our definitive proxy statement with respect to our 2020 annual meeting of the stockholders to be filed on or before April 29, 2020 and is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item will be set forth in our definitive proxy statement with respect to our 2020 annual meeting of the stockholders to be filed on or before April 29, 2020 and is incorporated herein by reference.

**Item 14. Principal Accountant's Fees and Services**

The information required by this item will be set forth in our definitive proxy statement with respect to our 2020 annual meeting of the stockholders to be filed on or before April 29, 2020 and is incorporated herein by reference.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a) *Consolidated Financial Statements and Supplementary Data:*

*Financial Statements.* The following is a list of the Consolidated Financial Statements of AdaptHealth Corp. and its subsidiaries included in Item 8 of Part II of this report.


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| Report of Independent Registered Public Accounting Firm | 56 |
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(b) *Exhibits.* The exhibits filed as a part of this report as required by Item 601 of Regulation S-K are listed in the Index to Exhibits located on page 103 of this report.

**Item 16. Form 10-K Summary**

None

**EXHIBIT INDEX**

| Exhibit Number | Description |
|---|---|
| 2.1 | Merger Agreement, dated as of July 8, 2019, by and among the Company, Merger Sub, AdaptHealth Holdings, the Blocker Companies, the AdaptHealth Holdings Unitholders' Representative and, solely for the purposes specified therein, the Blocker Sellers (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2019). |
| 2.2 | Amendment No. 1 to Merger Agreement, dated as of October 15, 2019, by and among the Company, Merger Sub, AdaptHealth Holdings, the Blocker Companies, the AdaptHealth Holdings Unitholders' Representative and, solely for the purposes specified therein, the Blocker Sellers (incorporated by reference to Exhibit 2.2 of the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2019). |
| 3.1 | Second Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2019). |
| 3.2 | Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2019). |
| 3.3* | Certificate of Correction to Second Amended and Restated Certificate of Incorporation. |
| 4.1 | Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.2 of the Company's Registration Statement on Form S-1, filed with the SEC on February 13, 2018). |
| 4.2 | Registration Rights Agreement, dated as of November 8, 2019, by and among AdaptHealth Holdings, the Company and the persons listed in Schedule of Investors therein (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2019). |
| 4.3 | Specimen Warrant Certificate (incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-1, filed with the SEC on February 13, 2018). |
| 4.4 | Warrant Agreement, dated as of February 15, 2018, by and between the Company and Continental Stock Transfer & Trust Company (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K, filed with the SEC on February 22, 2018). |
| 4.5* | Description of Common Stock. |
| 10.1 | Exchange Agreement, dated November 8, 2019, by and among AdaptHealth Holdings, the Company and the other persons listed therein (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2019). |
| 10.2 | Tax Receivable Agreement, dated November 8, 2019, by and among AdaptHealth Holdings, the Company and the Non-Blocker AdaptHealth Members and the Blocker Sellers (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2019). |
| 10.3 | Fifth Amended and Restated Limited Liability Company Agreement of AdaptHealth Holdings, dated as of November 8, 2019, by and between the Company and the Members named therein (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2019). |
| 10.4† | Form of Indemnification Agreement (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2019). |
| 10.5 | Board Designee Rights Letter Agreement, dated as of November 8, 2019, by and between the Company, AdaptHealth Holdings, BM AH Holdings, LLC, BlueMountain Foinaven Master Fund L.P., BMSB L.P., BlueMountain Fursan Fund L.P. and BlueMountain Summit Opportunities Fund II (US) L.P. (incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2019). |
| 10.6 | Third Amended and Restated Credit and Guaranty Agreement, dated as of March 20, 2019, by and among AdaptHealth LLC, the guarantors named therein, CIT Finance LLC as administrative agent, and the lenders party thereto (incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2019). |

| | |
|---|---|
| 10.7 | Amendment No. 1 to Third Amended and Restated Credit and Guaranty Agreement, dated as of August 22, 2019, by and among AdaptHealth LLC, the guarantors named therein, CIT Finance LLC as administrative agent, and the lenders party thereto (incorporated by reference to Exhibit 10.7 of the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2019). |
| 10.8 | Amendment No. 2 to Third Amended and Restated Credit and Guaranty Agreement, dated as of November 8, 2019, by and among AdaptHealth LLC, the guarantors named therein, CIT Finance LLC as administrative agent, and the lenders party thereto (incorporated by reference to Exhibit 10.8 of the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2019). |
| 10.9† | Employment Agreement, dated as of March 20, 2019, by and between AdaptHealth Holdings and Luke McGee (incorporated by reference to Exhibit 10.9 of the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2019). |
| 10.10† | Employment Agreement, dated as of March 20, 2019, by and between AdaptHealth Holdings and Joshua Parnes (incorporated by reference to Exhibit 10.10 of the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2019). |
| 10.11† | Employment Agreement, dated as of November 10, 2014, by and between AdaptHealth Holdings and Gregg Holst (incorporated by reference to Exhibit 10.11 of the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2019). |
| 10.12† | AdaptHealth Corp. 2019 Stock Incentive Plan (incorporated by reference to Exhibit 10.12 of the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2019). |
| 10.13† | Form of Restricted Stock Grant Notice and Agreement under the AdaptHealth Corp. 2019 Stock Incentive Plan (incorporated by reference to Exhibit 10.13 of the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2019). |
| 10.14† | Form of Option Grant Notice and Agreement under the AdaptHealth Corp. 2019 Stock Incentive Plan (incorporated by reference to Exhibit 10.14 of the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2019). |
| 10.15 | Letter Agreement, dated as of February 15, 2018, among the Company, Deerfield/RAB Ventures, LLC, Richard Barasch, Christopher Wolfe, Steven Hochberg, Dr. Mohit Kaushal, Dr. Gregory Sorensen and Dr. Susan Weaver (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 22, 2018). |
| 10.16 | Warrant Purchase Agreement, dated February 15, 2018, between the Registrant and Deerfield/RAB Ventures, LLC (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on February 22, 2018). |
| 10.17† | AdaptHealth Corp. 2019 Employee Stock Purchase Plan (incorporated by reference to Exhibit 4.7 to the Company's Registration Statement on Form S-8 filed with the SEC on January 22, 2020). |
| 10.18*+ | Securities Purchase Agreement, dated as of November 21, 2019, by and among AdaptHealth LLC, McKesson Medical-Surgical, Inc., NRE Holding Corporation and McKesson Patient Care Solutions, Inc. |
| 16.1 | Letter from Withum (incorporated by reference to Exhibit 16.1 of the Company's Current Report on Form 8-K, filed with the SEC on November 14, 2019). |
| 21.1* | Subsidiaries of the Company. |
| 23.1* | Consent of Independent Registered Public Accounting Firm. |
| 24.1* | Powers of Attorney (included on the signature page hereof). |
| 31.1* | Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15(d)-14(a), as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32** | Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| | |
| 101.INS*** | XBRL Instance Document |
| 101.SCH*** | XBRL Taxonomy Extension Schema Document |
| 101.CAL*** | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF*** | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB*** | XBRL Taxonomy Extension Label Linkbase Document |

| 101.PRE*** | XBRL Taxonomy Extension Presentation Linkbase Document |
|---|---|

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* Filed herewith.
** Furnished herewith.
*** XBRL (eXtensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.
† Management contract or compensatory plan or arrangement.
+ Portions of this exhibit have been omitted in accordance with Item 601(b)(10)(iv) of Regulation S-K.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 6, 2020.

AdaptHealth Corp.

By: /s/ Luke McGee
Luke McGee
Chief Executive Officer

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Luke McGee and Christopher Joyce, jointly and severally, his attorney-in-fact, each with the full power of substitution, for such person, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might do or could do in person hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 6, 2020 by the following persons on behalf of the registrant and in the capacities indicated:

| | Signature | Title |
|---|---|---|
| By: | /s/ Luke McGee<br>Luke McGee | Chief Executive Officer and Director<br>(*Principal Executive Officer*) |
| By: | /s/ Gregg Holst<br>Gregg Holst | Chief Financial Officer<br>(*Principal Financial and Accounting Officer*) |
| By: | /s/ Richard Barasch<br>Richard Barasch | Chairman of the Board |
| By: | /s/ Joshua Parnes<br>Joshua Parnes | President and Director |
| By: | /s/ Alan Quasha<br>Alan Quasha | Director |
| By: | /s/ Terence Connors<br>Terence Connors | Director |
| By: | /s/ Dr. Susan Weaver<br>Dr. Susan Weaver | Director |
| By: | /s/ Dale Wolf<br>Dale Wolf | Director |

**Exhibit 3.3**

# CERTIFICATE OF CORRECTION
# OF
# THE SECOND AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
# OF
# ADAPTHEALTH CORP.

AdaptHealth Corp., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"), does hereby certify:

1. The name of the Corporation is AdaptHealth Corp.

2. The Second Amended and Restated Certificate of Incorporation of the Corporation (the "Certificate") was filed with the Secretary of State of the State of Delaware on November 8, 2019, and said Certificate requires correction as permitted by Section 103 of the General Corporation Law of the State of Delaware.

3. The inaccuracy or defect of said Certificate is:

   The number of shares of Class A Common Stock and Class B Common Stock authorized for issuance by the Corporation under Section 4.1(a)(i) and (ii), respectively, of the Certificate were incorrectly stated as 200,000,000 shares and 50,000,000 shares, respectively, due to a scrivener's error. The number of shares of Class A Common Stock and Class B Common Stock authorized for issuance by the Corporation should have been 210,000,000 and 35,000,000, respectively.

4. Section 4.1 of the Certificate is corrected to read as follows:

   "Section 4.1 Authorized Capital Stock. The total number of shares of all classes of capital stock which the Corporation is authorized to issue is 250,000,000 shares, consisting of (a) 245,000,000 shares of common stock, par value $0.0001 per share (the "***Common Stock***"), which shall include (i) 210,000,000 shares of Class A Common Stock (the "***Class A Common Stock***") and (ii) 35,000,000 shares of Class B Common Stock (the "***Class B Common Stock***") and (b) 5,000,000 shares of preferred stock, par value $0.0001 per share (the "***Preferred Stock***"). Subject to the rights of the holders of any one or more series of Preferred Stock then outstanding, the number of authorized shares of any of the Class A Common Stock, Class B Common Stock or Preferred Stock may be increased or decreased, in each case by the affirmative vote of the holders of a majority in voting power of the stock of the Corporation entitled to vote thereon irrespective of the provisions of Section 242(b)(2) of the DGCL, and no vote of the holders of any of the Class A Common Stock, Class B Common Stock or Preferred Stock voting separately as a class will be required therefor."

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**IN WITNESS WHEREOF**, said Corporation has caused this Certificate of Correction to be executed this 5th day of March, 2020.

**ADAPTHEALTH CORP.**

By: /s/ Luke McGee
Name: Luke McGee
Title: Chief Executive Officer

Exhibit 4.5

# DESCRIPTION OF COMMON STOCK

We are incorporated in the State of Delaware. The rights of our stockholders are generally covered by Delaware law and our second amended and restated certificate of incorporation and amended and restated bylaws. The terms of our common stock are therefore subject to Delaware law, including the Delaware General Corporation Law. Our second amended and restated certificate of incorporation and amended and restated bylaws are filed as exhibits to our Annual Report on Form 10-K. As of March 6, 2020, we have one class of securities registered under Section 12 of the Securities Exchange Act, as amended (the "Exchange Act"): our Class A Common Stock.

Except as otherwise indicated, the terms "AdaptHealth," "Company," "we," "us" and "our" refer to AdaptHealth Corp.

**Authorized and Outstanding Stock**

Our second amended and restated certificate of incorporation authorizes the issuance of 250,000,000 shares of Common Stock, consisting of 210,000,000 shares of Class A Common Stock and 35,000,000 shares of Class B Common Stock, and 5,000,000 shares of undesignated preferred stock, $0.0001 par value per share. The outstanding shares of our Common Stock are duly authorized, validly issued, fully paid and non-assessable. As of March 3, 2020, there were 42,247,356 shares of Class A Common Stock and 31,063,799 shares of Class B Common Stock issued and outstanding.

*Common Stock*

Our second amended and restated certificate of incorporation provides for two classes of Common Stock, Class A Common Stock and Class B Common Stock. In connection with the closing on November 8, 2019 of our business combination with AdaptHealth Holdings LLC ("AdaptHealth Holdings"), certain legacy members of AdaptHealth Holdings were issued common units of AdaptHealth Holdings ("AdaptHealth Units") and an equal number of shares of Class B Common Stock, and such legacy members collectively own all of our outstanding shares of Class B Common Stock. We expect to continue to maintain a one-to-one ratio between the number of outstanding shares of Class B Common Stock and the number of AdaptHealth Units held by persons other than AdaptHealth, so holders of AdaptHealth Units (other than AdaptHealth) will continue to have a voting interest in AdaptHealth that is proportionate to their economic interest in AdaptHealth Holdings.

Shares of Class B Common Stock (i) may be issued only in connection with the issuance by AdaptHealth Holdings of a corresponding number of AdaptHealth Units and only to the person or entity to whom such AdaptHealth Units are issued and (ii) may be registered only in the name of (a) a person or entity to whom shares of Class B Common Stock are issued as described above, (b) its successors and assigns, (c) their respective permitted transferees or (d) any subsequent successors, assigns and permitted transferees. A holder of shares of Class B Common Stock may transfer shares of Class B Common Stock to any transferee (other than AdaptHealth) only if, and only to the extent permitted by the Fifth Amended and Restated Limited Liability Company Agreement of AdaptHealth Holdings, such holder also

simultaneously transfers an equal number of such holder's AdaptHealth Units to the same transferee in compliance with such agreement.

*Voting Power*

Except as otherwise required by law or as otherwise provided in any certificate of designation for any series of preferred stock, the holders of Common Stock possess all voting power for the election of our directors and all other matters requiring stockholder action. Holders of Common Stock are entitled to one vote per share on matters to be voted on by stockholders. Holders of shares of our Class B Common Stock vote together as a single class with holders of shares of our Class A Common Stock on all matters properly submitted to a vote of the stockholders.

*Dividends*

Holders of Class A Common Stock are entitled to receive such dividends, if any, as may be declared from time to time by our board of directors in its discretion out of funds legally available therefor. In no event will any stock dividends or stock splits or combinations of stock be declared or made on Class A Common Stock unless the shares of Class A Common Stock at the time outstanding are treated equally and identically. Holders of shares of Class B Common Stock are not entitled to receive any dividends on account of such shares.

*Liquidation, Dissolution and Winding Up*

In the event of our voluntary or involuntary liquidation, dissolution, distribution of assets or winding-up, the holders of the Class A Common Stock will be entitled to receive an equal amount per share of all of our assets of whatever kind available for distribution to stockholders, after the rights of the holders of the preferred stock have been satisfied. Holders of shares of Class B Common Stock will not be entitled to receive any of our assets on account of such shares.

*Preemptive or Other Rights*

Our stockholders have no preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to our Common Stock.

*Election of Directors*

Our board of directors is divided into three classes, each of which generally serves for a term of three years with only one class of directors being elected in each year. There is no cumulative voting with respect to the election of directors, with the result that the holders of more than 50% of the shares voted for the election of directors can elect all of the directors.

*Preferred Stock*

Our second amended and restated certificate of incorporation provides that shares of preferred stock may be issued from time to time in one or more series. Our board of directors is authorized to fix the voting rights, if any, designations, powers and preferences, the relative,

participating, optional or other special rights, and any qualifications, limitations and restrictions thereof, applicable to the shares of each series of preferred stock. The board of directors is able to, without stockholder approval, issue preferred stock with voting and other rights that could adversely affect the voting power and other rights of the holders of the Common Stock and could have anti-takeover effects. The ability of our board of directors to issue preferred stock without stockholder approval could have the effect of delaying, deferring or preventing a change of control of us or the removal of existing management. We have no preferred stock outstanding at the date hereof.

**Certain Anti-Takeover Provisions of our Second Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws**

Our second amended and restated certificate of incorporation provides that our board of directors is classified into three classes of directors. As a result, in most circumstances, a person can gain control of our board only by successfully engaging in a proxy contest at three or more annual meetings.

Our authorized but unissued Common Stock and preferred stock are available for future issuances without stockholder approval and could be utilized for a variety of corporate purposes, including future offerings to raise additional capital, acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved Common Stock and preferred stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

*Exclusive forum for certain lawsuits.* Our second amended and restated certificate of incorporation requires, to the fullest extent permitted by law, other than any claim to enforce a duty or liability created by the Exchange Act or any other claim for which federal courts have exclusive jurisdiction, that derivative actions brought in our name, actions against directors, officers and employees for breach of fiduciary duty and other similar actions may be brought only in the Court of Chancery in the State of Delaware and, if brought outside of the State of Delaware, the stockholder bringing such suit will be deemed to have consented to service of process on such stockholder's counsel. Although we believe these provisions benefit us by providing increased consistency in the application of Delaware law in the types of lawsuits to which it applies, the provisions may have the effect of discouraging lawsuits against our directors and officers. In addition, the federal district courts of the United States of America shall be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act, subject to and contingent upon a final adjudication in the State of Delaware of the enforceability of such exclusive forum provision.

*Special meeting of stockholders.* Our amended and restated bylaws provide that special meetings of our stockholders may be called only by a majority vote of our board of directors, by our Chief Executive Officer or by our chairman.

*Advance notice requirements for stockholder proposals and director nominations.* Our amended and restated bylaws provide that stockholders seeking to bring business before our annual meeting of stockholders, or to nominate candidates for election as directors at our annual meeting of stockholders must provide timely notice of their intent in writing. To be timely, a

stockholder's notice must be received by the secretary to our principal executive offices not later than the close of business on the 90th day nor earlier than the opening of business on the 120th day prior to the scheduled date of the annual meeting of stockholders. If our annual meeting is called for a date that is not within 45 days before or after such anniversary date, a stockholder's notice must be received no earlier than the opening of business on the 120th day before the meeting and not later than the later of (x) the close of business on the 90th day before the meeting or (y) the close of business on the 10th day following the day on which we first publicly announce the date of the annual meeting. Our amended and restated bylaws also specify certain requirements as to the form and content of a stockholder's notice for an annual meeting. Specifically, a stockholder's notice must include: (i) a brief description of the business desired to be brought before the annual meeting, the text of the proposal or business and the reasons for conducting such business at the annual meeting, (ii) the name and record address of such stockholder and the name and address of the beneficial owner, if any, on whose behalf the proposal is made, (iii) the class or series and number of shares of our capital stock owned beneficially and of record by such stockholder and by the beneficial owner, if any, on whose behalf the proposal is made, (iv) a description of all arrangements or understandings between such stockholder and the beneficial owner, if any, on whose behalf the proposal is made and any other person or persons (including their names) in connection with the proposal of such business by such stockholder, (v) any material interest of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made in such business and (vi) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring such business before such meeting. These notice requirements will be deemed satisfied by a stockholder as to any proposal (other than nominations) if the stockholder has notified us of such stockholder's intention to present such proposal at an annual meeting in compliance with Rule 14a-8 of the Exchange Act, and such stockholder has complied with the requirements of such rule for inclusion of such proposal in the proxy statement we prepare to solicit proxies for such annual meeting. Pursuant to Rule 14a-8 of the Exchange Act, proposals seeking inclusion in our annual proxy statement must comply with the notice periods contained therein. The foregoing provisions may limit our stockholders' ability to bring matters before our annual meeting of stockholders or from making nominations for directors at our annual meeting of stockholders.

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**Exhibit 10.18**

**Certain information in this document identified by brackets has been omitted because it is both not material and would be competitively harmful if publicly disclosed.**

# SECURITIES PURCHASE AGREEMENT

**BY AND AMONG**

**ADAPTHEALTH LLC,**

**MCKESSON MEDICAL-SURGICAL, INC.,**
**AS SELLER**

**AND**

**NRE HOLDING CORPORATION, AND**

**MCKESSON PATIENT CARE SOLUTIONS, INC.,**

**AS THE COMPANY GROUP**

**Dated as of November 21, 2019**

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**SECURITIES PURCHASE AGREEMENT**

THIS SECURITIES PURCHASE AGREEMENT (this "Agreement") is made and entered into as of November 21, 2019, by and among (a) AdaptHealth LLC, a Delaware limited liability company ("Buyer"), (b) McKesson Medical-Surgical, Inc., a Virginia corporation ("Seller"), (c) NRE Holding Corporation, a Delaware corporation ("NRE Holding"), and (d) McKesson Patient Care Solutions, Inc., a Pennsylvania corporation ("PCS" and together with NRE Holding, each a "Company" and collectively the "Company Group"). Unless the context otherwise requires, each of Buyer and the Seller are referred to herein individually as a "Party" and collectively, as the "Parties."

RECITALS

WHEREAS, Seller is the owner of all of the issued and outstanding Equity Interests of NRE Holding;

WHEREAS, NRE Holding is the owner of all of the issued and outstanding Equity Interests of PCS;

WHEREAS, the Seller desires to sell to the Buyer, and the Buyer desires to purchase and acquire from the Seller, all of the issued and outstanding Equity Interests of NRE Holding (the "Acquired Equity");

WHEREAS, the Board of Directors of the Seller (the "Seller Board") and the Buyer have determined that it is advisable and in the best interests of their respective equity holders for Buyer to purchase the Acquired Equity upon the terms and subject to the conditions set forth herein, and the Seller Board has approved this Agreement and all of the transactions contemplated hereby (collectively, the "Transactions"); and

NOW, THEREFORE, in consideration of the covenants, promises and representations set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

## ARTICLE 1
DEFINITIONS

For purposes of this Agreement, the following terms shall have the meanings set forth below: "Accounting Firm" has the meaning set forth in Section 2.4(d).

"Acquired Equity" has the meaning set forth in the Recitals.

"Acquisition Engagement" has the meaning set forth in Section 11.12.

"Acquisition Proposal" means (i) any merger, liquidation, recapitalization, consolidation or other business combination involving any member of the Company Group, (ii) any issuance by any member of the Company Group of more than fifty percent (50%) of its capital stock or (iii) any acquisition of all or substantially all of the consolidated total assets of the Company Group, in each case, other than the Transactions contemplated by this Agreement.

