Risk Factors Comparison 2024-02-01 to 2023-02-02 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

Risks Related to our Business and Industry • **The rules of Medicare** ~~We face numerous risks related to the COVID- 19 PHE~~ and **Medicaid** ~~its expiration in 2023~~ , ~~which~~ **including reductions of reimbursement rates, changes to spending requirements, data reporting, measurement and evaluation standards** could ~~individually or in the aggregate~~ have a material **,** adverse effect on our ~~business~~ **revenues** , financial condition **and** ~~, liquidity,~~ results of operations ~~and prospects. • Changes to reimbursement rates, rules and other aspects of Medicare and Medicaid, including reductions of the FMAP, could have a material, adverse effect on our revenues, financial condition and results of operations, including the reductions to reimbursement in the 2023 calendar year physician fee schedule and changes to data reporting, measurement and evaluation standards. • Our revenue could be impacted by changes to existing reimbursement models~~ . • Reforms to the U. S. healthcare system, including new regulations under the ACA **,** ~~and its expansion under~~ new **transparency** ~~laws such as the Inflation Reduction Act of 2022 (IRA)~~ and ~~future legislation~~ **disclosure requirements, potential federal and state standards for minimum nurse staffing levels** , continue to impose new requirements upon us **that** ~~and may increase our costs or lower our reimbursements, which~~ could materially impact our business. • Changes ~~to~~ **in** the U. S. **political environment** ~~healthcare system, including the Medicare program, may have unforeseen consequences for our business, including, but not limited to a loss of revenue, reduction of services covered by Medicare, limits on out- of- pocket expenses we may charge and other spending cuts that affect us in order to offset limitations on patient expenses for other medical services, such as the limitation on out- of- pocket expenses for prescription drugs. • The recent midterm elections in 2022,~~ may result in significant changes to the regulatory framework, ~~enforcements~~ **enforcement** , and reimbursements in our industry. • We are subject to various government reviews, audits and investigations that could adversely affect our business, including an obligation to refund amounts previously paid to us, potential criminal charges, **loss of licensure,** the imposition of fines ~~,~~ and ~~/ or~~ **sanctions. • We are subject to extensive and complex laws and government regulations. If we are not operating in compliance with** ~~the~~ **these** ~~loss of~~ **laws and regulations** ~~our~~ **or if these laws** ~~right to participate in Medicare~~ and ~~Medicaid programs~~ **regulations change, we could be required to make significant expenditures or change our operations in order to bring our facilities and operations into compliance** . • Public and government calls for increased ~~survey and~~ enforcement efforts toward **SNFs** ~~LTC facilities~~ , potential rulemaking that may result in enhanced enforcement and penalties, and new guidance for surveyors regarding the review of **SNFs** ~~LTC facilities~~ and enforcement of their Requirements of Participation, could result in increased scrutiny by state and federal survey agencies ~~. Potential~~ **, including** sanctions **that** ~~and remedies based upon alleged regulatory deficiencies~~ could negatively affect our financial condition and results of operations **. • CMS' s changes to the SFF program and its look- back period may create greater risk of our facilities being subject to this program and subject to potential fines and sanctions, even after graduating from the SFF program. • Federal minimum staffing mandates may adversely affect our labor costs, ability to maintain desired levels of patient or resident capacity, and profitability** . • Future cost containment initiatives undertaken by ~~third- party~~ payors may limit our revenue and profitability. • Changes in Medicare reimbursements for physician and non-physician services could impact reimbursement for medical professionals **. • We face numerous risks related to the COVID-19 PHE' s expiration and surrounding wind- down and uncertainty** , which could **individually or in the aggregate** have a ~~negative~~ **material adverse** effect on our business, financial condition ~~or~~ **, liquidity,** results of operations **and prospects** . • We may be subject to increased investigation and enforcement activities related to HIPAA violations ~~if we fail to adopt and maintain business procedures and systems designed to protect the privacy, security and integrity of patients' individual health information~~ . • Security breaches and other cyber- security incidents could violate security laws and subject us to significant liability. • If our independent ~~operating~~ subsidiaries are not fully reimbursed for all services for which each facility bills through consolidated billing, our revenue, financial condition and results of operations could be adversely affected. • Increased competition for, or a shortage of, nurses and other skilled personnel **,** could increase our staffing and labor costs and subject us to monetary fines resulting from a failure to maintain minimum staffing requirements, or may affect reimbursement. • Annual caps **, uncertainty regarding reimbursement** and other cost- reductions for outpatient therapy services may reduce our future revenue and profitability or cause us to incur losses. • Increased scrutiny of our **activities and** billing practices by the **OIG** ~~Office of the Inspector General~~ or other regulatory authorities may result in an increase in regulatory monitoring and oversight, decreased reimbursement rates, or otherwise adversely affect our business, financial condition and results of operations. • State efforts to regulate or deregulate the healthcare services industry or the construction or expansion of healthcare facilities could impair our ability to expand our operations, or could result in increased competition. • Newly enacted legislation in the States where our ~~independently~~ -- **independent subsidiaries** ~~operating entities~~ are located may impact the volume of cases filed and the overall cost of those cases from a defense and indemnity standpoint. • Changes to federal and state employment- related laws and regulations could increase our cost of doing business. • Required regulatory approvals could delay or prohibit transfers of our healthcare operations, which could result in periods in which we are unable to receive reimbursement for such properties. • Compliance with federal and state fair housing, fire, safety, staffing, and other regulations may require us to incur unexpected expenses, which could be costly to us. • **Our** ~~We depend largely upon reimbursement from third- party payors, and our~~ revenue, financial condition and results of operations could be negatively impacted by any changes in the acuity mix of patients in our ~~affiliated facilities~~ **independent subsidiaries** as well as payor mix and payment methodologies. • We are subject to litigation that could result in significant legal costs and large settlement amounts or damage awards. Similarly, a change in the enforceability of arbitration provisions between ~~LTC~~ **SNFs and senior living** facilities and ~~SNFs with~~ residents ~~or~~ **and** patients