"Actual Cash" has the meaning set forth in Section 2.4(b).

"Actual Debt" has the meaning set forth in Section 2.4(b).

"Actual Net Working Capital" has the meaning set forth in Section 2.4(b).

"Actual Transaction Expenses" has the meaning set forth in Section 2.4(b).

"Affiliate" means, with respect to any specified Person, any individual or entity whatsoever directly or indirectly controlling, controlled by, or under the same control with, such Person, with the term "control", when used in respect of any entity, meaning the right (including by unrestricted exercise of voting rights) to unilaterally appoint a majority of the board of directors or other governing body elected by equity holders of that entity).

"Aggregate Cap" has the meaning set forth in Section 9.4(c)(iii).

"Agreement" has the meaning set forth in the preamble to this Agreement.

"Annual Financial Statements" has the meaning set forth in Section 3.5(a).

"Applicable Survival Period" has the meaning set forth in Section 9.3(b).

"Attorney-Client Communications" has the meaning set forth in Section 11.12.

"Auburn Facility Sublease" has the meaning set forth in Section 8.2(m).

"Balance Sheet Date" has the meaning set forth in Section 3.5(a).

"Bonus Opportunities" has the meaning set forth in Section 7.4(a).

"Broker" means Piper Jaffray & Co.

"Business" means the business of marketing, selling, leasing, distributing or otherwise providing durable medical equipment and related supplies to customers in their homes, hospitals, or other alternative site care facilities.

"Business Day" means each day that is not a Saturday, Sunday or other day on which banking institutions located in Las Colinas, Texas are authorized or obligated by law or executive order to close.

"Buyer Certificate" has the meaning set forth in Section 2.4(b).

"Buyer Indemnified Party" has the meaning set forth in Section 9.1.

"Buyer Indemnifying Parties" has the meaning set forth in Section 9.2.

"Buyer Representatives" has the meaning set forth in Section 6.2.

"Buyer Terminable Breach" has the meaning set forth in Section 10.1(b).

"Cash" means all cash, cash equivalents (including money market accounts, money market funds, money market instruments, certificates of deposit, demand deposits and restricted cash), the Lease Deposits and marketable securities of the Company Group, determined on a consolidated basis. For the avoidance of doubt, "Cash" shall be calculated net of all issued but uncleared checks and drafts issued by the Company Group to the extent the related accounts payable is not included in the calculation of Net

Working Capital and shall include all checks and wire transfers and drafts deposited or available for deposit for the account of the Company Group.

"Cash Payment" means the amount equal to (a) Fourteen Million Dollars ($14,000,000), plus (b) the Estimated Cash, minus (c) the Estimated Debt, minus (d) the Estimated Transaction Expenses, plus or minus (as applicable pursuant to Section 2.4(a)) (e) the working capital adjustment amount.

"Civil Investigative Demand" means a civil investigative demand issued pursuant to 31 U.S.C. § 3733.

"Closing" has the meaning set forth in Section 2.3.

"Closing Balance Sheet" has the meaning set forth in Section 2.4(b).

"Closing Date" has the meaning set forth in Section 2.3.

"Closing Statement" has the meaning set forth in Section 2.2(b).

"Code" means the Internal Revenue Code of 1986, as amended.

"Company" has the meaning set forth in the preamble to this Agreement.

"Company Approvals" means, any consent, license, permit, approval, waiver or authorization or order of, filings with or any notification to any third-Person or Governmental Authority required as a result of the Transactions.

"Company Group" has the meaning set forth in the preamble to this Agreement.

"Company Material Adverse Effect" means, with respect to the Company Group, taken as a whole, any event, occurrence, condition or change that is materially adverse to (a) the business, results of operations, financial condition or assets of the Company Group, taken as a whole, or (b) the ability of the Company Group to consummate the Transactions on a timely basis; *provided, however,* that "Company Material Adverse Effect" shall not include any event, occurrence, condition or change, directly or indirectly, arising out of or attributable to: (i) general economic or political conditions; (ii) conditions generally affecting the industries in which the Company Group operates; (iii) any changes in financial or securities markets in general; (iv) acts of war (whether or not declared), armed hostilities or terrorism, or the escalation or worsening thereof; (v) any action taken or failed to be taken pursuant to or in accordance with this Agreement or at the request of, or consented to by, the Buyer; (vi) any action required or permitted by this Agreement; (vii) any changes in accounting rules, including GAAP; or (viii) the public announcement, pendency or completion of the Transactions; notwithstanding the foregoing, however, that any event, occurrence condition or change referred to in clauses (i) through (vii) immediately above shall be taken into account in determining whether a Company Material Adverse Effect has occurred or could reasonably be expected to occur to the extent that such event, occurrence condition or change has a disproportionate effect on the Company Group compared to other participants in the industries in which the Company Group conducts its businesses.

"Company Parties" has the meaning set forth in Section 11.12.

"Company Plan" has the meaning set forth in Section 3.15(a).

"Company Representatives" has the meaning set forth in Section 7.3.

"Company Terminable Breach" has the meaning set forth in Section 10.1(c).

"Competition Law" shall mean any Law that is designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade or lessening of competition.

"Confidentiality Agreement" means that certain letter agreement, effective as of May 2, 2019, by and between Buyer and Seller or an Affiliate of Seller.

"Contract" means any legally binding, written contract, agreement, lease, obligation, commitment or undertaking.

"Current Assets" means the Company Group's consolidated total current assets, determined in accordance with the Net Working Capital Schedule (excluding all Cash).

"Current Liabilities" means the Company Group's consolidated total current liabilities, determined in accordance with the Net Working Capital Schedule (excluding (a) any Debt and (b) Transaction Expenses); provided, further, that any other amount payable from the Purchase Price that would otherwise be considered a Current Liability shall not be included as a Current Liability.

"Damages" means all actual damages, costs, liabilities, obligations, fines, penalties, expenses and fees, including reasonable attorneys' and other professional fees and expenses.

"Debt" means, without duplication, any liability of any member of the Company Group in respect of (a) indebtedness for borrowed money or evidenced by notes, bonds, debentures or similar instruments; (b) guarantees of the obligations described in the foregoing clause (a) above of any other Person; or (c) all accrued interest on the foregoing; provided, however, that, for purposes of clarity, notwithstanding anything to the contrary herein, "Debt" shall not include any (i) Transaction Expenses, (ii) trade payables and Current Liabilities, (iii) capital lease obligations, (iv) deferred revenue, (v) letters of credit, performance bonds, bankers acceptances, indemnities and similar obligations entered into in the ordinary course of business or (vi) any items of the nature described above incurred by Buyer or its Affiliates prior to or following the Closing.

"Deductible" has the meaning set forth in Section 9.4(b).

"Delaware Courts" has the meaning set forth in Section 11.10(b).

"Direct Claim" has the meaning set forth in Section 9.6.

"Employee Plan" means any plan, program, policy, arrangement or Contract, whether or not reduced to writing, and whether covering a single individual or a group of individuals, that is (a) an employee welfare benefit plan within the meaning of Section 3(1) of ERISA, (b) an employee pension benefit plan within the meaning of Section 3(2) of ERISA, (c) an equity bonus, equity purchase, equity option, restricted equity, equity appreciation right or similar equity-based plan or (d) any other deferred- compensation, retirement, severance, welfare-benefit, reimbursement, bonus, profit-sharing, incentive or fringe-benefit plan, program or arrangement.

"Environmental Laws" means any applicable Laws that pertain to the protection of the environment, protection of public health and safety, or protection of worker health and safety, or that pertain to the handling, use, manufacturing, processing, storage, treatment, transportation, discharge, release, emission, disposal, re-use or recycling of Hazardous Materials, including the federal

Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. Section 9601, et seq., as amended, the federal Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., as amended, the European Union RoHS Directive and the Waste Electrical and Electronic Equipment Directive.

"Equity Interest" means, with respect to any Person, (a) any capital stock, partnership or membership interest, unit of participation or other similar interest (however designated) in such Person, and (b) any option, warrant, purchase right, conversion right, exchange right or other Contract that would entitle any other Person to acquire any such interest in such Person or otherwise entitle any other Person to share in the equity, profits, earnings, losses or gains of such Person (including equity appreciation, phantom equity, profit participation or other similar rights).

"Estimated Cash" has the meaning set forth in Section 2.4(a).

"Estimated Debt" has the meaning set forth in Section 2.4(a).

"Estimated Net Working Capital" has the meaning set forth in Section 2.4(a).

"Estimated Transaction Expenses" has the meaning set forth in Section 2.4(a).

"Excluded Documents" means, collectively, the Restrictive Covenant Agreement, the Moorestown Facility License Agreement, the Auburn Facility Sublease and the Transition Services Agreement.

"Financial Statements" has the meaning set forth in Section 3.5(a).

"Fraud", with respect to the Seller and the Company Group, means actual and intentional fraud, committed by the Knowledge Persons with actual knowledge, with respect to the making of the representations and warranties expressly set forth in ARTICLE 3and ARTICLE 4of this Agreement with actual knowledge of breach when the related representations and warranties were made with the express intention that a party to this Agreement would rely thereon to its detriment, and does not include any other form of fraud or misrepresentation (whether reckless, negligent, constructive or otherwise).

"Fundamental Damages" means Damages incurred or sustained by, or imposed upon, the Buyer Indemnified Parties to the extent resulting from or arising out of any breach of any Fundamental Representations of the Company Group.

"Fundamental Damages Cap" has the meaning given in Section 9.4 (c)(ii).

"Fundamental Representations" means, (a) with respect to the Company Group, the representations and warranties set forth in Sections 3.1 (*Organization and Qualification; Subsidiaries*), 3.2 (*Authorization*), 3.3 (*Capitalization*), 3.9 (*Tax Matters*) 3.21 (*Brokers Fees*), 3.22 (*Healthcare Compliance*), and 3.24 *(Fraud),* (b) with respect to the Seller, the representations and warranties set forth in Sections 4.1 (*Authorization*), 4.3 (*Title*) and 4.4 (*No Brokers*) and (c) with respect to Buyer, the representations and warranties set forth in ARTICLE 5.

"GAAP" means generally accepted accounting principles in effect in the United States, as consistently applied by the Company Group.

"General Cap" has the meaning set forth in Section 9.4(c)(i).

"General Survival Date" has the meaning set forth in Section 9.3(a)(i).

"Governing Documents" means, with respect to any business entity, all documents by which such entity established its legal existence or which govern its internal corporate affairs, including, without limitation, its articles of incorporation, articles of organization, limited partnership agreement, operating agreement, limited liability company agreement, bylaws and any other governing document, as applicable, of such entity.

"Government Health Care Program" means any federal or state health programs as defined in 42 U.S.C. § 1320a-7b(f).

"Government Health Care Program Repayment Damages" means any Damages in connection with a repayment, recoupment or refund for overpayments made by a Government Health Care Program prior to the Closing Date which directly result from a breach by the Company Group of any representation or warranty set forth in Section 3.22 (*Healthcare Compliance*).

"Governmental Authority" means any court, administrative agency, commission or other United States, federal, national, provincial, state, local, foreign or other governmental authority, instrumentality, agency or commission, in each case, to the extent the same has jurisdiction over the Person, assets or property in question.

"Health Care Laws" means all Laws relating to the regulation, provision or administration of, or payment for, healthcare products or services, including, but not limited to (a) any and all federal and state fraud and abuse Laws, including the federal Anti-Kickback Statute (42 U.S.C. § 1320a-7(b)), the Stark Law (42 U.S.C. § 1395nn and § 1395(q)), the civil False Claims Act (31 U.S.C. § 3729 et seq.), Sections 1320a-7 and 1320a-7a of Title 42 of the United States Code, the False Statements Relating to Health Care Matters law (18 U.S.C. § 1035), Health Care Fraud (18 U.S.C. § 1347), all state self-referral prohibitions, anti-kickback Laws, illegal remuneration and provider conflict of interest Laws, or any regulations promulgated pursuant to such statutes, or similar state or local statutes or regulations; (b) the federal Food, Drug & Cosmetic Act (21 U.S.C. §§ 310 et seq.) and other federal and state requirements concerning the distribution of Legend Drugs and Legend Devices; (c) Medicare (Title XVIII of the Social Security Act) and the conditions of participation and regulations promulgated thereunder; (d) Medicaid (Title XIX of the Social Security Act) and the regulations promulgated thereunder; (e) TRICARE (10 U.S.C. § 1071 et seq.) and the regulations promulgated thereunder (f) the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Pub. L. No. 108-173) and the regulations promulgated there under; (g) all Laws relating to healthcare-related licensure, certification or registration requirements of all Governmental Authorities applicable to any member of the Company Group (h) quality, safety and accreditation requirements to the extent required by applicable state laws or governmental regulatory bodies; and (i) statutory and regulatory requirements relating to the billing or submission of claims, collection of accounts receivable, underwriting the cost of, or provision of management or administrative services in connection with, Government Health Care Programs, by any member of the Company Group, including Laws and regulations relating to professional fee splitting, certificates of need, and certificates of operations and authority. Health Care Laws do not include any Privacy Laws.

"Indemnified Party" means a Buyer Indemnified Party or a Seller Indemnified Party, as applicable.

"Indemnified Taxes" means any (a) Taxes of any member of the Company Group for Pre-Closing Tax Periods (determined in accordance with Section 7.7(e) with respect to any Straddle Period), (b) income Taxes for any Pre-Closing Tax Period of any member (other than any member of the Company Group) of an affiliated, consolidated, combined, or unitary group of which any member of the Company

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Group is or was a member on or prior to the Closing Date pursuant to Treasury Regulations Section 1.1502-6 (or any analogous provision of state, local or foreign Tax Law), and (c) Taxes for any Pre- Closing Tax Period of any Person (other than any member of the Company Group) imposed on any member of the Company Group by contract (other than any contract the principal purpose of which is not Taxes), as a transferee or successor or by operation of Law, which Taxes relate to an event or transaction occurring before the Closing. For the avoidance of doubt, "Indemnified Taxes" shall not include any Transfer Taxes.

"Indemnifying Party" means a Buyer Indemnifying Party or Seller, as applicable.

"Intellectual Property" means all worldwide (a) patents (including but not limited to continuations, continuations-in-part, divisionals, renewals, reissues, and extensions thereof), inventions, whether patentable or not, and whether reduced to practice or not, (b) copyrights in any work of authorship, (c) trademarks, service marks, Internet domain names, URLs, logos, trade names and trade dress, corporate names and other source indicators, and all goodwill related thereto, (d) trade secrets, and (e) all registrations and applications (including, without limitation, provisional applications), renewals, reissues and extensions for any of the foregoing.

"Interim Balance Sheet" has the meaning set forth in Section 3.5(a).

"Interim Financial Statements" has the meaning set forth in Section 3.5(a).

"IRS" means the U.S. Internal Revenue Service.

"Knowledge of the Seller" or "to the Seller's Knowledge" means, with respect to any fact, circumstance, event or other matter in question, the actual knowledge of any of the following individuals: [***] (collectively, the "Knowledge Persons").

"Law" or "Laws" means any applicable federal, national, provincial, state, local, United States, foreign or other statute, law, ordinance, regulation, rule, code, decree, judgment, writ, injunction or other order, or other requirement or rule of law.

"Lease Deposits" means the security deposits made in connection with Real Property Leases set forth on Schedule 3.10(b).

"Legal Proceeding" has the meaning set forth in Section 11.10(b).

"Lien" means any lien, pledge, mortgage, deed of trust, security interest, charge, easement, encroachment or other similar lien.

"Material Contract" has the meaning set forth in Section 3.13(a).

"Material Customers" has the meaning set forth in Section 3.20(a).

"Material Permits" has the meaning set forth in Section 3.8.

"Material Suppliers" has the meaning set forth in Section 3.20(b).

"Mini-Basket" has the meaning set forth in Section 9.4(a).

"MMM" has the meaning set forth in Section 11.12.

"Moorestown Facility License Agreement" has the meaning set forth in Section 8.2(l).

"Multiemployer Plan" means: (i) any "multiemployer plan" as such term is defined in Section 3(37) of ERISA; (ii) any "multiple employer plan" as such term is defined in Section 413(c) of the Code; and (iii) any "multiple employer welfare arrangement" (as defined in Section 3(40) of ERISA).

"Net Working Capital" means (a) Current Assets (but excluding Cash and all deferred Tax assets), minus (b) Current Liabilities (but excluding deferred Tax liabilities), all as more particularly described and set forth in the Net Working Capital Schedule.

"Net Working Capital Certificate" means a certificate prepared by an officer of the Company Group or Seller, certifying the Estimated Net Working Capital, Estimated Cash, Estimated Transaction Expenses and Estimated Debt as set forth on the Closing Statement, and the amount, if any, by which (a) Estimated Net Working Capital *exceeds* the Target Net Working Capital or (b) the Estimated Net Working Capital *is less than* the Target Net Working Capital.

"Net Working Capital Schedule" means the schedule pursuant to which Net Working Capital is to be calculated, attached as Exhibit A hereto, which calculation on Exhibit A is based for illustrative purposes on Net Working Capital as of October 31, 2019.

"Notice of Claim" has the meaning set forth in Section 9.3(b).

"Objection Notice" has the meaning set forth in Section 2.4(c).

"Outside Date" has the meaning set forth in Section 10.1(e).

"Party" or "Parties" has the meaning set forth in the preamble to this Agreement.

"Permitted Liens" means: (a) Taxes, assessments and other governmental levies, fees, or charges that are (i) not due and payable as of the Closing Date or (ii) being contested by appropriate proceedings; (b) mechanics' liens and similar liens for labor, materials, or supplies provided with respect to real property incurred in the ordinary course of business for amounts that are (i) not delinquent and that would not, in the aggregate, have a Company Material Adverse Effect or (ii) being contested by appropriate proceedings; (c) zoning, building codes, and other land use laws regulating the use or occupancy of real property or the activities conducted thereon that are imposed by any Governmental Authority having jurisdiction over real property; (d) liens for any financing secured by real property; (e) easements, covenants, conditions, restrictions and other similar matters affecting title to real property and other encroachments and title and survey defects that do not or would not materially impair the use or occupancy of real property in the operation of the business of the Company Group, taken as a whole; and (f) non-exclusive licenses of Company owned Intellectual Property by the Company or a Subsidiary in the ordinary course of business.

"Person" means an individual or entity, including a partnership, a limited liability company, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, or a Governmental Authority (or any department, agency, or political subdivision thereof).

"Post-Transaction Employee" has the meaning set forth in Section 7.4.

"Pre-Closing Tax Period" means any taxable period ending on or before the Closing Date and the portion of any Straddle Period ending on the Closing Date.

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"Pre-Closing Tax Refund" means, without duplication, any and all refunds (including refunds arising by reason of estimated Tax payments made on or before the Closing Date) or credits of Taxes, together with any and all interest paid or credited with respect thereto, (a) with respect to any Pre-Closing Tax Period (determined in accordance with the principles set forth in Section 7.7(e) for any Straddle Period) of any member of the Company Group; (b) with respect to any amount indemnified by Seller pursuant to an obligation under ARTICLE 9 or (c) with respect to any amount taken into account as a direct or indirect adjustment in the calculation of the Purchase Price (as finally determined), including to the extent included in the calculation of Actual Net Working Capital, Actual Debt or Actual Transaction Expenses (each as finally determined in accordance with Section 2.4).

"Privacy Laws" means (a) the Health Insurance Portability and Accountability Act of 1996 (Pub. L. No. 104-191) and the regulations promulgated thereunder, (b) Subtitle D of the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), also known as Title XIII of Division A and Title IV of Division B of the American Recovery and Reinvestment Act of 2009, Public Law No. 111-005, and the regulations promulgated thereunder and (c) state privacy and data security Laws and regulations.

"Public Filing" has the meaning set forth in Section 7.2(b).

"Purchase Price" has the meaning set forth in Section 2.2.

"Real Property Leases" has the meaning set forth in Section 3.10(b).

"Referral Source" means any physician, health care facility, hospital or division or department thereof, nursing facility, home health agency or other Person who is in a position to make or influence referrals to or recommendations regarding, or otherwise generate business for, the Company Group.

"Representation" has the meaning set forth in Section 11.3.

"Restrictive Covenant Agreement" means the restrictive covenant agreement, by and between Buyer and Seller, entered into on the date hereof.

"Scheduled Intellectual Property" has the meaning set forth in Section 3.12.

[***]

"Seller Board" has the meaning set forth in the recitals to this Agreement.

"Seller Indemnified Party" has the meaning set forth in Section 9.2.

"Seller Tax Matter" has the meaning set forth in Section 7.7(f).

"Solvent" has the meaning set forth in Section 5.7.

"Specific Representation" has the meaning set forth in Section 11.3.

"Specified Time" has the meaning set forth in Section 7.3

"Straddle Period" means any taxable period beginning on or before and ending after the Closing Date.

"Subsidiary" means, with respect to any Person, any corporation, partnership, trust, limited liability company, association or other business entity of which (a) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof, or (b) if a partnership, limited liability company, association or other business entity, a majority of the partnership or other similar ownership interest thereof is at the time owned or controlled, directly or indirectly, by any Person or one or more Subsidiaries of that person or a combination thereof. For purposes hereof, a Person or Persons shall be deemed to have a majority ownership interest in a partnership, limited liability company, association or other business entity if such Person or Persons shall be allocated a majority of partnership, limited liability company, association or other business entity gains or losses or shall be or control the managing director or general partner of such partnership, limited liability company, association or other business entity.

"Supplemental Disclosure Schedule" has the meaning set forth in Section 7.1(c).

"Supporting Documentation" has the meaning set forth in Section 2.4(b).

"Target Net Working Capital" means $16,000,000.

"Tax" means any federal, state, local or municipal, foreign or other tax (including any income tax, franchise tax, capital gains tax, gross receipts tax, value-added tax, surtax, estimated tax, unemployment tax, excise tax, ad valorem tax, transfer tax, stamp tax, sales tax, use tax, property tax, business tax, profits tax, capital stock tax, severance tax, occupation tax, windfall profits tax, social security tax, disability tax, withholding tax or payroll tax), and any fine, penalty, interest or addition to tax with respect thereto, in each case, imposed by a Tax Authority.

"Tax Authority" means any Governmental Authority responsible for the imposition, administration, assessment or collection of any Tax or the administration of any Laws relating to Taxes.

"Tax Contest" has the meaning set forth in Section 7.7(d).

"Tax Representations" has the meaning set forth in Section 9.3(a).

"Tax Return" means any return, declaration, report, claim for refund or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof, in each case required to be filed with any Tax Authority in connection with the imposition, administration, assessment or collection of any Tax or the administration of any Laws relating to Taxes.

"Third Party Claim" has the meaning set forth in Section 9.5(a).

"Transaction Documents" means this Agreement, the Seller Disclosure Schedules, the closing certificates delivered pursuant to this Agreement, the annexes to this Agreement, and all other documents, agreements, certificates and other instruments expressly contemplated by this Agreement (excluding the Excluded Documents).

"Transaction Expenses" means, without duplication, as of immediately prior to the Closing and to the extent not paid prior to the Closing, (a) all third party fees, costs and expenses relating to this Agreement and the Transactions that are incurred at or prior to the Closing and are payable by the Seller or any member of the Company Group to any financial advisor, broker, or finder or to any attorney, accountant, consultant or other professional that rendered services to the Seller or any member of the

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Company Group in connection with this Agreement and the Transactions; and (b) all liabilities for any change of control or similar bonuses payable by the Seller or any member of the Company Group to any member of the Company Group's officers, directors, employees, consultants or contractors solely as a result of the consummation of the Transactions; provided, however, that notwithstanding anything to the contrary set forth herein, "Transaction Expenses" shall not include (i) any fees and costs relating to this Agreement and the Transactions that are payable by any member of the Company Group for services following the Closing or by the Buyer or its Affiliates in connection with the Transactions, including any financings obtained by the Buyer, or Buyer's Affiliates in connection herewith, (ii) any amount which is included in the calculation of Debt or Net Working Capital, or (iii) any amounts payable by the Seller on behalf of any member of the Company Group in connection with the "tail" policy pursuant to and in accordance with Section 7.8.

"Transactions" has the meaning set forth in the recitals to this Agreement.

"Transfer Taxes" has the meaning set forth in Section 7.7(b).

"Transition Services Agreement" has the meaning set forth in Section 8.2(k).

"Treasury Regulations" means the regulations (including temporary regulations) of the United States Treasury Department pertaining to the Code.

"TSA Completion Payment" has the meaning set forth in Section 2.2(d). "Union" has the meaning set forth in Section 3.17.

[***]

## ARTICLE 2
## PURCHASE AND SALE

2.1 Purchase and Sale. Upon the terms and subject to the conditions set forth in this Agreement, at the Closing, Seller shall sell, assign, transfer, convey and deliver to Buyer, free and clear of all Liens, and Buyer shall purchase from Seller, all of the Acquired Equity.

2.2 Purchase Price; Payments by Buyer.

(a) The aggregate consideration for the purchase and sale of the Acquired Equity at Closing will be an amount in cash equal to the Cash Payment (such aggregate consideration, the "Purchase Price").

(b) At least one (1) Business Day prior to the Closing, the Seller shall prepare and deliver to Buyer a closing statement (the "Closing Statement"), which shall set forth the Seller's calculations of (i) the Cash Payment, and (ii) a schedule of the applicable payment(s) to each Person receiving payments pursuant to Section 2.2(c) hereof, each based on the estimates and adjustments set forth in the Net Working Capital Certificate.

(c) At the Closing, Buyer shall:

(i) on behalf of the Seller, pay to such accounts or account as the Seller specifies in the Closing Statement the aggregate amount of all Transaction Expenses as of the Closing; and

(ii) pay to the Seller, an aggregate amount in cash equal to the Cash Payment by wire transfer of immediately available funds.

(d) Subject to the terms and conditions of the Transition Services Agreement, in substantially the form of Exhibit B to this Agreement, Buyer shall also pay Seller the amount of One Million Five Hundred Thousand Dollars ($1,500,000) (the "TSA Completion Payment"), if earned.

2.3 Closing. Subject to the terms and conditions of this Agreement, the consummation of the Transactions (the "Closing") will occur at the offices of Morris, Manning & Martin, LLP, 1600 Atlanta Financial Center, 3343 Peachtree Road, N.E., Atlanta, Georgia 30326 at noon Eastern Time on the first Business Day of the calendar month (with the Closing effective as of 12:01 a.m. Eastern Time on the first calendar day of such calendar month) immediately following the third (3rd) Business Day after the date as of which the conditions to each Party's obligations (as set forth in ARTICLE 8) have been satisfied or waived (if permissible) (other than the conditions with respect to actions the respective Parties will take at the Closing itself, but subject to the satisfaction or waiver (if permissible) of such conditions) or at such other time and on such other date as the Parties mutually agree (the date on which the Closing occurs, the "Closing Date"). Notwithstanding the foregoing, if the Closing Date would otherwise occur pursuant to this Section 2.3 during the last two (2) weeks of any fiscal quarter of McKesson Corporation, the Closing Date shall be postponed until the first Business Day of the next fiscal quarter of McKesson Corporation, unless Seller waives such postponement by delivering written notice to the Buyer.

2.4 Purchase Price Adjustment. The Cash Payment shall be adjusted upward or downward, on a dollar-for-dollar basis, as set forth below:

(a) At least one (1) Business Day prior to the Closing, the Seller shall deliver to Buyer the Net Working Capital Certificate, which will contain the Seller's good faith estimate of (i) the Net Working Capital (calculated in accordance with the Net Working Capital Schedule as of the Closing Date and without giving effect to the Transactions) (the "Estimated Net Working Capital"), (ii) Cash as of immediately prior to Closing and prior to giving effect to the Transactions ("Estimated Cash"), (iii) Debt of the Company as of immediately prior to Closing ("Estimated Debt") and (iv) Transaction Expenses as of immediately prior to Closing ("Estimated Transaction Expenses"). To the extent that (y) the Estimated Net Working Capital exceeds the Target Net Working Capital, the Cash Payment shall be increased by the amount by which the Estimated Net Working Capital exceeds the Target Net Working Capital or (z) the Estimated Net Working Capital is less than the Target Net Working Capital, the Cash Payment shall be decreased by the amount by which Estimated Net Working Capital is less than Target Net Working Capital.

(b) Not later than 5:00 p.m., Eastern Time, on the day that is sixty (60) days after the Closing Date, Buyer shall prepare and deliver to the Seller a certificate (the "Buyer Certificate") providing (i) an unaudited balance sheet as of the Closing Date (prior to giving effect to the Transactions) (the "Closing Balance Sheet"), (ii) Buyer's calculations, based on the Closing Balance Sheet and the Net Working Capital Schedule, of Net Working Capital as of the Closing Date and prior to giving effect to the Transactions ("Actual Net Working Capital"), Cash as of immediately prior to Closing and prior to giving effect to the Transactions ("Actual Cash"), Debt as of immediately prior to the Closing ("Actual Debt") and Transaction Expenses as of immediately prior to the Closing ("Actual Transaction Expenses"), and

(iii) the amount, if any, by which the Cash Payment, calculated by replacing Estimated Net Working Capital, Estimated Cash, Estimated Debt and Estimated Transaction Expenses with, respectively, Actual Net Working Capital, Actual Cash, Actual Debt and Actual Transaction Expenses, is less than or greater than the calculation of the Cash Payment at Closing. Buyer's determination of Actual Net Working Capital shall be prepared in accordance with the Net Working Capital Schedule as of the Closing Date and shall utilize the same methodology with respect to the calculation of the Allowances for Trade Doubtful Accounts as used to calculate such line item on the Net Working Capital Schedule attached as Exhibit A hereto. The Buyer Certificate shall include reasonable detail of the calculation and a description of the reasons for variations from the Estimated Net Working Capital, Estimated Cash, Estimated Debt and Estimated Transaction Expenses, if any. Additionally, during the forty-five (45) day period following delivery of the Buyer Certificate, Buyer shall promptly provide to the Seller access to the books and records (including financial records and supporting documents) of the Company Group and access to employees of Buyer and the Company Group, in each case, relating to the calculation of Actual Net Working Capital, Actual Cash, Actual Debt and Actual Transaction Expenses, as the Seller may reasonably request for the purpose of verifying the Buyer Certificate (the "Supporting Documentation").

(c) On or prior to 5:00 p.m., Eastern Time on the day that is forty-five (45) days following Buyer's delivery of the Buyer Certificate, the Seller may give Buyer written notice stating in reasonable detail (to the extent then known) the Seller's objections (an "Objection Notice") to Buyer's determination of Actual Net Working Capital, Actual Cash, Actual Debt and Actual Transaction Expenses and Buyer's calculation of the Cash Payment; provided, that such forty-five (45) day period shall be extended by the amount of any delay in Buyer's provision of the Supporting Documentation or access to employees to the extent required by the last sentence of Section 2.4(b). If the Seller does not give Buyer an Objection Notice within the aforementioned forty-five (45) day period (as may be extended pursuant to this Section 2.4(c)), then the Closing Balance Sheet, Actual Net Working Capital, Actual Cash, Actual Debt and Actual Transaction Expenses as determined by Buyer in the Buyer Certificate will be conclusive and binding upon Buyer, and the Seller, and will constitute the final determination of Actual Net Working Capital, Actual Cash, Actual Debt and Actual Transaction Expenses for purposes of this Section 2.4.

(d) Following Buyer's receipt of any Objection Notice (if applicable), the Seller and Buyer shall attempt to negotiate to resolve such dispute for a period of thirty (30) days. In the event that the Seller and Buyer fail to agree on any of the Seller's proposed adjustments set forth in the Objection Notice within such thirty (30) day period, the Seller and Buyer agree to engage FTI Consulting, Inc. to act as the accounting firm hereunder (the "Accounting Firm"), and shall use their commercially reasonable efforts to cause the Accounting Firm to make its final determination of Actual Net Working Capital, Actual Cash, Actual Debt and Actual Transaction Expenses, in accordance with the terms of this Agreement, within the thirty (30) day period immediately following such engagement. Buyer and the Seller shall provide the Accounting Firm with their respective determinations of Actual Net Working Capital, Actual Cash, Actual Debt and Actual Transaction Expenses, as well as all supporting documentation reasonably required by the Accounting Firm. The Accounting Firm shall render a written decision as to each disputed matter set forth in the Objection Notice, including a statement in reasonable detail of the basis for its decision. The determination of Actual Net Working Capital, Actual Cash, Actual Debt and Actual Transaction Expenses by the Accounting Firm shall be final and binding on Buyer and the Seller. The Accounting Firm shall address only those items disputed in accordance with this Section 2.4 and the Accounting Firm may not assign a value greater than the greatest value for any such item assigned by Buyer, on the one hand, or the Seller, on the other hand, or less than the smallest value for any such item assigned by Buyer, on the one hand, or the Seller, on the other hand. The fees and expenses of the Accounting Firm shall be allocated between Buyer and Seller so that the Seller shall be responsible for that portion of the fees and expenses equal to such fees and expenses multiplied by a fraction, the numerator of which is the aggregate dollar value of issues in dispute submitted to the

Accounting Firm that are resolved in a manner further from the position submitted to the Accounting Firm by the Seller and closer to the position submitted to the Accounting Firm by Buyer (as finally determined by the Accounting Firm), and the denominator of which is the total dollar value of the issues in dispute so submitted, and Buyer shall be responsible for the remainder of such fees and expenses. In the event the Accounting Firm for any reason fails or declines to act as the Accounting Firm hereunder, the Seller and Buyer shall mutually agree to the appointment of a nationally recognized independent accounting firm to act as the Accounting Firm hereunder.

(e) Following the final determination of the Closing Balance Sheet, Actual Net Working Capital, Actual Cash, Actual Debt and Actual Transaction Expenses, the Cash Payment shall be recalculated by replacing Estimated Net Working Capital, Estimated Cash, Estimated Debt and Estimated Transactions with, respectively, Actual Net Working Capital, Actual Cash, Actual Debt and Actual Transaction Expenses, in each case as finally determined in accordance with this Section 2.4 (the "Final Cash Payment").

(f) Upon the final determination of the Final Cash Payment:

(i) if the Final Cash Payment is greater than the Cash Payment calculated at Closing, then Buyer shall pay (or caused to be paid) to the Seller, an amount equal to such surplus; or

(ii) if the Final Cash Payment is less than the Cash Payment calculated at Closing, then Seller shall pay (or caused to be paid) to Buyer, an amount equal to such deficit.

(g) Any payment required to be made under this Section 2.4 shall be made within ten (10) Business Days of the final determination of the Final Cash Payment.

2.5 Tax Withholding. Buyer shall be entitled to deduct and withhold from the amounts payable pursuant to this Agreement and the other Transaction Documents such amounts as Buyer reasonably determines Buyer is required to deduct and withhold with respect to the making of such payments under any provision of U.S. federal, state, local or foreign tax Law and instead shall timely pay such amount to the applicable Governmental Authority. To the extent that amounts are timely paid to the applicable Governmental Authority, such amounts withheld shall be treated for all purposes of this Agreement and the other Transaction Documents as having been paid by Buyer to the recipient in respect of which such deduction and withholding was made by Buyer. Buyer shall (i) use commercially reasonable efforts to promptly provide Seller with written notice of any amounts that Buyer intends to deduct or withhold from any amounts payable pursuant to this Agreement reasonably in advance of the payment thereof, (ii) cooperate in good faith with the Seller to seek to eliminate or reduce any such withholding or deduction, and (iii) provide Seller a reasonable opportunity to provide any applicable certificates, forms or other documentation that would eliminate or reduce the requirement to deduct or withhold under applicable Law.

## ARTICLE 3
## REPRESENTATIONS AND WARRANTIES OF THE COMPANY GROUP

The Company Group represents and warrants to Buyer that the statements contained in this ARTICLE 3 are true and correct as of the date hereof, except as set forth herein or in the disclosure schedule, dated as of the date hereof, and delivered by the Seller to Buyer contemporaneously with the execution of this Agreement (the "Seller Disclosure Schedules").

3.1 Organization and Qualification; Subsidiaries.

(a) NRE Holding is a corporation, duly formed, validly existing and in good standing under the Laws of the State of Delaware. PCS is a corporation, duly formed, validly existing and in good standing under the Laws of the State of Pennsylvania. Each member of the Company Group (i) has the requisite corporate or other organizational power and authority necessary to own, lease and operate its properties and to carry on its business as it is now being conducted and (ii) is duly qualified or licensed and in good standing to do business in each jurisdiction in which the nature of the business conducted by it or the ownership or leasing of its properties makes such qualification or license necessary, except where the failure to be so qualified or licensed or in good standing would not have a Company Material Adverse Effect.

(b) Other than PCS, NRE Holding owns no Subsidiaries, and PCS owns no Subsidiaries. Except as set forth herein or on Schedule 3.1(b), no member of the Company Group owns or controls, directly or indirectly, Equity Interests in any Person.

3.2 Authorization. Each member of the Company Group has all requisite corporate power and authority to execute and deliver this Agreement and, subject to receipt of the Company Approvals, to perform their respective obligations hereunder and to consummate the Transactions. The execution and delivery of this Agreement by each member of the Company Group and the consummation by each Company of the Transactions has been duly authorized by all necessary corporate action and, except as contemplated by this Agreement, no other corporate proceedings on the part of any member of the Company Group is necessary to authorize this Agreement or to consummate the Transactions. This Agreement has been duly executed and delivered by each member of the Company Group and, assuming the due authorization, execution and delivery of this Agreement by the other Parties hereto, constitutes the legal, valid and binding obligation of each member of the Company Group, enforceable against each member of the Company Group in accordance with its terms, except as enforcement hereof may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other similar Laws relating to or affecting the enforcement of creditors' rights generally and legal principles of general applicability governing the availability of equitable remedies (whether considered in a proceeding in equity or at Law or under applicable legal codes).

3.3 Capitalization.

(a) All of the issued and outstanding Equity Interests of each member of the Company Group are duly authorized, validly issued and are fully paid and nonassessable, and none of the issued and outstanding Equity Interests of any member of the Company Group are subject to or were issued in violation of any applicable securities Laws, purchase option, call option, right of first refusal, preemptive right, subscription right or any similar right under any provision of applicable Law, the Governing Documents of the applicable Company or any Contract to which the Company is a party or by which the Company or its respective properties or assets are bound. As of the date hereof, all of the issued and outstanding Equity Interests of the Company are held of record and beneficially owned by the Persons set forth on Schedule 3.3(b).

(b) Schedule 3.3(b) sets forth for each member of the Company Group the classes and amounts of its authorized ownership interests, the amount of its issued or outstanding Equity Interests, and the record owners of its issued and outstanding Equity Interests. Except as set forth on Schedule 3.3(b), there are no Equity Interests of any member of the Company Group issued, reserved for issuance or outstanding.

(c) Except as set forth on Schedule 3.3(c), there are no outstanding or authorized options, warrants, purchase rights, subscription rights, conversion rights, exchange rights or other contracts or commitments that could require any member of the Company Group to issue, sell or otherwise cause to become outstanding any Equity Interests. Except as set forth on Schedule 3.3(c), there is no outstanding or authorized equity appreciation, phantom stock, profit participation or similar rights with respect to any member of the Company Group.

3.4 Non-contravention. Neither the execution and delivery of this Agreement, nor the consummation of the Transactions, will (a) violate any Laws to which any member of the Company Group is subject, (b) violate any provision of the Governing Documents of any member of the Company Group, or (c) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any Person the right to accelerate, terminate, modify or cancel, require any notice or consent under (other than notices and consents described in Schedule 7.1(c)), or result in the imposition of any Lien (other than Permitted Liens) upon any of the assets of any member of the Company Group under any Material Contract, except in each case of clauses (a) or (b) where the violation, conflict, breach, default, acceleration, termination, modification, cancellation, failure to give notice or obtain consent or Lien would not have a Company Material Adverse Effect.

3.5 Financial Statements.

(a) Schedule 3.5(a) sets forth copies of: (i) the unaudited consolidated balance sheet of the Company Group as of March 31, 2019, and the related unaudited consolidated statements of operations of the Company Group for the fiscal year then ended (the "Annual Financial Statements"); and (ii) the unaudited consolidated balance sheet (the "Interim Balance Sheet") of the Company Group as of October 31, 2019 (the "Balance Sheet Date") and the related unaudited consolidated statements of operations of the Company Group for the seven (7) month period then ended (the "Interim Financial Statements" and, collectively with the Annual Financial Statements, the "Financial Statements"). The Company Group will cooperate with Buyer to provide access to the financial information reasonably requested by Buyer and Buyer's auditors for the preparation of audited Annual Financial Statements of the Company Group.

(b) The Financial Statements: (i) fairly present, in all material respects, the financial position of the Company Group and the consolidated results of operations of the Company Group as of the respective dates thereof and for the periods covered thereby; and (ii) except as set forth in Schedule 3.5(b), were prepared in accordance with books, records and accounting principles and practices of the Company Group and based on the Company Group's materiality thresholds, provided that the Financial Statements (W) only include financial information for the periods indicated therein, (X) do not include footnote disclosures and other presentation items, (Y) were not prepared on a stand-alone basis and do not reflect all stand-alone costs of doing business or all corporate overhead expenses and (Z) are subject to normal year-end adjustments.

3.6 Absence of Undisclosed Liabilities. Except as set forth on Schedule 3.6, the Company Group has no material liabilities in excess of $100,000.00, except for liabilities (i) reflected or reserved against in the Financial Statements, (ii) liabilities incurred in the ordinary course of business since the Balance Sheet Date, (iii) liabilities to perform in accordance with their terms, any Contract to which any member of the Company Group is a party other than liabilities arising from any material breach of any such Contract, (iv) liabilities in respect of Transaction Expenses or incurred in connection with the transactions contemplated by this Agreement, (v) liabilities disclosed or referred to in the Seller Disclosure Schedules; and (vi) liabilities that, individually or in the aggregate, would not have, or would not reasonably be expected to have, a Company Material Adverse Effect.

3.7 Subsequent Events; No Material Adverse Effect.

(a) Except for this Agreement and as set forth in Schedule 3.7, since the Balance Sheet Date, there has not been:

(i) any Company Material Adverse Effect;

(ii) any material amendment to the Governing Documents of any member of the Company Group;

(iii) material change in any method of accounting or accounting practice of the Company, except as required by GAAP or applicable Law or disclosed in the notes to the Financial Statements;

(iv) adoption of any plan of merger, consolidation, reorganization, liquidation or dissolution or filing of a petition in bankruptcy under any provisions of federal or state bankruptcy Law or consent to the filing of any bankruptcy petition against it under any similar Law; or

(v) any agreement to do any of the foregoing, or any action or omission that would result in any of the foregoing.

3.8 Legal Compliance. Except as set forth on Part I of Schedule 3.8 as of the date of this Agreement, (a) each member of the Company Group holds all material permits, licenses, approvals, certificates and other authorizations, including Medicare and Medicaid provider numbers, of and from all applicable Governmental Authorities necessary for the lawful conduct of the Business (the "Material Permits"); and (b) the Business is being operated in material compliance with all applicable Laws, provided, however, that with respect to the Company Group's compliance with Health Care Laws or Privacy Laws, the representations in Section 3.8(b) shall not apply. The Company Group's compliance with Health Care Laws or Privacy Laws are covered exclusively by the representations in Sections 3.22 *(Healthcare Compliance)* and 3.23 (*HIPAA)* below. Part II of Schedule 3.8 includes a list of the Material Permits held or applied for by any member of the Company Group.

3.9 Tax Matters. Except as set forth on Schedule 3.9:

(a) Each member of the Company Group has timely filed all material Tax Returns required to be filed by it (taking into account applicable extensions), and each such Tax Return is true, correct and complete in all material respects and has been prepared in material compliance with all applicable Laws. All Taxes (whether or not shown as due thereon) of each member of the Company Group have been timely paid by such member of the Company Group or adequate provision therefor has been made in the Financial Statements.

(b) All material Taxes required to be deducted or withheld by any member of the Company Group have been deducted and withheld and, to the extent required, have been timely paid to the proper Tax Authority.

(c) No member of the Company Group (i) is party to or bound by any Tax allocation, sharing or indemnity contract (other than any such contract the principal purpose of which is not Taxes) or (ii) has any outstanding contracts, consents or waivers extending the statutory period of limitations applicable to the collection or assessment of any Taxes.

(d) No member of the Company Group is subject to any claims, deficiencies or assessments of Taxes asserted or threatened in writing by any Tax Authority that remain unpaid or otherwise unresolved.

(e) Except for Permitted Liens, there are no Tax liens upon any property or assets of any member of the Company Group.

(f) No member of the Company Group has participated in any "listed transaction" within the meaning of Treasury Regulation Section 1.6011-4(b)(2).

Notwithstanding anything to the contrary in this Agreement, no member of the Company Group nor Seller makes any representation or warranty as to the amount, limitation on, existence or availability in any Tax period (or portion thereof) beginning after the Closing Date of any net operating loss, net operating loss carryforward, capital loss, capital loss carryforward, Tax credit, Tax credit carryforward or other Tax attribute of any member of the Company Group from a Tax period (or portion thereof) ending on or before the Closing Date.

3.10 Real Property.

(a) No member of the Company Group owns any real property.

(b) Schedule 3.10(b) sets forth the landlord, tenant and address of any real property leased by a member of the Company Group, and a list of the leases and security deposit amounts paid pursuant to such leases, if any, in respect of such leased real property (the "Real Property Leases"). The Company Group has made available to Buyer a copy of each such Real Property Lease.

(c) Except as set forth on Schedule 3.10(c), (i) each Real Property Lease is the valid and binding obligation of the applicable member of the Company Group, enforceable in accordance with its terms subject to proper authorization and execution of such Real Property Lease by the other party thereto and the Laws of general application relating to public policy, bankruptcy, insolvency and the relief of debtors and rules of Law governing specific performance, injunctive relief and other equitable remedies; and (ii) neither the applicable member of the Company Group nor, to the Seller's Knowledge, any other party to such Real Property Lease is in material default under, or in material breach or violation of, such Real Property Lease.

3.11 Personal Property. Except as disposed of in the ordinary course of business or as set forth on Schedule 3.11, the Company Group has good and marketable title to, or a valid leasehold interest in, all material items of tangible personal property reflected on the Financial Statements as owned or leased by the Company Group, free and clear of any Liens (other than Permitted Liens).

3.12 Intellectual Property.

(a) Schedule 3.12 sets forth a list of all (i) Intellectual Property that is registered with a Governmental Authority, owned by the Company Group, and material to the operation of the Business as of the date hereof ('Scheduled Intellectual Property") and (ii) written license agreements that are material to the operation of the Business as of the date hereof with respect to any software that is licensed by or to any member of the Company Group (*other than* "off the shelf" licenses pursuant to which such Intellectual Property is made available free of charge or through regular commercial distribution channels on standard terms and conditions). To the Seller's Knowledge, as of the Closing Date, the Company Group owns, licenses or otherwise possesses rights to use, each item of Scheduled Intellectual Property; provided, that the foregoing sentence shall not be interpreted or construed as a representation or warranty

relating to infringement, misappropriation, dilution or other violation of any third party Intellectual Property.

(b) Except as would not be material to the Company Group, taken as a whole, (i) to the Seller's Knowledge, no member of the Company Group has infringed or misappropriated, or is now infringing or misappropriating, the Intellectual Property rights of any third party; (ii) there is no claim pending or, to the Seller's Knowledge, claim threatened in writing against any member of the Company Group with respect to the alleged infringement or misappropriation by such member of the Company Group of any Intellectual Property rights of any third party; and (iii) there is no currently pending claim by any member of the Company Group against a third party with respect to the alleged infringement or misappropriation of the Scheduled Intellectual Property.

(c) All Scheduled Intellectual Property used in the Business as of the date hereof is free and clear of all Liens (other than Permitted Liens).

(d) Except as would not have a Company Material Adverse Effect, each member of the Company Group has taken commercially reasonable steps to protect its rights in the material trade secrets of the Business as of the date hereof, excluding any information that such member of the Company Group, in the exercise of its business judgment, determined was of insufficient value to protect as a trade secret.

3.13 Contracts.

(a) Except as listed or described on Schedule 3.13, as of the date hereof, no member of the Company Group is bound by any Contracts that are of a type described below (such Contracts listed on Schedule 3.13 of the Seller Disclosure Schedules are referred to herein as the "Material Contracts"):

(i) any Contract pursuant to which a member of the Company Group is required to make aggregate payments in excess of Seventy-Five Thousand Dollars ($75,000.00) in any fiscal year (not taking into account any renewals or extensions of the term thereof, automatic or otherwise);

(ii) any employment agreement that provides for annual base salary exceeding One Hundred Thousand Dollars ($100,000.00) per year and which cannot be terminated by a member of the Company Group without material severance or other material penalty and without notice of thirty (30) days or more;

(iii) any collective bargaining agreement with any Union;

(iv) any Contract for capital expenditures or the acquisition or construction of fixed assets in excess of Two Hundred Fifty Thousand Dollars ($250,000.00);

(v) any Contract relating to the borrowing of money, or the guaranty of another Person's borrowing of money or other obligation, including all notes, mortgages, indentures and other obligations, guarantees of performance, agreements and instruments for or relating to any lending or borrowing (other than advances to employees for expenses in the ordinary course of business or transactions with customers on credit in the ordinary course of business);

(vi) any Contract granting any Person a material Lien on all or any part of the material assets of a member of the Company Group, other than Liens which will be released at or prior to the Closing and Permitted Liens;

(vii) any Contract under which a member of the Company Group has granted or received a material license or sublicense or under which it is obligated to pay or has the right to receive an annual royalty, license fee or similar payment in an amount in excess of Seventy-Five Thousand Dollars ($75,000.00), other than Contracts with the customers of the Company Group or licenses for software available through regular commercial distribution channels on standard terms and conditions and reseller agreements entered into in the ordinary course of business;

(viii) any Contract involving the operation of any joint venture or partnership entity;

(ix) any Contract granting any Person "most favored nation", "most favored customer", or similar price or term protections or other rights obligating the Company to change the conditions of such Contract based on better terms or conditions provided to other Persons; or

(x) any Contract containing a covenant of a member of the Company Group not to compete in any line of business or with any Person in any geographical area.

For the avoidance of doubt, Material Contracts shall not include any Contracts to which Seller or any Affiliate of Seller, other than a member of the Company Group, is party or is otherwise bound.

(b) The Company Group has made available to Buyer a copy of or otherwise disclosed each written Material Contract. Each Material Contract is a valid and binding obligation of the applicable member of the Company Group that is a party to such Material Contract, enforceable in accordance with its terms and conditions, subject to Laws of general application relating to public policy, bankruptcy, insolvency and the relief of debtors and rules of Law governing specific performance, injunctive relief and other equitable remedies. Neither the applicable member of the Company Group nor, to the Knowledge of the Seller, any other party to such Material Contract is in material breach or material default of any material term under such Material Contract, and to the Knowledge of the Seller, no event has occurred which, with the passage of time or the giving of notice or both, would constitute a default or breach of any material term under any Material Contract, in each case, except for such breaches and defaults that would not have a Company Material Adverse Effect.

3.14 Litigation. Except as set forth on Schedule 3.14, or as would not be material to the Company Group, taken as a whole, as of the date of this Agreement: (a) there are no Legal Proceedings pending or, to the Seller's Knowledge, threatened in writing against any member of the Company Group; and (b) no member of the Company Group is subject to any judgment, order or decree of any Governmental Authority.

3.15 Employee Benefits.

(a) Schedule 3.15(a) lists each Employee Plan currently maintained, sponsored or contributed to by any member of the Company Group for which any such member has any material liability (each, a "Company Plan").

(b) Each Company Plan has been maintained, funded and administered in accordance with the terms of such Company Plan and the material requirements of applicable Law, including ERISA and the Code, except as would not have a Company Material Adverse Effect.

(c) Each Company Plan that is intended to meet the requirements of a "qualified plan" under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service or is in the form of a prototype or volume submitter document that is the subject of a favorable opinion letter from the Internal Revenue Service.

(d) Except as set forth on Schedule 3.15(d), no Company Plan is subject to Title IV of ERISA or Code § 412 or is a Multiemployer Plan or provides for post-employment health benefits other than as required by Law.

(e) The Company has made available to Buyer copies of the following, as applicable, with respect to the Company Plans: current plan documents and the most recent summary plan description provided to participants, the most recent determination opinion letter received from the Internal Revenue Service, and the most recent annual report (Form 5500).

(f) As of the date of this Agreement, all contributions (including all employer contributions and employee salary reduction contributions) required to have been made under any of the Company Plans to any funds or trusts established thereunder or in connection therewith have been made by the due date thereof (including any valid extension), except as would not have a Company Material Adverse Effect.

(g) No material actions, claims (other than routine benefit claims) or lawsuits have been asserted or instituted against any Company Plan or related trust, sponsor, administrator or fiduciary during the applicable ownership period, nor to the Seller's Knowledge are there facts that could reasonably be expected to form the basis for any such action, claim or lawsuit.

(h) Except as set forth on Schedule 3.15(h), with respect to any member of the Company Group, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby, either alone or in connection with any other event, will (i) accelerate the timing of vesting, funding or payment, or increase the amount or value, of any compensation or benefits to any current or former employee of any member of the Company Group or (ii) give rise to payments or benefits that would be nondeductible to the payor under Section 280G of the Code or that would result in an excise Tax on any recipient under Section 4999 of the Code.

3.16 Environmental Matters. Each member of the Company Group is complying, in all material respects, with all applicable Environmental Laws. No member of the Company Group has received any written notice regarding any actual or alleged unresolved violation of Environmental Law, or any unresolved liability arising under Environmental Laws, in each case relating to the Business as of the date hereof, the subject matter of which would have a Company Material Adverse Effect.

3.17 Labor Matters. No member of the Company Group is party to or bound by any collective bargaining agreement or other Contract with a union, works council or labor organization (collectively, "Union"). As of the date of this Agreement, there are no pending or, to the Seller's Knowledge, threatened, material arbitrations, material grievances, labor disputes, strikes, picketing activities, boycotts, work stoppages or slowdowns against or affecting any member of the Company Group. Each member of the Company Group is in compliance, in all material respects, with all applicable Laws governing the employment of labor.

3.18 Insurance Policies. No member of the Company Group has received any written notice of pending cancellation of, material premium increase with respect to, or material alteration of coverage under, any insurance policy maintained by or for the Company Group. Each insurance policy maintained by or for the Company Group is fully paid or current with regard to payment.

3.19 Affiliated Transactions. Except as set forth on Schedule 3.19, or for employment and equity agreements and arrangements entered into with any member of the Company Group, no officer, director or Affiliate of any member of the Company Group is a party to any Material Contract or material transaction with any member of the Company Group.

3.20 Material Customers and Material Suppliers.

(a) Schedule 3.20(a) sets forth the ten (10) largest customers (measured by revenue) of the Company Group, taken as a whole, for each of the fiscal year ended March 31, 2019 (the "Material Customers").

(b) Schedule 3.20(b) sets forth the ten (10) largest suppliers, vendors, manufacturers or licensors (measured by dollar amounts paid by the Company Group in the fiscal year) of the Company Group, taken as a whole, as of the fiscal year ended March 31, 2019 (the "Material Suppliers").

(c) Except as set forth on Schedule 3.20(c), since January 1, 2018, no Material Customer or Material Supplier, has canceled, terminated, or materially modified its Contracts with a member of the Company Group, or has proposed or provided written notice to do the same to a member of the Company Group.

3.21 Brokers' Fees. Other than to Broker, no member of the Company Group has any liability to pay any fees, costs or commissions to any broker, finder or similar agent with respect to the transactions contemplated by this Agreement.

3.22 Healthcare Compliance.

(a) Schedule 3.22(a) sets forth any matters contrary to the following representation (other than routine, ordinary course billing reviews which would not reasonably be expected to result in refunds or Damages in excess of Fifty Thousand Dollars ($50,000.00) for all claims related to the action, demand, requirement or investigation): Since January 1, 2014 (i) the operations of each member of the Company Group, have been in material compliance with all Health Care Laws applicable to such members, their products and their properties or other assets, and each member of the Company Group has maintained all material records required to be maintained by such Health Care Laws; (ii) no member of the Company Group has received any written communication regarding any actual or suspected violation of any Health Care Laws by any member of the Company Group; and (iii) no action, demand, requirement or investigation by any Governmental Authority under any requirement arising under any Health Care Law has occurred during the last five (5) years, is pending or, to the Seller's Knowledge, is threatened.

(b) Schedule 3.22 (b) sets forth any matters contrary to the following representation (except with respect to processing errors which would not reasonably be expected to result in refunds or Damages in excess of Fifty Thousand Dollars ($50,000) for all errors related to such report, document, claim, notice or approval): Since January 1, 2014, all material reports, documents, claims, notices or approvals required to be filed, obtained, maintained or furnished to any Governmental Authority by any member of the Company Group have been so filed, obtained, maintained or furnished, and all such reports, documents, claims and notices were complete and correct in all material respects on the date filed (or were corrected in or supplemented by a subsequent filing).

(c) Schedule 3.22(c) sets forth any matters contrary to the following representation (other than routine ordinary course billing reviews or mistakes which would not reasonably be expected to result in refunds or Damages in excess of Fifty Thousand Dollars ($50,000) for all claims related to a

third party payor): Each member of the Company Group and each of their physical locations and sites have the requisite provider numbers and are in material compliance with all Laws and contractual obligations required to bill the Medicare program (to the extent any such entity participates in the Medicare program and such location requires enrollment), the respective Medicaid program in the state or states in which such entity operates, and all other third party payors that any member of the Company Group currently bills. Schedule 3.22(c) sets forth any matters contrary to the following representation (other than routine, ordinary course billing reviews which would not reasonably be expected to result in refunds or Damages in excess of Fifty Thousand Dollars ($50,000.00) for all claims related to a third party payor): there is no investigation, audit, claim review, or other action pending, or to the Knowledge of the Seller, threatened, relating to any offense of a third party payor program or which could result in a revocation, suspension, termination, probation, restriction, limitation, or non-renewal of any provider number or result in the exclusion of any member of the Company Group from participation in any third party payor program. Schedule 3.22(c) sets forth any matters contrary to the following representation (other than routine ordinary course billing reviews or mistakes which would not reasonably be expected to result in refunds or Damages in excess of Fifty Thousand Dollars ($50,000) for all claims related to a third party payor): no member of the Company Group has billed or received any payment or reimbursement in excess of amounts allowed by any Health Care Law or other Law or payor requirement.

(d) The Parties agree that the Fifty Thousand Dollar ($50,000.00) thresholds excluded from disclosure on the above-referenced in Schedules 3.22 (a), (b) and (c) relate only to the substance of items scheduled and shall not qualify the representation made and shall be disregarded for purposes of determining whether a breach of the representation has occurred or for calculating Damages for any breach of such representations pursuant to ARTICLE 9.

(e) Except as set forth on Schedule 3.22(e), no member of the Company Group is a party to any Contract with any Referral Source, to provide services, lease space, lease equipment or engage in any other venture or activity, other than agreements which are in compliance with all applicable Health Care Laws. No member of the Company Group, directly or indirectly has: (i) offered or paid any remuneration, in cash or in kind, to, or made any financial agreements with, any past, present or potential patient, supplier, medical staff member, contractor, third party payor, or Referral Source of the Company Group in order to illegally obtain business or payments from such Person; (ii) given or agreed to give, or has any knowledge that there has been made or that there is any illegal agreement to make, any illegal gift or gratuitous payment of any kind, nature or description (whether in money, property or services) to any past, present or currently identified potential patient, supplier, contractor, third party payor, Referral Source, or any other Person; (iii) established or maintained any unrecorded fund or asset for any purpose or made any misleading, false or artificial entries on any of its books or records for any reason; or (iv) made, or agreed to make, or has any knowledge that there has been made or that there is any agreement to make, any payment to any Person with the intention or understanding that any part of such payment would be used or was given for any purpose other than that described in the documents supporting such payment.

(f) There are no Medicare, Medicaid, or other third party payor termination proceedings underway with respect to any member of the Company Group.

(g) The members of the Company Group have established and implemented a corporate compliance plan, including policies and procedures and a code of ethics, to promote compliance and detect non-compliance of the Company Group and their respective directors, officers and employees with all applicable Health Care Laws.

(h) The compensation paid or to be paid by any member of the Company Group to any Referral Source is fair market value for the services and items actually provided by such Person, not taking into account the value or volume of referrals or other business generated by such Person for the members of the Company Group.

(i) No member of the Company Group or any of the officers, directors, or employees of the members of the Company Group: (i) has been charged with or convicted of any criminal offense relating to the delivery of an item or service or the submission of a claim for reimbursement under any Government Health Care Program; (ii) has been debarred, excluded or suspended from participation in any Government Health Care Program; (iii) has had a civil monetary penalty assessed against it, him or her under Section 1128A of the Social Security Act; (iv) is currently listed on the General Services Administration or Office of Inspector General published list of parties excluded from federal procurement programs and non-procurement programs; or (v) is a party to, or bound by, an individual integrity agreement, corporate integrity agreement, deferred prosecution agreement, or other formal or informal agreement with any Governmental Authority concerning compliance with Health Care Laws.

3.23 HIPAA. Since January 1, 2014, each member of the Company Group has used and disclosed Protected Health Information (as defined in 45 C.F.R. § 160.103) to perform functions, activities or services only in accordance with the limitations set forth in the Privacy Laws, and, to the extent applicable, in accordance with limitations set forth in third party agreements to which any member of the Company Group is a party. No member of the Company Group has received any written notice, communication, or information from any Governmental Authority or any other Person regarding, any actual, alleged, possible, or potential violation of, or failure of any member of the Company Group to comply with, the Privacy Laws.

3.24 Fraud. There has been no Fraud that would reasonably be expected to materially and adversely affect the Company Group.

3.25 No Other Representations and Warranties. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS ARTICLE 3 AS QUALIFIED BY THE SCHEDULES AND SELLER DISCLOSURE SCHEDULES, NO MEMBER OF THE COMPANY GROUP MAKES ANY EXPRESS OR IMPLIED REPRESENTATIONS OR WARRANTIES IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED HEREBY, AND EACH MEMBER OF THE COMPANY GROUP HEREBY DISCLAIMS ANY OTHER REPRESENTATION OR WARRANTY OF ANY KIND OR NATURE, EXPRESS OR IMPLIED, NOTWITHSTANDING THE DELIVERY OR DISCLOSURE TO BUYER OR ANY OF ITS DIRECTORS, MANAGERS, OFFICERS, EMPLOYEES, AGENTS OR REPRESENTATIVES OF ANY DOCUMENTATION OR OTHER INFORMATION (INCLUDING ANY FINANCIAL PROJECTIONS OR OTHER SUPPLEMENTAL DATA). WITHOUT LIMITING THE FOREGOING, BUYER SHALL ACQUIRE THE BUSINESS AND THE COMPANY GROUP WITHOUT ANY REPRESENTATION OR WARRANTY AS TO MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE, IN AN "AS IS" CONDITION AND ON A "WHERE IS" BASIS, EXCEPT AS OTHERWISE EXPRESSLY REPRESENTED OR WARRANTED IN THIS ARTICLE 3 OR ARTICLE 4 AS QUALIFIED BY THE SCHEDULES AND SELLER DISCLOSURE SCHEDULES. NOTWITHSTANDING ANYTHING TO THE CONTRARY, NO MEMBER OF THE COMPANY GROUP SHALL BE DEEMED TO MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO (A) ANY PROJECTIONS, ESTIMATES OR BUDGETS HERETOFORE DELIVERED TO OR MADE AVAILABLE TO BUYER OR ANY OF ITS AFFILIATES, COUNSEL, ACCOUNTANTS OR ADVISORS OF FUTURE REVENUES, EXPENSES OR EXPENDITURES OR FUTURE RESULTS OF OPERATIONS OF ANY MEMBER OF THE COMPANY GROUP OR ANY OTHER PERSON OR (B) EXCEPT AS EXPRESSLY COVERED BY A SPECIFIC

REPRESENTATION AND WARRANTY CONTAINED IN THIS ARTICLE 3 OR ARTICLE 4, ANY OTHER INFORMATION OR DOCUMENTS (FINANCIAL OR OTHERWISE) MADE AVAILABLE TO BUYER OR ANY OF ITS AFFILIATES, COUNSEL, ACCOUNTANTS OR ADVISORS WITH RESPECT TO ANY MEMBER OF THE COMPANY GROUP, SELLER OR THE TRANSACTIONS CONTEMPLATED HEREBY.

## ARTICLE 4
## REPRESENTATIONS AND WARRANTIES OF THE SELLER

As an inducement to Buyer to enter into this Agreement, Seller represents and warrants to Buyer that:

4.1 Authorization. Seller has all requisite power and authority to execute and deliver this Agreement, and to perform its obligations hereunder and to consummate the Transactions. The execution and delivery of this Agreement by Seller and the consummation by Seller of the Transactions have been duly authorized by all necessary action, and no other proceedings on the part of Seller is necessary to authorize this Agreement or to consummate the Transactions. This Agreement has been duly executed and delivered by Seller and, assuming the due authorization, execution and delivery hereof by the other Parties hereto, constitutes the legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, except as enforcement hereof may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other similar Laws relating to or affecting the enforcement of creditors' rights generally and legal principles of general applicability governing the availability of equitable remedies (whether considered in a proceeding in equity or at law or under applicable legal codes).

4.2 No Conflict; Required Filings and Consents. The execution and delivery of this Agreement by Seller does not, and the consummation of the Transactions will not (a) conflict with or violate the certificate of incorporation and bylaws or other equivalent organizational documents, in each case as amended or restated to date, of Seller, (b) conflict with or violate any Laws applicable to Seller or by which its assets or property is bound or subject, (c) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, acceleration or cancellation of, or require payment under any of the properties or assets of Seller pursuant to, any note, bond, mortgage, indenture, Contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Seller is a party or by which Seller or its assets or property is bound or subject or (d) require Seller to obtain any consent, license, permit, approval, waiver, authorization or order of, or to make any filing with or notification to, any Governmental Authority or third Person, except for compliance with and filings, notices, permits, authorizations, consents and approvals that may be required under any Competition Laws.

4.3 Title. Seller is the record and beneficial owner of all the Acquired Equity, and Seller has good and marketable title to the Acquired Equity, free and clear of all Liens. Seller has full right, power and authority to transfer and deliver to Buyer valid title to the Acquired Equity, free and clear of all Liens.

4.4 No Brokers. Other than the Broker, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the Transactions based upon arrangements made by or on behalf of Seller.

4.5 No Other Representations and Warranties. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS ARTICLE 4, AS QUALIFIED BY THE SCHEDULES AND SELLER DISCLOSURE SCHEDULES, SELLER MAKES NO EXPRESS OR IMPLIED REPRESENTATIONS OR WARRANTIES IN CONNECTION WITH THE TRANSACTIONS

CONTEMPLATED HEREBY, AND SELLER HEREBY DISCLAIMS ANY OTHER REPRESENTATION OR WARRANTY OF ANY KIND OR NATURE, EXPRESS OR IMPLIED, NOTWITHSTANDING THE DELIVERY OR DISCLOSURE TO BUYER OR ANY OF ITS DIRECTORS, MANAGERS, OFFICERS, EMPLOYEES, AGENTS OR REPRESENTATIVES OF ANY DOCUMENTATION OR OTHER INFORMATION (INCLUDING ANY FINANCIAL PROJECTIONS OR OTHER SUPPLEMENTAL DATA). WITHOUT LIMITING THE FOREGOING, BUYER SHALL ACQUIRE THE BUSINESS AND THE COMPANY GROUP WITHOUT ANY REPRESENTATION OR WARRANTY AS TO MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE, IN AN "AS IS" CONDITION AND ON A "WHERE IS" BASIS, EXCEPT AS OTHERWISE EXPRESSLY REPRESENTED OR WARRANTED IN ARTICLE 3 OR THIS ARTICLE 4, AS QUALIFIED BY THE SCHEDULES AND SELLER DISCLOSURE SCHEDULES. NOTWITHSTANDING ANYTHING TO THE CONTRARY, SELLER SHALL NOT BE DEEMED TO MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO (A) ANY PROJECTIONS, ESTIMATES OR BUDGETS HERETOFORE DELIVERED TO OR MADE AVAILABLE TO BUYER OR ANY OF ITS AFFILIATES, COUNSEL, ACCOUNTANTS OR ADVISORS OF FUTURE REVENUES, EXPENSES OR EXPENDITURES OR FUTURE RESULTS OF OPERATIONS OF ANY MEMBER OF THE COMPANY GROUP OR ANY OTHER PERSON OR (B) EXCEPT AS EXPRESSLY COVERED BY A SPECIFIC REPRESENTATION AND WARRANTY CONTAINED IN THIS ARTICLE 4, ANY OTHER INFORMATION OR DOCUMENTS (FINANCIAL OR OTHERWISE) MADE AVAILABLE TO BUYER OR ANY OF ITS AFFILIATES, COUNSEL, ACCOUNTANTS OR ADVISORS WITH RESPECT TO ANY MEMBER OF THE COMPANY GROUP, SELLER OR THE TRANSACTIONS CONTEMPLATED HEREBY.

**ARTICLE 5**
REPRESENTATIONS AND WARRANTIES OF BUYER

As an inducement to each member of the Company Group and the Seller to enter into this Agreement, Buyer represents and warrants to Seller and the members of the Company Group that:

5.1 Organization and Qualification. Buyer (a) is a legal entity duly organized, validly existing and in good standing under the Laws of the jurisdiction of its organization, (b) has the requisite corporate or other organizational power and authority necessary to own, lease and operate its properties and to carry on its business as it is now being conducted and (c) is duly qualified or licensed and in good standing to do business in each jurisdiction in which the nature of the business conducted by it or the ownership or leasing of its properties makes such qualification or license necessary.

5.2 Authorization. Buyer has all requisite corporate power and authority to execute and deliver this Agreement and each other agreement contemplated hereby to which it is a party, and to perform its obligations hereunder and to consummate the Transactions. The execution and delivery of this Agreement by Buyer and the consummation by Buyer of the Transactions has been duly authorized by all necessary corporate action and, except as contemplated by this Agreement, no other corporate proceedings on the part of Buyer are necessary to authorize this Agreement or to consummate the Transactions. This Agreement has been duly executed and delivered by Buyer and, assuming the due authorization, execution and delivery hereof by the Seller and the Company Group, constitutes the legal, valid and binding obligation of Buyer, enforceable against Buyer in accordance with its terms, except as enforcement hereof may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other similar Laws relating to or affecting the enforcement of creditors' rights generally and legal principles of general applicability governing the availability of equitable remedies (whether considered in a proceeding in equity or at Law or under applicable legal codes).

5.3 Non-contravention.

(a) Neither the execution and delivery of this Agreement, nor the consummation of the Transactions, will (i) violate any Laws to which Buyer is subject, (ii) violate any provision of Buyer's Governing Documents, or (iii) conflict with, result in a breach of, constitute a material default under, result in the acceleration of, create in any Person the right to accelerate, terminate, modify or cancel or require any notice or consent under, or result in the imposition of any Lien (other than Permitted Liens) upon any of the assets of Buyer, any agreement, contract, lease, license, instrument or other arrangement to which Buyer is a party or by which Buyer is bound or to which any of its assets is subject, except in each case of clause (i) or (iii) where the violation, conflict, breach, default, acceleration, termination, modification, cancellation, failure to give notice or obtain consent or Lien would not adversely affect or delay Buyer's performance under this Agreement or the consummation of the Transactions.

(b) Buyer is not required to give any notice to, make any filing with or obtain any authorization, consent or approval of any Governmental Authority in order to consummate the Transactions.

(c) Buyer is in compliance with and, to the knowledge of Buyer, is not under investigation with respect to, and has not been threatened to be charged with or given notice of any material violation of, any applicable Law. Buyer is in material compliance with any applicable permits, licenses or other similar approvals issued by any Governmental Authority, except as would not reasonably be expected to have a material adverse effect on Buyer.

5.4 Brokers' Fees. Buyer does not have any liability to pay, or to reimburse any other Person for payments of, any fees or commissions to any broker, finder or agent with respect to the transactions contemplated by this Agreement.

5.5 Litigation. There are no Legal Proceedings pending or threatened against Buyer that would adversely affect or delay Buyer's performance under this Agreement or the consummation of the Transactions.

5.6 Sufficient Funds. Buyer has the financial capability, and as of the time any payment is required to be made by Buyer hereunder, will have sufficient cash on hand necessary to consummate the transactions contemplated by this Agreement on the terms and subject to the conditions set forth herein, including the payment of the amounts due and payable by Buyer hereunder. The obligations of Buyer under this Agreement are not subject to any conditions regarding Buyer's, it's respective Affiliates', or any other Person's ability to obtain financing for the consummation of the transactions contemplated by this Agreement.

5.7 Solvency. Immediately following the Closing and after giving effect to the Transactions, Buyer will be Solvent, assuming the accuracy of the Company Group's representations in ARTICLE 3. For purposes of this Agreement, "Solvent" when used with respect to Buyer means that, as of any date of determination, (a) the Present Fair Salable Value of its assets will, as of such date, exceed its probable liabilities on existing debts as they become absolute and matured (including, in any event, payments that may become due under the debt instruments as a result of the Transactions), (b) Buyer will not have, as of such date, an unreasonably small amount of assets or capital for the business in which it is engaged or will be engaged and (c) Buyer will be able to pay its debts as they become absolute and matured, in the ordinary course of business. For purposes of the definition of "Solvent" (y) "debt" means liability on a right to payment, whether or not such a right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured, and (z) "Present Fair Salable Value" means the amount that may be realized if the aggregate assets of the Buyer

(including goodwill) are sold as an entirety with reasonable promptness in an arm's length transaction under present conditions for the sale of comparable business enterprises.

5.8 Condition of Business. Notwithstanding anything contained in this Agreement to the contrary, Buyer acknowledges and agrees that no member of the Company Group, the Seller nor any other Person is making any representations or warranties whatsoever, express or implied, at law or in equity, beyond those expressly given in ARTICLE 3 and ARTICLE 4, and Buyer is not relying on any other representations or warranties not expressly made in ARTICLE 3 and/or ARTICLE 4. Buyer acknowledges and agrees that, except for the express representations and warranties contained in ARTICLE 3 and ARTICLE 4, the Business and each member of the Company Group are being transferred on a "where is" and, as to condition, "as is" basis.

## ARTICLE 6
## CONDUCT PRIOR TO THE CLOSING

6.1 Conduct of Business.

(a) From the date hereof until the earlier of the Closing or the termination of this Agreement pursuant to its terms, and except as otherwise consented to in writing by Buyer (which consent shall not be unreasonably withheld, conditioned or delayed), Seller shall cause the Company Group to continue to conduct its business in the ordinary course and, to the extent consistent therewith, shall use commercially reasonable efforts to carry on and preserve intact its current business organization, keep available the services of its current officers and employees, and preserve its relationships with customers, licensors, licensees and others with whom the Company Group has contractual or other commercial relations in substantially the same manner as such relationships existed immediately prior to the date of this Agreement.

(b) From the date hereof until to the earlier of the Closing or the termination of this Agreement pursuant to its terms, except as expressly permitted or required by this Agreement or as otherwise consented to by the Buyer in writing (which consent shall not be unreasonably withheld, conditioned or delayed), no member of the Company Group shall:

(i) other than in the ordinary course of business, (A) enter into any Contract which would have constituted a Material Contract had such Contract been entered into prior to the date of this Agreement, or (B) materially and adversely amend any Material Contract;

(ii) split, combine or reclassify any Equity Interests of such Company, or issue any other securities in respect of, in lieu of or in substitution for any Equity Interests of such Company;

(iii) issue, grant, deliver or sell, or purchase, redeem or otherwise acquire, any Equity Interests or any securities convertible into such equity securities or options to acquire any such convertible securities;

(iv) amend or otherwise modify the Governing Documents of any member of the Company Group;

(v) acquire any Person or other business enterprise or division thereof (whether by merger, consolidation, sale of stock, sale of assets or otherwise);

(vi) sell, lease, convey or otherwise dispose of any assets of any member of the Company Group that are material to such Company, other than the sale or license of products in the ordinary course of business;

(vii) incur any Debt over Two Hundred Fifty Thousand Dollars ($250,000.00) or any Debt other than in ordinary course of business consistent with past practice;

(viii) grant any loans to others or purchase debt securities of others;

(ix) except as required by GAAP or in the ordinary course of business, revalue any of its material assets (whether tangible or intangible);

(x) other than in the ordinary course of business or as required by Law, make or change any material election in respect of Taxes, adopt or change any material accounting method in respect of Taxes, enter into any material closing agreement, settle any material claim or assessment in respect of Taxes with any Tax Authority or consent to any extension or waiver of the limitation period applicable to any claim or assessment in respect of Taxes with any Tax Authority; or

(xi) agree in writing to take any of the actions described in this Section 6.1(b).

(c) The Buyer acknowledges and agrees that (i) nothing contained in this Agreement shall give the Buyer, directly or indirectly, the right to control or direct the operations of any member of the Company Group prior to Closing, and (ii) during the period prior to Closing, each member of the Company Group shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over its operations.

6.2 Access and Information. From the date hereof through the Closing Date or the earlier termination of this Agreement pursuant to its terms, the Company Group shall, and the Seller shall cause each member of the Company Group to, (a) afford to Buyer and Buyer's officers, directors, employees, accountants, consultants, legal counsel, agents and other representatives (collectively, the "Buyer Representatives") reasonable access during normal business hours upon reasonable prior notice, to the directors, officers, employees, agents, properties, offices, facilities, books and records of each member of the Company Group and (b) furnish promptly to Buyer and the Buyer Representatives such information concerning the business, properties, Contracts, records and personnel (including financial, operating and other data and information) of the members of the Company Group as is prepared or compiled by such Company in the ordinary course of business and as may be reasonably requested from time to time by Buyer. Buyer shall treat all information obtained from the Company as "Evaluation Material" (as such term is defined in the Confidentiality Agreement) and Buyer shall continue to honor, and cause the Buyer Representatives to honor, its obligations under the Confidentiality Agreement. Notwithstanding the foregoing, neither the Seller nor any member of the Company Group shall be required to provide access to or to disclose information where such access or disclosure would jeopardize the attorney-client privilege of the Seller or a member or the Company Group, or would violate any Law applicable to the Seller or a member of the Company Group or the confidentiality provisions of any Contract to which the Seller or a member of the Company Group is a party or otherwise bound or where, in the good faith judgment of Seller or any member of the Company Group, such access or disclosure would be prohibited by Law.

**ARTICLE 7**
ADDITIONAL AGREEMENTS

7.1 Appropriate Actions; Consents; Filings.

(a) The Seller, Company Group and Buyer will each cooperate with each other and use commercially reasonable efforts (i) to take, or to cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under the Agreement, applicable Law or otherwise to consummate and make effective the Transactions, (ii) to obtain from any Governmental Authorities any consents, licenses, permits, waivers, approvals, authorizations or orders required to be obtained and to make any filings with or notifications or submissions to any Governmental Authority required to be made by such Person in connection with the authorization, execution and delivery of this Agreement and the consummation of the Transactions, and (iii) to make all necessary filings, make such notices, and make any other required submissions, with respect to this Agreement, that are necessary, proper or advisable under applicable Law or otherwise are reasonably required to obtain the Company Approvals and to comply with Law. Each Party shall cooperate fully with the other Party and its Affiliates in promptly seeking such consents, licenses, permits, waivers, approvals, authorizations or orders.

(b) The Seller and Buyer shall use commercially reasonable efforts to give all notices to, and obtain all consents from, all third parties that are described in Schedule 7.1(b); provided, however, that neither Seller nor any member of the Company Group shall be obligated to pay any consideration therefor; and, provided, further, Buyer shall not, and shall cause its Affiliates not to, contact or otherwise communicate with any third party that has a customer, vendor or other business relationship with any member of the Company Group regarding this Agreement or the transactions contemplated hereby without the prior written consent of the Seller.

(c) The Seller may give prompt notice to Buyer upon becoming aware of (i) any event or condition that might reasonably be expected to cause any of the representations or warranties set forth in ARTICLE 3 and/or ARTICLE 4 not to be true and correct at the Closing such that the conditions set forth in Sections 8.1 and 8.2 would not be satisfied or (ii) any material failure of the Seller or any member of the Company Group to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it under this Agreement. The Seller may also deliver a supplement to the Seller Disclosure Schedules (a "Supplemental Disclosure Schedule") to the Buyer with respect to any event(s), fact(s), circumstance(s), change(s), condition(s) or matter(s) first arising after the date of this Agreement or of which it became aware after the date hereof. Any disclosure in any such Supplemental Disclosure Schedule shall not be deemed to have cured any inaccuracy in or breach of any representation or warranty contained in this Agreement, including for purposes of the indemnification or termination rights contained in this Agreement or of determining whether or not the conditions set forth in Sections
8.1 and 8.2 have been satisfied; provided, however, that if Buyer has the right to, but does not elect to, terminate this Agreement within five (5) Business Days of its receipt of such Supplemental Disclosure Schedule, then Buyer shall be deemed to have irrevocably waived any right to terminate this Agreement with respect to such matter.

(d) Buyer will give prompt notice to the Company upon becoming aware of (i) any event or condition that might reasonably be expected to cause any of the representations or warranties set forth in ARTICLE 5 not to be true and correct at the Closing such that the conditions set forth in Sections 8.1 and 8.3 would not be satisfied, or (ii) any material failure of Buyer to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it under this Agreement.

(e) In the event that as of December 16, 2019, Buyer does not have a reasonable good faith belief, as determined on the advice of Buyer's auditors, that audited Annual Financial Statements of the Company Group will be completed by Buyer and its auditors on or before January 31, 2020, Buyer shall have the right to delay the Closing Date from the anticipated date of January 2, 2020 (with such Closing being effective as of 12:01 a.m. Eastern Time on January 1, 2020) to January 31, 2020 (with such Closing being effective as of 11:59 p.m. Eastern Time on January 31, 2020); provided all other conditions to Closing pursuant to ARTICLE 8 have been satisfied or waived (if permissible).

7.2 Confidentiality; Public Announcements.

(a) The Seller and Buyer each confirms that it has entered into the Confidentiality Agreement and that it is bound by, and will abide by, the provisions of the Confidentiality Agreement, the terms of which remain in full force and effect. If this Agreement is terminated, the Confidentiality Agreement will remain in full force and effect, and all copies of documents containing confidential information of a disclosing party will be returned by the receiving party to the disclosing party or be destroyed, as provided in the Confidentiality Agreement. No party shall issue or otherwise make any public announcement or communication pertaining to this Agreement or the Transactions without the prior consent of Buyer (in the case of the Seller) or the Seller (in the case of Buyer), except as required by applicable Law, provided that prior to making any such public announcement or communication, Buyer shall permit Seller to review and make comments to such public announcement or communication and Buyer shall consider any comments of Seller in good faith and use good faith efforts to incorporate such comments in the public announcement or communication.

(b) If the Buyer or any Affiliate of the Buyer is required to file any registration, report, statement or other documentation with the Securities and Exchange Commission or any other similar Governmental Authority (each, a "Public Filing"), including a Form 10-Q and Form 10-K, which describes or references the Transactions or the business or operations of any member of the Company Group prior to the Closing Date, or includes as an exhibit to such filing this Agreement or any other document executed in connection with the Transactions, then prior to making any such Public Filing with a Governmental Authority, Buyer shall permit Seller to review and make comments to the provisions of the Public Filing which relate to the Transactions or the business or operations of any member of the Company Group prior to Closing. Buyer shall consider any comments of Seller in good faith and use good faith efforts to incorporate such comments in the Public Filing. In the event that Seller shall request the redaction of certain sensitive information in any exhibit to be filed, then Buyer will cooperate with Seller in requesting that the Securities and Exchange Commission or other similar Governmental Authority consent to such redaction.

7.3 Exclusivity. Except as set forth in this Section 7.3, from and after the date hereof through the earlier of (a) termination of this Agreement in accordance with the terms hereof or (b) the Closing Date (the "Specified Time"), the Seller shall not, and shall cause its officers, directors, controlling persons, equity holders, employees, representatives, agents, advisors and Affiliates (collectively, the "Company Representatives") not to, directly or indirectly: (i) initiate, solicit, encourage or otherwise facilitate any inquiry, proposal, offer or discussion with any Person (other than Buyer and its Affiliates or representatives) concerning any Acquisition Proposal; (ii) furnish any information concerning the business, properties or assets of any member of the Company Group to any Person (other than Buyer and its Affiliates or representatives) in connection with an inquiry, proposal or offer for an Acquisition Proposal; or (iii) engage in discussions or negotiations with any party (other than Buyer and its Affiliates or representatives) concerning any such inquiry, proposal or offer for an Acquisition Proposal.

7.4 Employee Matters.

(a) As of the Closing Date, Buyer shall, or shall cause a member of the Company Group to, continue to employ each employee who is employed by the Company Group immediately prior to the Closing Date (each, a "Post-Transaction Employee"). For a period of at least one (1) year following the Closing Date, Buyer shall provide, or shall cause the Company Group to provide, each Post-Transaction Employee with a base salary or wage level, target bonus, commission, or other incentive bonus opportunities (the "Bonus Opportunities") and severance compensation which are substantially comparable in the aggregate to the salary or wage level, Bonus Opportunities and severance compensation to which such Post-Transaction Employee was entitled to receive immediately prior to the Closing Date. Nothing in this Agreement shall limit the ability of Buyer or the Company Group to terminate the employment of any Post-Transaction Employee at any time and for any reason, including without cause, subject to the terms of any applicable employment agreement.

(b) For a period of at least one (1) year following the Closing Date, Buyer shall provide, or shall cause the Company Group to provide, to each Post-Transaction Employee employee benefits, perquisites and other terms and conditions of employment that are substantially comparable in the aggregate to the employee benefits, perquisites and other terms and conditions of employment that are offered to similarly qualified employees of Buyer. Post-Transaction Employees shall receive credit for the purposes of eligibility to participate in and vesting under any plan or other program maintained by Buyer for service accrued or deemed accrued prior to the Closing Date with the Company Group. Additionally, Buyer shall waive, or cause to be waived, any limitations on benefits relating to any pre-existing conditions to the same extent such limitations are waived under any plan of Buyer or its Affiliates existing or to be adopted.

(c) In the event that the Closing occurs after December 31, 2019, Buyer will ensure that Post-Transaction Employees will receive credit for amounts paid toward their healthcare insurance deductible between January 1, 2020 and the Closing Date.

7.5 Name Change. Within thirty (30) days following the Closing Date, the Buyer shall change the entity name for McKesson Patient Care Solutions, Inc. to remove any reference to "McKesson." As promptly as practicable after such date, the Buyer shall file in all jurisdictions in which such is qualified to do business any documents necessary to reflect such change of name or to terminate its qualification therein. Following the Closing Date, Buyer shall also promptly cease using, and remove from all buildings and facilities occupied by Buyer or the Company Group, any and all references to "McKesson" or any trademarks, service marks, logos, or trade names of McKesson Corporation or any of its Affiliates.

7.6 Debt. Except as set forth on Schedule 7.6, Seller has no Debt other than Debt that will be paid in full prior to the Closing. Any Liens relating to the assets or properties of the Company Group shall immediately be released as of the Closing except for ordinary course equipment liens as referenced on Schedule 3.11.

7.7 Tax Matters.

(a) Tax Returns. The Seller (at the Seller's expense) shall prepare and file all Tax Returns for taxable periods ending on or before the Closing Date that are first due (giving effect to any valid extensions properly obtained) after the Closing Date (the "Seller Prepared Returns"). All Seller Prepared Returns shall be prepared and filed on a basis consistent with past practice and procedures for preparing similar Tax Returns and in a manner consistent with past practice and accounting methods for the treatment of specific items on similar Tax Returns, except as may be required by this Agreement or to the extent inconsistent with applicable Law. The Seller shall, as soon as reasonably practicable prior to

the filing thereof, provide the Buyer with a copy of any non-income Tax Seller Prepared Return for the Buyer's review and comment. The Seller shall consider in good faith any comments to such Seller Prepared Return that are requested by the Buyer reasonably in advance of the due date for filing thereof (giving effect to any valid extensions properly obtained). Subject to Section 7.7(h), the Buyer (at its expense) shall prepare and file all Tax Returns of each member of the Company Group for all Straddle Periods (the "Buyer Prepared Returns"). All Buyer Prepared Returns shall be prepared and filed on a basis consistent with past procedures of the applicable Company for preparing similar Tax Returns and in a manner consistent with past practice and accounting methods for the treatment of specific items on similar Tax Returns, except as may be required by this Agreement or to the extent inconsistent with applicable Law. The Buyer shall, as soon as reasonably practicable prior to the filing thereof, provide the Seller with a copy of any Buyer Prepared Return for the Seller's review and comment. The Buyer shall consider in good faith any comment to such Buyer Prepared Return that are requested by the Seller reasonably in advance of the due date for filing thereof (giving effect to any valid extensions properly obtained).

(b) Transfer Taxes. The Buyer shall pay all transfer, documentary, registration, sales, use and similar Taxes incurred in connection with and as a result of the Transactions and that are not based on net income, together with any related fees, penalties, interest and additions to such Taxes ("Transfer Taxes"). The Seller and Buyer shall cooperate in timely preparing and filing all Tax Returns as may be required to comply with the provisions of such Tax Laws. Each Party shall use its commercially reasonable efforts to avail itself of any available exemptions from any Transfer Taxes, and shall cooperate with the other Parties in timely providing any information and documentation that may be necessary to obtain such exemptions.

(c) Refunds. Buyer agrees to pay to the Seller the amount of any Pre-Closing Tax Refund, (i) promptly upon the receipt of such Pre-Closing Tax Refund or (ii) when used by Buyer or any of its Affiliates to credit an account with a Tax Authority or to offset any Taxes for any taxable period (or portion thereof) following the Closing Date. Upon the Seller's request, Buyer agrees to, and agrees to cause its Affiliates to, use commercially reasonable efforts to obtain any Pre-Closing Tax Refund and agrees to permit the Seller to participate in the efforts to obtain any Pre-Closing Tax Refund (and to assist Seller in obtaining any Pre-Closing Tax Refund). If, and to the extent that, any overpayment of Taxes previously paid by any member of the Company Group with respect to a Pre-Closing Tax Period (determined in accordance with Section 7.7(e) with respect to any Straddle Period) is used to reduce the Taxes in a taxable period (or portion thereof) following the Closing Date, then for the avoidance of doubt such overpayment of Taxes shall be a "Pre-Closing Tax Refund" for purposes of this Section 7.7(c).

(d) Tax Contest.

(i) In the event of any proposed audit, assessment, examination, claim or other controversy or proceeding relating to Tax matters pursuant to which Seller may incur an indemnification obligation under this Agreement (each, a "Tax Contest"). Buyer shall, or shall cause the Company to, within fifteen (15) days of becoming aware of such Tax Contest, notify the Seller in writing of such Tax Contest. Such written notice shall contain factual information (to the extent known) describing such Tax Contest in reasonable detail and shall be accompanied by copies of any notice or other documents received from any Tax Authority with respect to such Tax Contest. If Buyer fails to provide the Seller with such written notice and, as a result, the Seller is actually prejudiced by such failure, then the Seller shall be relieved of any indemnification obligation under this Agreement with respect to such Tax Contest. This Section 7.7(d) shall govern the notice, control and conduct of any Tax Contest and Section 9.5 shall not apply.

(ii) The Seller shall have the right (but not the obligation) to control any Tax Contest (at its own expense) that relates to one or more taxable periods ending on or before the Closing Date; provided, that (a) Seller will provide Buyer with written notice of its election to control such Tax Contest no later than fifteen (15) days after receiving written notice of such Tax Contest from Buyer, (b) the Seller will control such Tax Contest diligently and in good faith and Buyer will have the right (but not the obligation) to participate (at its own expense) in such Tax Contest as set forth in this Section 7.7(d)(ii), (c) the Seller will keep Buyer reasonably apprised of the initiation and status of such Tax Contest, and the Seller will consult with Buyer regarding such Tax Contest upon Buyer's request from time to time, (d) the Seller will provide to Buyer copies of all correspondence received from the applicable Tax Authority, (e) the Seller will provide to Buyer copies of, and the reasonable opportunity to comment on, any written materials to be provided to the applicable Tax Authority, including good faith consideration with respect to any such comments, (f) Buyer will have the right to be present at, and participate fully in, any meetings, conferences or appearances with respect to such Tax Contest, and (g) the Seller will not settle, compromise or abandon such Tax Contest without the prior written consent of Buyer (which consent shall not be unreasonably withheld, delayed or conditioned); provided, that if Buyer does not give its consent to any such requested settlement or compromise, the Seller shall not be liable for any amount arising from such Tax Contest above its portion of the settlement or compromise amount for which the Seller sought Buyer's consent.

(iii) Buyer shall control each Tax Contest (at its own expense) other than any Tax Contest controlled by the Seller pursuant to Section 7.7(d)(ii); provided, that (A) Buyer will control such Tax Contest diligently and in good faith, and the Seller will have the right (but not the obligation) to participate (at the Seller's expense) in such Tax Contest as set forth in this Section 7.7(d)(iii), (B) Buyer will keep the Seller reasonably apprised of the initiation and status of such Tax Contest, and Buyer will consult with the Seller regarding such Tax Contest upon Seller's request from time to time, (C) Buyer will provide to the Seller copies of all correspondence received from the applicable Tax Authority, (D) Buyer will provide to the Seller copies of, and the reasonable opportunity to comment on, any written materials to be provided to the applicable Tax Authority, including good faith consideration with respect to any such comments, (E) the Seller will have the right to be present at, and participate fully in, any meetings, conferences or appearances with respect to such Tax Contest, and (F) Buyer will not settle, compromise or abandon such Tax Contest without the prior written consent of the Seller (which consent shall not be unreasonably withheld, delayed or conditioned).

(e) Straddle Periods. For all purposes under this Agreement, the amount of any Taxes (or Tax refund or amount credited against Tax) attributable to the portion of any Straddle Period ending on the Closing Date shall: (i) in the case of any property Tax and other Tax imposed on a periodic basis without regard to income, receipts, sales, purchases or wages, be equal to the amount of such Tax for the entire Straddle Period multiplied by a fraction, the numerator of which is the number of days in the portion of such Straddle Period ending on the Closing Date and the denominator of which is the total number of days in such Straddle Period; and (ii) in the case of any other Taxes, be equal to the amount which would be payable based upon a hypothetical closing of the taxable year on the Closing Date; provided, that any item determined on an annual or periodic basis (including amortization and depreciation deductions) shall be allocated to the Pre-Closing Tax Period based on the relative number of days in such portion of the Straddle Period as compared to the number of days in the entire Straddle Period.

(f) Seller Tax Matters. Buyer will not take, agree to or otherwise initiate (or permit any Person to do the same) any Seller Tax Matter, without the prior written consent of the Seller (which consent shall not be unreasonable withheld, conditioned or delayed). For purposes of this Section 7.7(f) the term "Seller Tax Matter" shall mean (i) amending, re-filing or supplementing any Tax Return of any member of the Company Group for a Pre-Closing Tax Period, (ii) filing any Tax Return of any member

of the Company Group in any jurisdiction if the applicable member of the Company Group did not file a comparable Tax Return involving similar Tax items in such jurisdiction in the immediately preceding Tax period, (iii) extending or waiving any statute of limitations with respect to any Tax of any member of the Company Group; (iv) filing any ruling or similar request with any Tax Authority regarding any member of the Company Group that would affect a Pre-Closing Tax Period, (v) initiating or entering into any voluntary disclosure agreement or program with any Tax Authority regarding any Tax (whether asserted or unasserted) or Tax Return (whether filed or unfiled) of any member of the Company Group, (vi) making any Tax election with respect to any member of the Company Group with an effect on or before the Closing Date, (vii) taking any action outside of the ordinary course of business on the Closing Date that could reasonably be expected to increase the Tax liability of the Seller (other than as expressly contemplated by this Agreement), (viii) surrendering any right to claim, or otherwise, limiting the availability of any, Pre-Closing Tax Refund, and (ix) making, or causing to be made, any election under Section 336 or 338 of the Code (or any corresponding provision of state, local or foreign Law) with respect to any member of the Company Group.

(g) Cooperation. Each Party shall cooperate as and to the extent reasonably requested by the other Parties, in connection with the preparation and filing of Tax Returns and any proceeding, investigation, audit or review by a Tax Authority with respect to Taxes, in each case with respect to the Company Group. Such cooperation shall include signing any Tax Returns, amended Tax Returns, claims or other documents necessary to settle any Tax controversy, executing powers of attorney, the retention and (upon the other Party's request) the provision of records and information in such Party's control which are reasonably relevant to any such proceeding, investigation, audit or review and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided under this Agreement. Buyer agrees (i) to retain all books and records with respect to Tax matters pertinent to each member of the Company Group relating to any taxable period beginning before the Closing Date until the expiration of the Seller's indemnification obligations under this Agreement with respect to Tax matters, and to abide by all record retention agreements entered into with any Tax Authority, and (ii) until the expiration of the Seller's indemnification obligations under this Agreement with respect to Tax matters, to give the Seller reasonable written notice prior to transferring, destroying or discarding any such books and records and, if the Seller so requests, Buyer will allow the Seller to take possession of such books and records.

(h) Transaction Expenses Deductions. Any and all deductions, losses or other Tax benefits with respect to any Transaction Expenses, any repayment of Debt or any other deductible payments arising in connection with the Transactions economically borne by the Seller shall be taken into account and deducted in a Pre-Closing Tax Period to the extent not specifically prohibited by applicable Law, and any such deductions, losses or benefits for a Straddle Period shall be attributed to the portion of such Straddle Period ending on the Closing Date. For purposes of the foregoing, the parties agree to cause, as applicable, each member of the Company Group to adopt the seventy percent (70%) safe harbor (and to include the applicable election statements with the appropriate Tax Returns) with respect to the deduction of any "success-based fees" in accordance with IRS Revenue Procedure 2011-29 to the extent that the transactions contemplated by this Agreement are properly treated as a "covered transaction" within the meaning of Treasury Regulations Section 1.263(a)-5 (it being understood that nothing in this Section 7.7(h) shall be interpreted as a representation that any expense is a "success based fee").

(i) Tax Treatment. Buyer is a limited liability company for federal income Tax purposes and shall cause the Company Group to join its "consolidated group" (within the meaning of Treasury Regulations Section 1.1502-1(h)) effective as of the beginning of the day on the day following the Closing Date. To the extent not inconsistent with applicable Law, the parties agree with respect to certain Tax matters as follows: (i) to treat the Company Group as having a taxable year that ends for income Tax purposes as of the end of the day on the Closing Date; (ii) subject to clause (iii) of this

Section 7.7(i), to allocate all items of deduction, loss and credit of the Company Group accruing, or otherwise taken into account, on the Closing Date to the taxable period ending on the Closing Date pursuant to Treasury Regulations Section 1.1502-76(b)(1)(ii)(A)(1) (and not pursuant to the "next day" rule under Treasury Regulations Section 1.1502-76(b)(1)(ii)(B) or pursuant to the ratable allocation method under Treasury Regulations Sections 1.1502-76(b)(2)(ii) or 1.1502-76(b)(2)(iii)); and (iii) to report all items of taxable income or gain of the Company Group arising on the Closing Date following the Closing from any transaction or event taken at the direction of Buyer or any of its Affiliates outside of the ordinary course of business and not specifically contemplated by this Agreement on Buyer's federal income Tax Return to the extent permitted under Treasury Regulations Section 1.1502-76(b)(1)(ii)(B).

7.8 Indemnification of Directors, Managers and Officers. Immediately following the Closing, McKesson Corporation shall continue to maintain and pay the premium for directors' and officers' liability insurance for each present or former director, officer or manager (however designated) of any member of the Company Group for a period of two (2) years following the Closing Date relating to any matter arising prior to the Closing Date. This insurance shall be the sole remedy for the directors and officers in respect of any claim relating to any matter arising prior to the Closing Date.

7.9 Taking of Necessary Action; Further Action. Following the execution of this Agreement, Buyer will be provided such access to personnel and records as appropriate to finalize items necessary for the transition of the operations effective as of the Closing. If, at any time after the Closing Date, any further action is necessary or desirable to carry out the purposes of this Agreement and to vest the Buyer with full right, title and possession in and to the Acquired Equity, the officers and directors of the Buyer, Seller and members of the Company Group will take all such lawful and necessary action.

7.10 [***]

7.11 Completion of Service Schedule. The Parties acknowledge that as of the date hereof the Service Schedule to the Transition Services Agreement has not yet been fully completed. The Parties agree that they shall use reasonable, good faith efforts to complete such Service Schedule as soon as practicable following the execution of this Agreement.

## ARTICLE 8
## CONDITIONS TO CLOSING

8.1 Conditions to the Obligations of Each Party. The respective obligations of each Party to effect the Transactions are subject to the satisfaction at or prior to the Closing of the following conditions, any or all of which may be waived in writing by the Parties hereto:

(a) No Injunctions. No Governmental Authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any Law (whether temporary, preliminary or

permanent) that is in effect and has the direct effect of making the Transactions illegal or otherwise directly prohibiting consummation of the Transactions.

8.2 Additional Conditions to the Obligations of Buyer. The obligations of Buyer to effect the Transactions also are subject to the satisfaction at or prior to the Closing of the following conditions, any or all of which may be waived in writing by Buyer:

(a) Representations and Warranties. Each of the representations and warranties concerning the Company Group and Seller contained in ARTICLE 3 and ARTICLE 4 of this Agreement and in any certificate delivered pursuant hereto (without giving effect to any Company Material Adverse Effect or other materiality qualifier therein) shall be true and correct as of the date hereof and as of the Closing Date with the same effect as if made at and as of such date (other than those representations and warranties made as of such specific date or dates, which shall be true and correct as of such date or dates), except in each case where the failure to be so true and correct has not had, and would not reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect.

(b) Agreements and Covenants. The Seller and each member of the Company Group shall have performed or complied in all material respects with all of their obligations, agreements and covenants required by this Agreement to be performed or complied with by them at or prior to the Closing, any of which may be waived in writing by Buyer.

(c) Officers' Certificate. Seller shall have delivered to Buyer a certificate, dated as of the Closing Date and executed on behalf of Seller by an authorized officer of Seller certifying compliance with the conditions set forth in Section 8.2(a) and (b).

(d) Approval. This Agreement shall have been duly and validly adopted by Seller in compliance with applicable Law and the Governing Documents of the Seller, each as in effect on the date of such approval and adoption.

(e) Secretary's Certificate. Each member of the Company Group shall have delivered to Buyer a certificate, dated as of the Closing Date and executed on behalf of such Company by its Secretary, certifying such Company's (i) Governing Documents, and (ii) board resolutions approving the Transactions and adopting this Agreement.

(f) Net Working Capital Certificate. The Seller shall have delivered to Buyer the Net Working Capital Certificate.

(g) Closing Statement. The Seller shall have delivered to Buyer the Closing Statement.

(h) Reserved.

(i) Required Consents. The Seller shall have obtained and delivered evidence to Buyer of the third party consents, assignments, waivers, authorizations or other certificates set forth on Schedule 7.1(b), if any, in a form reasonably acceptable to Buyer.

(j) FIRPTA Certificate. The Seller shall have delivered to Buyer a non-foreign affidavit, dated as of the Closing Date, sworn under penalty of perjury and in form and substance required under the of Treasury Regulations issued pursuant to Section 1445 of the Code stating that the Seller is not a "foreign person" for purposes of Sections 1445 of the Code.

(k) Transition Services Agreement. The Seller shall have delivered to Buyer the Transition Services Agreement, substantially in the form of Exhibit B (the "Transition Services Agreement"), with the Service Schedule fully completed and attached thereto, dated as of the Closing Date and executed by Seller.

(l) Moorestown Facility License Agreement. The Seller shall have delivered to Buyer the Moorestown Facility License Agreement with respect to the temporary use and occupation of a portion of the Seller's facilities located in Moorestown, New Jersey by Buyer, substantially in the form of Exhibit C (the "Moorestown Facility License Agreement"), dated as of the Closing Date and executed by Seller.

(m) Auburn Facility Sublease. The Seller shall have delivered to Buyer the Auburn Facility Sublease with respect to the subletting of a portion of the premises located at 1667 Shug Jordan Parkway, Auburn, Alabama, substantially in the form of Exhibit D (the "Auburn Facility Sublease"), dated as of the Closing Date and executed by Seller.

8.3 Additional Conditions to the Obligations of the Seller. The obligations of the Seller to effect the Transactions also are subject to the satisfaction at or prior to the Closing of the following conditions, any or all of which may be waived in writing by the Seller:

(a) Representations and Warranties. Each representation and warranty of Buyer set forth in this Agreement and any certificate or other document delivered pursuant hereto shall be true and correct in all material respects (other than representations and warranties qualified by materiality or material adverse effect and Buyer's Fundamental Representations which shall be true in all respects) on and as of the date hereof and as of the Closing with the same force and effect as if made at and as of such date (other than those representations and warranties made as of such specific date or dates, which shall be true and correct as of such date or dates).

(b) Agreements and Covenants. Buyer shall have performed or complied with all of its respective obligations, agreements and covenants required by this Agreement to be performed or complied with by it at or prior to the Closing.

(c) Officers' Certificate. Buyer shall have delivered to Seller a certificate, dated as of the Closing Date and executed by a duly authorized officer of Buyer, certifying compliance with the conditions set forth in Sections 8.3(a) and (b).

(d) Secretary's Certificate. Buyer shall have delivered to the Seller a certificate, dated as of the Closing Date and executed on behalf of Buyer by its Secretary, certifying the Buyer's (i) Governing Documents and (ii) board resolutions approving the Transactions and adopting this Agreement.

(e) Transition Services Agreement. Buyer shall have delivered to the Seller the Transition Services Agreement, with the Service Schedule fully completed and attached thereto, dated as of the Closing Date and executed by the Buyer.

(f) Moorestown Facility License Agreement. Buyer shall have delivered to the Seller the Moorestown Facility License Agreement, dated as of the Closing Date and executed by Buyer.

(g) Auburn Facility Sublease. Buyer shall have delivered to Seller the Auburn Facility Sublease, dated as of the Closing Date and executed by Buyer.

8.4 Frustration of Closing Conditions. Neither Buyer (on the one hand) nor the Seller (on the other hand) may rely on the failure of any condition set forth in Section 8.1, Section 8.2 or Section 8.3, as the case may be, if such failure was caused by such Party's failure to comply with any provisions of this Agreement.

## ARTICLE 9
INDEMNIFICATION; RELEASE

9.1 Indemnification by the Seller. Subject to the terms and conditions of this ARTICLE 9, upon the Closing of the Transactions, the Seller hereby agrees to indemnify, defend and hold harmless Buyer and Buyer's Affiliates and their respective officers, directors, employees, agents, representatives, successors and permitted assigns (each, a "Buyer Indemnified Party") from and against any and all Damages actually incurred or sustained by, or imposed upon, the Buyer Indemnified Parties resulting from or arising out of:

(a) any breach of a representation or warranty of the Company Group set forth in ARTICLE 3 of this Agreement or in any Transaction Document (excluding the Excluded Documents) delivered in connection herewith;

(b) any breach of a representation or warranty of the Seller set forth in ARTICLE 4 of this Agreement or in any Transaction Document (excluding the Excluded Documents) delivered in connection herewith; and

(c) any Indemnified Taxes, to the extent not included in the calculation of Actual Net Working Capital, Actual Debt or Actual Transaction Expenses (as finally determined in accordance with Section 2.4).

9.2 Indemnification by Buyer. Subject to the terms and conditions of this ARTICLE 9 upon the Closing of the Transactions, Buyer and each of its Affiliates (including, from and after the Closing, the members of the Company Group) (collectively, the "Buyer Indemnifying Parties"), hereby jointly and severally, agree to indemnify, defend and hold harmless the Seller and its respective Affiliates, officers, directors, employees, agents, representatives, successors and assigns (each, a "Seller Indemnified Party"), from and against any and all Damages incurred or sustained by, or imposed upon, the Seller Indemnified Parties resulting from or arising out of:

(a) any breach of any representation or warranty of Buyer set forth in this Agreement or any Transaction Document (excluding the Excluded Documents) delivered in connection herewith; and

(b) any breach or non-fulfillment of any covenant or agreement of Buyer, set forth in this Agreement or any Transaction Document (excluding the Excluded Documents) delivered in connection herewith or any breach or non-fulfillment by the Company Group of any covenant or agreement required to be performed after Closing contained in this Agreement or any Transaction Document.

9.3 Survival; Time for Claims; Notice of Claims. Subject to the terms and other provisions of this Agreement:

(a) Survival Periods:

(i) Representations and Warranties. The representations and warranties of the Company Group, Seller and Buyer set forth in this Agreement or any Transaction Document delivered

in connection herewith shall survive the Closing and remain in full force and effect until the date that is eighteen (18) months from the Closing Date (the "General Survival Date"); provided, that (A) the Fundamental Representations (other than the representations and warranties set forth in Section 3.9 (*Tax Matters*) (the "Tax Representations")) shall survive the Closing and shall remain in full force and effect until the date that is three (3) years from the Closing Date; (B) the Tax Representations shall survive the Closing and shall remain in full force and effect until the date of expiration of the applicable statute of limitations; and (C) the representations and warranties set forth in the Excluded Documents shall survive the Closing and remain in full force and effect in accordance with their terms.

(ii) Covenants and Agreements. The covenants and agreements of the Company Group and Seller set forth in this Agreement or any Transaction Document delivered in connection herewith that by their terms are required to be performed at or prior to the Closing shall not survive and will terminate at the Closing, and any covenants and agreements of the Company Group that by their terms are to be performed after the Closing shall survive the Closing and remain in full force and effect for the period expressly contemplated by their terms; provided, that, (A) the indemnification obligations set forth in Section 9.1(c) shall survive the Closing until the date of expiration of the applicable statute of limitations; and (B) the covenants and agreements set forth in the Excluded Documents shall survive the Closing and remain in full force and effect in accordance with their terms. The covenants and agreements of Buyer set forth in this Agreement or any Transaction Document delivered in connection herewith shall survive the Closing and remain in full force and effect for the period expressly contemplated by their terms; provided, that, (Y) the indemnification obligations set forth in Section 9.2 shall survive the Closing and remain in full force and effect until expiration of the applicable statute of limitations period; and (Z) the covenants and agreements set forth in the Excluded Documents shall survive the Closing and remain in full force and effect in accordance with their terms.

(b) Time and Notice of Claims. No claim for indemnification may be asserted against an Indemnifying Party for breach of any representation, warranty, covenant or agreement set forth in this Agreement or any Transaction Document delivered in connection herewith, unless written notice of such claim is given to (i) the Seller (in the event Seller is the Indemnifying Party) or (ii) Buyer (on behalf of the Buyer Indemnifying Parties in the event such Persons are the Indemnifying Party) in accordance with Section 9.5, in respect of a Third Party Claim, or Section 9.6, in respect of a Direct Claim, as applicable, on or prior to the date on which the representation, warranty, covenant or agreement ceases to survive in accordance with Section 9.3(a) (each a "Notice of Claim"). Notwithstanding the foregoing, any claim for indemnification that may be sought under this ARTICLE 9 and the indemnity with respect thereto, shall survive the time at which it would otherwise terminate pursuant to Section 9.3(a) if written notice of such claim shall have been properly given to (i) the Seller (in the event Seller is the Indemnifying Party) or (ii) Buyer (on behalf of the Buyer Indemnifying Parties in the event such Persons are the Indemnifying Party) prior to such time, in which case, such representation, warranty, covenant or agreement with respect to such claim shall survive solely with respect to the claim subject to such Notice of Claim until such claim for indemnification is finally resolved. It is the express intent of the Parties that, if the applicable survival period for an item as contemplated by Section 9.3(a) (the "Applicable Survival Period") is shorter than the statute of limitations that would otherwise have been applicable to such item, then, by contract resulting from arms' length negotiations between sophisticated parties represented by counsel, the applicable statute of limitations with respect to such item shall not apply, and no Party shall be obligated to indemnify, defend, hold harmless, compensate or reimburse any other Party with respect to any such particular claim, except to the extent that any such representations, warranties, covenants and agreements contained herein survive in whole or in part after the Closing pursuant to the terms of this Agreement, and then only to such extent.

**Certain information in this document identified by brackets has been omitted because it is both not material and would be competitively harmful if publicly disclosed.**

9.4 Liability Limitations

(a) Mini-Basket. Except for Fundamental Damages, the Buyer Indemnified Parties shall not be entitled to assert any claim for Damages under Section 9.1 unless and until such time as the total amount of all Damages that have been suffered or incurred by any Buyer Indemnified Party arising from or related to an individual claim (or series of one or more claims arising from the same or substantially similar facts or circumstances) exceeds Twenty Thousand Dollars ($20,000) (the "Mini- Basket") and any such claim not exceeding the Mini-Basket shall not aggregate and shall be excluded from the calculation of the Deductible.

(b) Deductible. The Buyer Indemnified Parties shall not be entitled to recover indemnification for Damages under Section 9.1 unless and until the aggregate amounts of all Damages under Section 9.1 are in excess of [***] at which time the Buyer Indemnified Parties shall be entitled to indemnification for all Damages actually incurred or sustained in excess of such amount subject to the applicable limitations set forth herein (the "Deductible").

(c) Maximum Indemnification Amounts.

(i) Except for Fundamental Damages, the maximum amount that the Buyer Indemnified Parties (in the aggregate) shall be entitled to recover from the Seller for Damages under Section 9.1 is limited to [***] (the "General Cap"). Except for Fundamental Damages, recovery by the Buyer Indemnified Parties for Damages under Section 9.1 from the Seller shall be limited to the General Cap (it being understood and agreed that the Buyer Indemnified Parties shall have no further right to indemnification from the Seller for items subject to the General Cap).

(ii) The maximum amount that the Buyer Indemnified Parties shall be entitled to recover under this Agreement for Fundamental Damages, when added to all other Damages, is limited to [***] (the "Fundamental Damages Cap"), provided, however, Buyer may recover, when added to all other Damages, up to, but not in excess of, [***] with respect to any Government Health Care Program Repayment Damages.

(iii) Subject to Sections 9.4(c)(i) and 9.4(c)(ii), the maximum amount that the Buyer Indemnified Parties shall be entitled to recover from Seller for Damages arising under this Agreement (in the aggregate) is limited to [***] less any insurance proceeds and indemnification payments (the "Aggregate Cap"). In no event shall the amount payable by the Seller pursuant to this Agreement exceed the Aggregate Cap.

(d) [***]

**Certain information in this document identified by brackets has been omitted because it is both not material and would be competitively harmful if publicly disclosed.**

(e) [***]

(f) Mitigation. Each Party will (and will cause its Affiliates to) use commercially reasonable efforts to pursue any rights and remedies available to mitigate any Damages for which indemnification is or may be provided to it under this ARTICLE 9, consistent with the efforts such Party has or would use to appropriately mitigate Damages for its own account.

(g) Calculation of Damages. All Damages for which the Buyer Indemnified Parties are otherwise entitled to indemnification under this ARTICLE 9 shall be reduced by the amount of any insurance proceeds, indemnification payments and other third party recoveries or reimbursement arrangements to which any Buyer Indemnifying Party or any of their Affiliates (including the Company Group) is entitled to in respect of such Damages. Without limiting the generality of the foregoing, in the event an Indemnified Party is, or is reasonably expected to be, entitled to any insurance proceeds in respect of any Damages for which such Indemnified Party is or may be entitled to indemnification pursuant to this ARTICLE 9 under any insurance policy, Contract, or other third-party recovery or reimbursement arrangement, the Indemnified Party shall, and shall cause its Affiliates (including, with respect to Buyer Indemnified Parties, the Company Group) to, concurrent with providing a Notice of Claim in accordance with this Agreement, to proceed first by making a claim therefor (or submitting an initial notification of loss in the event the retention has not been met) under such policy and using its commercially reasonable efforts to seek recovery for and obtain proceeds in respect of such Damages (subject to the applicable retention amounts and other terms and conditions under such insurance policy being met). In the event that any such insurance proceeds, indemnity payments or other third-party recoveries are received or realized by any Buyer Indemnified Party or any of their respective Affiliates subsequent to receipt by the Buyer Indemnified Parties of any indemnification payment hereunder in respect of the claims to which such insurance proceeds, indemnity payments or other third-party recoveries relate, appropriate refunds shall be made promptly by Buyer to the Seller of all or the relevant portion of such indemnification payment.

(h) Limitations on Tax Indemnity. Notwithstanding anything to the contrary in this Agreement, Seller shall not have any liability under this Agreement or any other Transaction Document, including under this ARTICLE 9 with respect to any Taxes or Damages: (i) resulting from or arising out of any transaction or event taken at the direction of any Buyer Indemnified Party after Closing that is not

specifically contemplated by this Agreement (including any transaction undertaken in connection with the financing of any obligation contemplated by this Agreement); (ii) taken into account as a direct or indirect adjustment to the Purchase Price (as finally determined) or otherwise economically borne by the Seller; (iii) with respect to any taxable period (or portion thereof) following the Closing Date; (iv) resulting from any breach or non-fulfillment by any Buyer Indemnified Party of any covenant or agreement contained in this Agreement or any other Transaction Document relating to Tax matters; or (v) due to the unavailability in any Tax period (or portion thereof) beginning after the Closing Date of any net operating loss, net operating loss carryforward, capital loss, capital loss carryforward, Tax credit, Tax credit carryforward or other Tax attribute of any member of the Company Group from a Tax period (or portion thereof) ending on or before the Closing Date. Nothing contained in this Section 9.4(h) shall be construed to create (or expand) matters with respect to which the Seller has an indemnification obligation under ARTICLE 9.

(i) Limitation on Damages. Under no circumstances shall any Buyer Indemnified Party be entitled to (and Buyer on behalf of itself and each other Buyer Indemnified Party disclaims) indemnification pursuant to this ARTICLE 9 or otherwise for Damages that are special, indirect, consequential, multiples of any financial or business measure (including earnings, sales or other benchmarks), expectancy, punitive, exemplary or other similar Damages, including diminution in value, lost profits, lost revenues, business interruptions, or loss of business opportunity or reputation. No Buyer Indemnified Party shall be entitled to recover Damages in respect of any claim or otherwise obtain reimbursement or restitution more than once with respect to any claim hereunder.

(j) Other Limitations. Notwithstanding anything to the contrary set forth herein, no Buyer Indemnified Party shall be entitled to indemnification pursuant to this ARTICLE 9or otherwise for (i) any item disclosed in the Seller Disclosure Schedules (as interpreted in accordance with this Agreement), (ii) any liability accrued on, reserved for or reflected on the Financial Statements, (iii) any representation, warranty, covenant, agreement or condition waived by Buyer on or prior to the Closing or (iv) Damages to the extent caused, contributed or exacerbated by any action or omission of Buyer or any of its Affiliates.

(k) Exclusive Remedy. Buyer, on behalf of itself and each of its Affiliates (including the members of the Company Group after the Closing Date) and its successors and assigns, hereby acknowledges and agrees (for itself and its Affiliates and Buyer Representatives) that, from and after the Closing, the sole and exclusive remedy of Buyer, and each of its respective Affiliates (including the members of the Company Group after the Closing Date) and Buyer Representatives with respect to all matters arising out of, relating to or connected with this Agreement, the Transaction Documents and the Transactions shall be the indemnification provisions set forth in this ARTICLE 9 In furtherance of the foregoing, Buyer (on behalf of itself and its Affiliates and Buyer Representatives (including, following the Closing, the members of the Company Group)) hereby waives, from and after the Closing, any and all rights, claims and causes of action which Buyer or its Affiliates and Buyer Representatives may have against Seller or any member of the Company Group or any of their Affiliates arising under or based upon any Contract, Law or otherwise except pursuant to the indemnification provisions set forth in this ARTICLE 9.

9.5 Third Party Claims.

(a) Notice of Third Party Claims. All claims for indemnification made under this Agreement resulting from, related to or arising out of a third-party claim against an Indemnified Party (a "Third Party Claim") shall be made in accordance with the procedures set forth in this Section 9.5. An Indemnified Party shall give prompt written notification to Buyer (if the Buyer Indemnifying Parties are the Indemnifying Party) or to the Seller (if the Seller is the Indemnifying Party) of the commencement of

any Legal Proceeding relating to a Third Party Claim for which indemnification may be sought or, if earlier, upon the written assertion of any such Third Party Claim; provided, that no delay on the part of the Indemnified Party in notifying Buyer or the Seller (as applicable) shall relieve such Indemnifying Party from any obligation under this ARTICLE 9, except to the extent (i) notice is delivered after the applicable survival period for such claim (in which case the Indemnified Party shall not be entitled to assert such claim) or (ii) such delay actually prejudices the Indemnifying Party. Such notice by the Indemnified Party shall include a description in reasonable detail (to the extent known by the Indemnified Party) of the facts constituting the basis for such Third Party Claim, the provisions of this Agreement alleged to have been breached, the amount of the Damages claimed, and shall include copies of all written evidence thereof.

(b) Assumption of Defense.

(i) In the event of any Third Party Claim, the Indemnifying Party, by written notice delivered to the Indemnified Party within fifteen (15) days after receiving notice of the Third Party Claim, may elect to assume the defense of the Third Party Claim. If the Indemnifying Party so assumes any such defense, the Indemnifying Party shall conduct the defense of the Third Party Claim actively and diligently. If Seller is the Indemnifying Party, it shall not compromise or settle a Third Party Claim, or consent to entry of any judgment in respect thereof, which would reasonably be expected to result in Damages in excess of the Seller's indemnification obligation, without the prior written consent of the Buyer (on behalf of the Buyer Indemnified Parties), which consent shall not be unreasonably withheld or delayed. If the Buyer Indemnifying Parties are the Indemnifying Party, the Buyer Indemnifying Parties shall not compromise or settle any Third Party Claim, or consent to the entry of any judgment in respect thereof, without the prior written consent of Seller, which consent shall not be unreasonably withheld or delayed.

(ii) Notwithstanding Section 9.5(b)(i), if Seller is the Indemnifying Party, Buyer shall nonetheless have the right to assume and control the defense of the following Third Party Claims: (A) Third Party Claims involving a criminal investigation or criminal violation; (B) Third Party Claims involving any Civil Investigative Demand; (C) Third Party Claims involving any qui tam or whistleblower complaint; or (D) Third Party Claims which would reasonably be expected to result in the revocation or termination of any Buyer Indemnified Party's right to participate in Medicare or Medicaid, loss of licensure, or consent to entry of any judgment in respect thereof.

(iii) Notwithstanding Section 9.5(b)(i), if the Buyer Indemnifying Parties are the Indemnifying Party as triggered by the terms of Section 9.2, Seller shall nonetheless have the right to assume and control the defense of the following Third Party Claims: (A) Third Party Claims involving a criminal investigation or criminal violation; (B) Third Party Claims involving any Civil Investigative Demand; (C) Third Party Claims involving any qui tam or whistleblower complaint; or (D) Third Party Claims which would reasonably be expected to result in the revocation or termination of Seller's or any Affiliate of Seller's right to participate in Medicare or Medicaid, loss of licensure, or consent to entry of any judgment in respect thereof.

(c) Participation in Assumed Defense. In the event that an Indemnifying Party assumes the defense of any Third Party Claim in accordance with Section 9.5(b) above, the Indemnified Party may retain separate counsel and participate in the defense of the Third Party Claim, but the fees and expenses of such counsel shall be at the expense of the Indemnified Party. The Indemnified Party will not consent to the entry of any judgment or enter into any settlement with respect to such Third Party Claim without the prior written consent of the Indemnifying Party, which consent shall not be unreasonably withheld or delayed. The Indemnified Party will, and will cause its Affiliates to, assist and cooperate in the defense thereof and will provide reasonable access to documents, assets, properties, books, and

records reasonably requested by the Indemnifying Party and will make available all officers, directors, and employees of the Indemnified Party and its Affiliates reasonably requested by the Indemnifying Party for investigation, depositions, and trial.

(d) Obligation to Control Defense. In the event that the Indemnifying Party fails or elects not to assume the defense of any Third Party Claim that such Indemnifying Party had the right to assume under Section 9.5(b) above, the Indemnified Party shall have the right to undertake the defense and, if undertaken, shall conduct the defense actively and diligently, but such defense shall be at the expense of the Indemnifying Party. If the Indemnified Party undertakes the defense of such Third Party Claim, then the Indemnified Party shall not compromise or settle such Third Party Claim, or consent to entry of any judgment in respect thereof, without the prior written consent of the Indemnifying Party, which consent shall not be unreasonably withheld or delayed.

9.6 Direct Claims. Any claim by an Indemnified Party on account of Damages which do not result from a Third Party Claim (such claim, a "Direct Claim") shall be asserted by giving prompt written notification to Buyer (if the Buyer Indemnifying Parties are the Indemnifying Party) or the Seller (if the Seller is the Indemnifying Party), as applicable, of the commencement of any action, suit, proceeding or process relating to a Direct Claim for which indemnification may be sought; provided, that no delay on the part of the Indemnified Party in notifying Buyer or Seller (as applicable) shall relieve such Indemnifying Party from any obligation under this ARTICLE 9, except to the extent (a) notice is delivered after the applicable survival period for such claim (in which case the Indemnified Party shall not be entitled to assert such claim) or (b) such delay actually prejudices the Indemnifying Party. Such notice by the Seller or Buyer, as applicable, shall include a description in reasonable detail (to the extent known by the Indemnified Party) of the facts constituting the basis for such Direct Claim, the provisions of this Agreement alleged to have been breached, the amount of the Damages claimed, and shall include copies of all written evidence thereof. The Indemnified Party shall allow Buyer (if the Buyer Indemnifying Parties are the Indemnifying Party) or the Seller (if the Seller is the Indemnifying Party), as applicable, and its professional advisors to investigate the matter or circumstance alleged to give rise to the Direct Claim, and whether and to what extent any amount is payable in respect of the Direct Claim, and the Indemnified Party will, and will cause its Affiliates to, assist and cooperate in Buyer's (if the Buyer Indemnifying Parties are the Indemnifying Party) or the Seller's (if the Seller is the Indemnifying Party) investigation by providing reasonable access to documents, assets, properties, books, and records reasonably requested by Buyer (if the Buyer Indemnifying Parties are the Indemnifying Party) or the Seller (if the Seller is the Indemnifying Party), and will make available all officers, directors, and employees reasonably requested by Buyer or the Seller, as applicable.

9.7 Treatment of Indemnification Payments. All indemnification and other payments under this ARTICLE 9 shall, to the extent permitted by applicable Law, be treated for all Tax purposes as adjustments to the Purchase Price.

## ARTICLE 10
## TERMINATION, AMENDMENT AND WAIVER

10.1 Termination. This Agreement may be terminated at any time prior to the Closing by certain of the Parties as provided below:

(a) by mutual written consent of Buyer and the Seller;

(b) by Buyer, upon a material breach of any representation, warranty, covenant or agreement on the part of the Company Group or Seller set forth in this Agreement which (i) would give rise to the failure of a condition set forth in Section 8.2 and (ii) has not been cured within ten (10)

Business Days following the earlier of receipt by Buyer of written notice of such breach from the Seller or receipt by the Seller of written notice of such breach from Buyer (a "Buyer Terminable Breach");

(c) by the Seller (on behalf of itself and the Company Group), upon a material breach of any representation, warranty, guarantee, covenant or agreement on the part of Buyer set forth in this Agreement (a "Company Terminable Breach");

(d) by either Buyer or the Seller, if there shall be any Law, order, injunction or decree which is final and nonappealable preventing the consummation of the Transactions or that makes consummation of the Transactions illegal; or

(e) by either Buyer or the Seller, if the Closing shall not have occurred by January 31, 2020 (the "Outside Date"); provided, however, that the right to terminate this Agreement under this Section 10.1(e) shall not be available to any Party whose failure to perform any material covenant, agreement or obligation hereunder has been the principal cause of the failure of the Closing to occur on or before such Outside Date.

10.2 Effect of Termination. In the event of the termination of this Agreement pursuant to Section 10.1, this Agreement shall forthwith become void, there shall be no liability on the part of Buyer, Company Group or the Seller or any of their respective Affiliates, officers, directors, stockholders, managers or partners and all rights and obligations of any Party hereto shall cease, except that nothing herein shall relieve any Party hereto of any liability for any and all of the damages suffered by the other Party hereto as a result of any willful breach of such Party's representations, warranties covenants or agreements contained in this Agreement; provided, however, that Buyer's right to pursue legal remedies under this Agreement shall be limited to the Company Group, and Buyer shall have no right to pursue remedies under this Agreement or otherwise against the Seller, any officer, director or employee of the Company Group, or any other Person individually. Notwithstanding the foregoing, the provisions of this Section 10.2, Section 10.3, Section 10.4 and ARTICLE 11 shall survive any termination of this Agreement. No termination of this Agreement shall affect the obligations of the parties under the Confidentiality Agreement (and such obligations shall not be limited by this Section 10.2), which shall remain in full force and effect in accordance with the terms thereof.

10.3 Fees and Expenses. Except as otherwise set forth in this Agreement, each of Buyer, the Company Group and Seller shall pay all of the costs and expenses (including any broker's and legal fees and expenses) that it incurs incident to the due diligence and negotiation related to the Transactions, the preparation, execution and delivery of this Agreement, the Transaction Documents and the Excluded Documents and the performance of any obligations hereunder and thereunder, whether or not the Transactions are consummated, including the expenses and fees of its respective accountants, lawyers and other professionals and any fees, costs and expenses associated with any financing; provided, however, that in the event the Transactions are consummated, the costs and expenses (including any broker's and legal fees and expenses) of the Company Group and the Seller incurred in connection with this Agreement and the Transactions shall constitute part of the Transaction Expenses.

10.4 Amendments and Waivers. Subject to compliance with applicable Law, any provision hereof may be amended, modified, terminated or supplemented and the observance of any provision hereof may be waived (either generally or in a particular instance, and either retroactively or prospectively) by a writing signed by Buyer and the Seller; provided, that no provision may be amended, modified, waived or terminated by Buyer in any manner that is adverse in any material respect to the Senior Lender without the prior written consent of the Senior Lender. For the sake of clarity, the Parties acknowledge that nothing in this Section 10.4 shall restrict either Party's rights to terminate this Agreement pursuant to the terms of Section 10.1. Any amendment, modification, termination,

supplement or waiver effected in accordance with this Section 10.4 shall be binding upon each of the parties hereto.

10.5 Failure or Indulgence Not Waiver. No waivers of, or exceptions to, any term, condition or provision hereof, in any one or more instances, shall be deemed to be or construed as a further or continuing waiver of, or exception to, any such term, condition or provision. No failure or delay on the part of any Party hereto in the exercise of any right hereunder shall impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty or agreement herein, nor shall any single or partial exercise of any such right preclude other or further exercise thereof or of any other right.

**ARTICLE 11**
GENERAL PROVISIONS

11.1 Notices. All notices, requests, consents, claims, demands, waivers and other communications hereunder shall be in writing and shall be deemed to have been duly given: (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by e-mail of a (.pdf or other electronic transmission) document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient; or (d) on the third (3rd) day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective Parties at the following addresses (or at such other address for a Party as shall be specified in a notice given in accordance with this Section 11.1):

If to the Buyer or member of the Company Group after the Closing Date:

**AdaptHealth LLC**
**200 West Germantown Pike, Suite 250**
**Plymouth Meeting, PA 19462**
Telephone: (732) 719-2824
Email: luke.mcgee@adapthealth.com; cjoyce@adapthealth.com
Attention: Luke McGee & Christopher J. Joyce

with a copy to (which shall not constitute notice):

**K&L Gates LLP**
**1717 Main Street, Suite 2800**
**Dallas, TX 75201**
Telephone: (214) 939-6282
Email: jill.louis@klgates.com
Attention: Jill Louis

If to the Company Group (prior to the Closing Date):

NRE Holding Corporation
540 Lindbergh Drive
Moon Township, Allegheny, PA 15108
Telephone: (415) 983-9129
Email: Lori.schechter@mckesson.com
Attention: General Counsel

McKesson Patient Care Solutions, Inc.
600 Lindbergh Drive
Moon Township, Allegheny, PA, 15108
Telephone: (415) 983-9129
Email: Lori.schechter@mckesson.com
Attention: General Counsel

with a copy to (which shall not constitute notice):

Morris, Manning & Martin, LLP
1600 Atlanta Financial Center
3343 Peachtree Road, NE
Atlanta, GA 30326
Telephone: (404) 233-7000
Email: wsb@mmmlaw.com
Attention: Ward Bondurant, Esq.

If to the Seller:

McKesson Medical-Surgical, Inc.
9954 Mayland Drive
Suite 4000
Richmond, VA 23233
Telephone: (415) 983-9129
Email: Lori.schechter@mckesson.com
Attention: General Counsel

with a copy to (which shall not constitute notice):

Morris, Manning & Martin, LLP
1600 Atlanta Financial Center
3343 Peachtree Road, NE
Atlanta, GA 30326
Telephone: (404) 233-7000
Email: wsb@mmmlaw.com
Attention: Ward Bondurant, Esq.

11.2 Headings. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Section references herein are, unless the context otherwise requires, references to sections of this Agreement.

11.3 Interpretation. When reference is made in this Agreement to an Article, Exhibit or a Section, such reference shall be to an Article, Exhibit or Section of this Agreement, unless otherwise indicated. The table of contents, table of defined terms and headings contained in this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement. The language used in this Agreement shall be deemed to be the language chosen by the Parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any Party. To the extent that a representation or warranty contained in ARTICLE 3 or ARTICLE 4 of this Agreement, or any schedule, exhibit, document or item in connection therewith furnished by the Company Group or the Seller to Buyer (each, a "Representation"), addresses a particular subject matter with specificity (a "Specific Representation"), and no breach under such Specific Representation exists,

neither the Company Group nor the Seller (as applicable) shall be deemed to be in breach of any other Representation that addresses such subject matter with less specificity than the Specific Representation, and if such Specific Representation is qualified or limited to the Seller's Knowledge, materiality, or in any other manner, no other Representation shall supersede or limit such qualification in any manner. Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns and pronouns shall include the plural, and vice versa. Any reference to any federal, state, local or foreign statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." When used herein, "dollar" or "$" means the U.S. dollar. When used herein, the word "or" means the conjunctive "and/or" unless specified otherwise. "Made available," "provided," "furnished" and words of similar import mean the posting by or on behalf of any member of the Company Group of materials to a virtual data room managed by the Seller or Broker and made accessible to Buyer or the Buyer Representatives, the physical delivery by or on behalf of the Seller or the Company Group (including delivery by email or other electronic means) of such materials to Buyer or the Buyer Representatives, or the Seller or Company Group or its representative otherwise making such materials available to Buyer or the Buyer Representatives for review.

11.4 Severability. Whenever possible, each provision of this Agreement shall be interpreted in a manner to be effective and valid under applicable Law, but if one or more of the provisions of this Agreement is subsequently declared to be invalid, illegal or incapable of being enforced by any rule of Law or public policy, all of the remaining conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the Transactions is not affected in any manner materially adverse to any Party. In the event of any such declaration of invalidity, illegality or unenforceability, this Agreement, as modified, shall be applied and construed to reflect substantially the intent of the Parties and achieve the same economic and legal effect as originally intended by its terms. In the event that the scope of any provision of this Agreement is deemed unenforceable by a court of competent jurisdiction, the Parties agree to the reduction of the scope of the provision as the court shall deem reasonably necessary to make the provision enforceable under the circumstances.

11.5 Entire Agreement. This Agreement (together with the Exhibits, Annexes, the Seller Disclosure Schedules and other Transaction Documents) and the Confidentiality Agreement constitute the entire agreement of the Parties with respect to the subject matter contained herein and therein, and supersede all prior representations, warranties, agreements and undertakings, both written and oral, among the Parties or between any of them, with respect to the subject matter hereof and thereof.

11.6 Seller Disclosure Schedules. In connection with the execution of this Agreement, the Company delivered to Buyer the Seller Disclosure Schedules, which may be updated prior to the Closing by the Supplemental Disclosure Schedule, setting forth, among other things, items the disclosure of which is necessary or appropriate either (a) in response to an express disclosure requirement contained in a provision hereof or (b) as an exception to one or more representations or warranties contained in ARTICLE 3 or ARTICLE 4 or to one or more of the agreements and covenants of the Seller or the Company Group contained in ARTICLE 6 or ARTICLE 7 The Seller Disclosure Schedules, as supplemented by the Supplemental Disclosure Schedule, constitute an integral part of this Agreement and is attached hereto (in the case of the Seller Disclosure Schedules) or will be delivered prior to the Closing (in the case of the Supplemental Disclosure Schedule) and are hereby incorporated herein. There may be included in the Seller Disclosure Schedules, as supplemented by the Supplemental Disclosure Schedule, and elsewhere in this Agreement items and information that are not "material," and such inclusion will not be deemed to be an acknowledgment or agreement that any such item or information (or any non- disclosed item or information of comparable or greater significance) is "material" and will not be used as

a basis for interpreting the terms "material," "materially," "materiality," Company Material Adverse Effect or any word or phrase of similar import used herein. Matters reflected in the Seller Disclosure Schedules, as supplemented by the Supplemental Disclosure Schedule, are not necessarily limited to matters required by this Agreement to be disclosed in the Seller Disclosure Schedules. No disclosure in the Seller Disclosure Schedules, as supplemented by the Supplemental Disclosure Schedule, relating to a possible breach or violation of any Contract, law or order of any Governmental Authority will be construed as an admission or indication that such breach or violation exists or has occurred. Any disclosures in the Seller Disclosure Schedules, as supplemented by the Supplemental Disclosure Schedule, that refer to a document are qualified in their entirety by reference to the text of such document, including all amendments, exhibits, schedules and other attachments thereto. Any capitalized term used in the Seller Disclosure Schedules, as supplemented by the Supplemental Disclosure Schedule, and not otherwise defined therein has the meaning given to such term in this Agreement. Any headings set forth in the Seller Disclosure Schedules, as supplemented by the Supplemental Disclosure Schedule, are for convenience of reference only and do not affect the meaning or interpretation of any of the disclosures set forth in the Seller Disclosure Schedules. The disclosure of any matter in any section of the Seller Disclosure Schedules, as supplemented by the Supplemental Disclosure Schedule, will be deemed to be a disclosure by the Seller to each other section of the Seller Disclosure Schedules to which such disclosure's relevance is reasonably apparent on its face. The listing of any matter on the Seller Disclosure Schedules, as supplemented by the Supplemental Disclosure Schedule, shall expressly not be deemed to constitute an admission by such Party, or to otherwise imply, that any such matter is material, is required to be disclosed by such Party under this Agreement or falls within relevant minimum thresholds or materiality standards set forth in this Agreement. In no event shall the listing of any matter in the Seller Disclosure Schedules, as supplemented by the Supplemental Disclosure Schedule, be deemed or interpreted to expand the scope of such the representations, warranties or covenants of the Seller or the Company Group as set forth in this Agreement.

11.7 Assignment. No Party hereto may assign any of its rights or obligations hereunder without the prior written consent of Buyer and the Seller; provided that the Buyer may assign this Agreement or any of its rights or obligations hereunder, upon notice to the Seller, to any Affiliate of the Buyer provided that the Buyer shall remain liable for the performance of any obligations hereunder; provided, further, that nothing in this Agreement shall or is intended to limit the ability of the Buyer to assign its rights or delegate its responsibilities, liabilities and obligations under this Agreement, in whole or in part, without the consent of the Seller to any lender to the Buyer (together with any successors and assigns, individually and collectively, "**Senior Lender**") as security for borrowings. This Agreement will be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. Any assignment in violation of this Section 11.7 will be null and void (except for any assignment hereof by Buyer to the Senior Lender). Notwithstanding anything to the contrary in this Agreement, (x) any Senior Lender is an intended third party beneficiary of Sections 10.4, 11.4 and 11.10 and Sections 10.4 and 11.10 may be enforced by such persons directly, and (y) Sections 10.4, 11.4 and 11.10 may not be amended, modified, waiver or terminated in a manner that is adverse in any material respect to the Senior Lender without the prior written consent of such Senior Lender

11.8 Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each Party hereto and their successors and permitted assigns, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement (except as provided in Sections 7.8 and 11.7, with respect to which the Persons identified in such Section shall be third party beneficiaries).

11.9 Specific Performance.

(a) Each of the Parties acknowledges and agrees that the other Parties would be irreparably damaged immediately, extensively and irreparably and no adequate remedy at Law would exist in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached or violated. Accordingly, in addition to, and not in limitation of, any other remedy available to any party at Law or in equity, the Parties hereby acknowledge and agree that Buyer, the Company Group (prior to the Closing) and the Seller shall be entitled to an injunction or injunctions to prevent any breaches or violations of the provisions of this Agreement and to the remedy of specific performance of this Agreement and the terms and provisions hereof, including to cause the transactions contemplated by this Agreement to be consummated on the terms and subject to the conditions set forth in this Agreement. Each of the Parties hereby waive, and agree not to assert, to the fullest extent permitted by Law, (i) any defense that a remedy of injunctive relief or specific performance is unenforceable, invalid, contrary to law or inequitable for any reason, (ii) any defense in any action for injunctive relief or specific performance, including the defense that a remedy at law would be adequate or that monetary damages would provide an adequate remedy, (iii) any requirement under any Law to post bond or other security as a prerequisite to obtaining equitable relief and (iv) any defense that injunctive relief or specific performance will cause an undue hardship to any party.

(b) If any Party brings any action to specifically enforce the terms and provisions of this Agreement, the Outside Date shall automatically be extended by (i) the amount of time during which such action is pending, plus twenty (20) Business Days or (ii) such later date established by the Delaware Court presiding over such action. The Parties further agree that (A) by seeking the remedies provided for in this Section 11.9, no Party shall in any respect waive its right to seek at any time any other form of relief that may be available to it under this Agreement or any other agreement or document entered into in connection herewith or the transactions contemplated hereby (including monetary damages) in the event that this Agreement has been terminated or the remedies provided for in this Section 11.9 are not available, dismissed or otherwise not granted, and (Z) nothing set forth in this Section 11.9 shall require any Party to institute any proceeding for (or limit any Party's right to institute any proceeding for) specific performance under this Section 11.9 prior to or as a condition to exercising any termination right under ARTICLE 10, nor shall the commencement of any Legal Proceeding pursuant to this Section 11.9 or anything set forth in this Section 11.9 restrict or limit any Party's right to terminate this Agreement in accordance with the terms of ARTICLE 10or pursue any other remedies under this Agreement any other agreement or document entered into in connection herewith or the transactions contemplated hereby that may be available then or thereafter.

11.10 Governing Law; Exclusive Jurisdiction.

(a) This Agreement, and all claims or causes of actions (whether at Law, in contract or in tort) that may be based upon, arise out of or are related to this Agreement or the negotiation, execution or performance of this Agreement, shall be governed by, and construed in accordance with, the Laws of the State of Delaware, without giving effect to conflicts of laws principles (whether of the State of Delaware or any other jurisdiction that would cause the application of the Laws of any jurisdiction other than the State of Delaware).

(b) Any claim, action, suit, arbitration, alternative dispute resolution action or any other judicial or administrative proceeding, in Law or equity (each, a "Legal Proceeding") arising out of or relating to this Agreement and any related agreement, certificate or other document delivered in connection herewith shall be heard and determined by the Court of Chancery of the State of Delaware and any state appellate court therefrom within the State of Delaware (unless the Court of Chancery of the State of Delaware declines to accept jurisdiction over a particular matter, in which case, in any federal

court within the State of Delaware and any federal appellate court therefrom) (together, the "Delaware Courts"). Each of the Parties hereby irrevocably and unconditionally: (i) submit to the exclusive jurisdiction of the Delaware Courts, for the purpose of any Legal Proceeding arising out of or relating to this Agreement and any related agreement, certificate or other document delivered in connection herewith brought by any Party hereto; (ii) agree not to commence any such action or proceeding except in such courts; (iii) agree that any claim in respect of any such action or proceeding may be heard and determined in any Delaware Court; (iv) waive, and agree not to assert, to the fullest extent it may legally and effectively do so, any objection or defense that it may now or hereafter have to the laying of venue of any such action or proceeding in any Delaware Court, (v) waive, and agree not to assert, to the fullest extent it may legally and effectively do so, any objection or defense that it is not subject to such jurisdiction or that such action or proceeding may not be brought, is not maintainable in or may not be enforced in or by such courts; and (vi) waive, and agree not to assert, to the fullest extent it may legally and effectively do so, any objection or defense of an inconvenient forum to the maintenance of such action or proceeding in any Delaware Court. Each of the Parties agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Law. Each Party irrevocably and unconditionally consents to service of process in the manners provided for notices in Section 11.1; provided, that nothing in this Agreement shall affect the right of any Party to serve process in any other manner permitted by Law.

(c) EACH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION, DIRECTLY OR INDIRECTLY, ARISING OUT OF OR RELATING TO THIS AGREEMENT AND ANY RELATED AGREEMENT, CERTIFICATE OR OTHER DOCUMENT DELIVERED IN CONNECTION HEREWITH. EACH PARTY ACKNOWLEDGES AND AGREES THAT: (I) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER; (II) SUCH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER; (III) SUCH PARTY MAKES THIS WAIVER VOLUNTARILY; AND (IV) SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 11.10.

(d) Each Party irrevocably and unconditionally consents to service of process in person or by certified or by nationally recognized overnight courier to its respective notice address set forth in Section 11.1, which shall constitute valid in personal service upon such Party and its successors and assigns in any proceeding commenced pursuant to this Section 11.10; provided, that, notwithstanding the foregoing, nothing in this Agreement shall affect the right of any Party to serve process in any other manner permitted by Law. Each Party acknowledges and agrees that: (i) this is a commercial transaction;
(ii) the foregoing provisions for service of process and waiver of jury trial have been read, understood and voluntarily agreed to by such Party; and (iii) each Party is hereby waiving important legal rights.

11.11 Counterparts. This Agreement may be executed manually or by facsimile or email delivery by the Parties, in any number of counterparts, each of which shall be considered an original, and all of which together shall be considered one and the same agreement. The Agreement shall become effective when each of Buyer, the members of the Company Group and the Seller have executed this Agreement.

11.12 Waiver of Conflicts Regarding Representation. Morris, Manning & Martin, LLP ("MMM") has acted as counsel for the Company Group (prior to the Closing Date) and the Seller (collectively, the "Company Parties") in connection with this Agreement and the transactions contemplated hereby (the "Acquisition Engagement") and, in that connection, not as counsel for any other Person, including, without limitation, Buyer or any of its Affiliates (including the Company Group, from

and after the Closing Date). Only the Company Parties shall be considered clients of MMM in the Acquisition Engagement. If the Seller so desires, MMM shall be permitted, without the need for any future waiver or consent, to represent any of the Seller or the Seller Indemnified Parties from and after the Closing in connection with any matter related to the matters contemplated by this Agreement, the Transaction Documents, the Excluded Documents any other agreements referenced herein or therein or any disagreement or dispute relating thereto and may in connection therewith represent the agents or Affiliates of the Seller or the Seller Indemnified Parties, in any of the foregoing cases including in any dispute, litigation or other adversary proceeding against, with or involving the Company Group (from and after the Closing Date) or any of their agents or Affiliates (in such capacity). To the extent that communications between a Company Party, on the one hand, and MMM, on the other hand, relate to the Acquisition Engagement and such communications are protected by the attorney-client privilege as between MMM and the Company Parties, including the Company Group prior to the Effective Time and all attorney work product prepared in connection with the Acquisition Engagement (such communications, collectively, the "Attorney-Client Communications"), such Attorney-Client Communications shall be deemed to belong solely to the Seller, and not Buyer or the Company Group (from and after the Closing Date). Buyer acknowledges and agrees, for itself and on behalf of its Affiliates, including the Company Group (from and after the Closing), upon and after the Closing: (a) the Seller, for and on behalf of the Seller Indemnified Parties, and MMM shall be the sole holders of the attorney-client privilege and work product privilege with respect to the Acquisition Engagement, and none of Buyer nor any of its Affiliates, including the Company Group from and after the Closing Date, shall be a holder thereof; and (b) MMM shall have no duty whatsoever to reveal or disclose any Attorney- Client Communications to Buyer or any of its Affiliates, including the Company Group from and after the Closing Date, by reason of any attorney-client relationship between MMM and the Company Group or otherwise.

* * * * *

[*Signature page follows.*]

IN WITNESS WHEREOF, the Parties hereto have executed this Securities Purchase Agreement as of the date first written above.

**BUYER:**

**ADAPTHEALTH LLC**

By: /s/ Luke McGee
Name: **Luke McGee**
Its: **Chief Executive Officer**

**SELLER:**

**MCKESSON MEDICAL-SURGICAL, INC.**

By: /s/ Bansi Nagji
Name: **Bansi Nagji**
Its: **Authorized Representative**

**COMPANY GROUP:**

**NRE HOLDING CORPORATION**

By: /s/ Bansi Nagji
Name: **Bansi Nagji**
Its: **Authorized Representative**

**MCKESSON PATIENT CARE SOLUTIONS, INC.**

By: /s/ Bansi Nagji
Name: **Bansi Nagji**
Its: **Authorized Representative**

*[Signature Page to Securities Purchase Agreement]*

**Exhibit 21.1**

| Subsidiaries (Alphabetically) | State of Inc. |
|---|---|
| AdaptHealth Holdings LLC | DELAWARE |
| AdaptHealth Intermediate Holdco | DELAWARE |
| AdaptHealth LLC | DELAWARE |
| AdaptHealth Patient Care Solutions, Inc. | PENNSYLVANIA |
| Americoast LLC DBA Americoast of Maryland LLC | DELAWARE |
| Associated Healthcare Systems, Inc. | NEW YORK |
| Braden Partners, L.P. | CALIFORNIA |
| First Choice Home Medical Equipment, LLC | DELAWARE |
| Gould’s Discount Medical, LLC | KENTUCKY |
| Healthline Medical Equipment, LLC | TEXAS |
| Home MediService, LLC | MARYLAND |
| Med Star Surgical & Breathing Equipment Inc. | NEW YORK |
| Med-Equip, Inc. | PENNSYLVANIA |
| Medstar Holdings LLC | DELAWARE |
| NRE Holding Corporation | DELAWARE |
| Ocean Home Health Supply LLC | NEW JERSEY |
| PPS HME Holdings LLC | DELAWARE |
| Roberts Home Medical, LLC | MARYLAND |
| Royal DME LLC | DELAWARE |
| Royal Homestar LLC | DELAWARE |
| Royal Medical Supply, Inc. | PENNSYLVANIA |
| TriCounty Medical Equipment and Supply, LLC | PENNSYLVANIA |
| Verus Healthcare, Inc. | DELAWARE |
| Verus Healthcare, LLC | DELAWARE |

**Exhibit 23.1**

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors
AdaptHealth Corp.:

We consent to the incorporation by reference in the registration statement (No. 333-236012) on Form S-8 of AdaptHealth Corp. of our report dated March 6, 2020, with respect to the consolidated balance sheets of AdaptHealth Corp. as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity (deficit) / members' equity (deficit), and cash flows for each of the years then ended, and the related notes, which report appears in the December 31, 2019 annual report on Form 10-K of AdaptHealth Corp.

/s/ KPMG LLP

Philadelphia, Pennsylvania
March 6, 2020

**Exhibit 31.1**

**CERTIFICATION**
**PURSUANT TO RULES 13A-14 AND 15D-14**
**UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Luke McGee, certify that:

1. I have reviewed this Annual Report on Form 10-K of AdaptHealth Corp.;

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

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

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

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

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

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

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

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

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

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

March 6, 2020

/s/ Luke McGee
Luke McGee
Chief Executive Officer and Director
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION**
**PURSUANT TO RULES 13A-14 AND 15D-14**
**UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Gregg Holst, certify that:

1. I have reviewed this Annual Report on Form 10-K of AdaptHealth Corp.;

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

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

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

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

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

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

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

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors:

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

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

March 6, 2020

/s/ Gregg Holst
Gregg Holst
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350**
**AS REQUIRED BY**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of AdaptHealth Corp. (the "Company") on Form 10-K for the period ending December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify that to the best of our knowledge:

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

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

| | | |
|---|---|---|
| March 6, 2020 | /s/ Luke McGee<br>Luke McGee | Chief Executive Officer and Director<br>(Principal Executive Officer) |
| March 6, 2020 | /s/ Gregg Holst<br>Gregg Holst | Chief Financial Officer<br>(Principal Financial and Accounting Officer) |