may affect the risks we face from claims and potential litigation. • If our regular internal investigations into the care delivery, recordkeeping and billing processes of our ~~operating~~ **independent** subsidiaries detect instances of noncompliance, efforts to correct such non- compliance could materially decrease our revenue. • We may be unable to complete future facility or business acquisitions at attractive prices or at all, or may elect to dispose of underperforming or non- strategic ~~operating~~ **independent** subsidiaries, either of which could decrease our revenue. • We may not be able to successfully integrate acquired facilities and businesses into our operations, or we may be exposed to **costs, liabilities and regulatory issues that may adversely affect our operations. • In undertaking acquisitions, we may be adversely impacted by** costs, liabilities and regulatory issues that may adversely affect our operations. • If we do not achieve or maintain competitive quality of care ratings from CMS or private organizations engaged in similar monitoring activities, our business may be negatively affected. • If we are unable to obtain insurance, or if insurance becomes more costly for us to obtain, our business may be adversely affected, and our self- insurance programs may expose us to significant and unexpected costs and losses. • The geographic concentration of our ~~affiliated facilities~~ **independent subsidiaries** could leave us vulnerable to economic downturn, regulatory changes or acts of nature in those areas. • The actions of a national labor union that has pursued a negative publicity campaign criticizing our business in the past may adversely affect our revenue and our profitability. • The risks associated with leased property ~~that~~ **where** our ~~operators~~ **independent subsidiaries** operate ~~in~~ could adversely affect our business, financial position or results of operations. • Failure to generate sufficient cash flow to cover required payments or meet operating covenants under our long- term debt, mortgages and long- term operating leases could result in defaults under such agreements and cross- defaults under other debt, mortgage or operating lease arrangements, which could harm our ~~operating~~ **independent** subsidiaries and cause us to lose facilities or experience foreclosures ~~. • Move- in and occupancy rates may remain unpredictable even after the COVID- 19 pandemic is over~~ . • A continued housing slowdown or housing downturn could decrease demand for senior living services. • As we continue to acquire and lease real estate assets, we may not be successful in identifying and consummating these transactions. • As we expand our presence in other relevant healthcare industries, we would become subject to risks in a market in which we have limited experience. • If our referral sources fail to view us as an attractive skilled nursing provider, or if our referral sources otherwise refer fewer patients, our patient base may decrease. • We may need additional capital to fund our ~~operating~~ **independent** subsidiaries and finance our growth, and we may not be able to obtain it on terms acceptable to us, or at all, which may limit our ability to grow. • The condition of the financial markets ~~, including recent and expected future increases to the federal funds rate, inflation and the consumer price index,~~ could limit the availability of debt and equity financing sources to fund the capital and liquidity requirements of our business ~~, as well as negatively impact or impair the value of our current portfolio of cash, cash equivalents and investments~~ . • Delays in reimbursement may cause liquidity problems. • The **utilization** ~~continued use~~ and ~~growth~~ **expansion** of ~~Medicaid~~ managed care organizations may contribute to delays or reductions in our **reimbursement, including Managed** Medicaid ~~reimbursement~~ . • Compliance with the regulations of the Department of Housing and Urban Development may require us to make unanticipated expenditures which could increase our costs. • Failure to safeguard our patient trust funds may subject us to citations, fines and penalties. • We are a holding company with no operations and rely upon our multiple independent ~~operating~~ subsidiaries ~~to provide us with the funds necessary to meet our financial obligations. Liabilities of any one or more of our subsidiaries could be imposed upon us or our other subsidiaries. • We may be exposed to liabilities as a result of the separation of Pennant, including if the spin- off is not tax- free for U. S. federal income tax purposes~~ . • Certain directors who serve on our Board of Directors also serve as directors of Pennant, and ownership of shares of Pennant common stock by our directors and executive officers may create, or appear to create, conflicts of interest. • Standard Bearer' s failure to qualify as a REIT may cause it to be subject to U. S. federal income tax. Additionally, legislative or other actions affecting REITs could have a negative effect on Standard Bearer. Risks Related to Ownership of our Common Stock • We may not be able to pay or maintain dividends and the failure to do so would adversely affect our stock price. • Our amended and restated certificate of incorporation, amended and restated bylaws and Delaware law contain provisions that could discourage transactions resulting in a change in control, which may negatively affect the market price of our common stock. You should carefully consider each of the following risk factors and all other information set forth in this information statement. The risk factors generally have been separated into two categories: risks relating to our business and our industry and risks relating to our common stock. Based on the information currently known to us, we believe that the following information identifies the most significant risk factors affecting our company in each of these categories of risks. However, the risks and uncertainties we face are not limited to those set forth in the risk factors described below. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business. In addition, past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods. If any of the following risks and uncertainties develops into actual events, these events could have a material adverse effect on our business, financial condition or results of operations. In such case, the trading price of our common stock could decline. You should carefully read the following risk factors, together with the financial statements, related notes and other information contained in this Annual Report on Form 10- K. This Annual Report on Form 10- K contains forward- looking statements that contain risks and uncertainties. Please refer to the section entitled" Cautionary Note Regarding Forward- Looking Statements" on page 1 of this Annual Report on Form 10- K in connection with your consideration of the risk factors and other important factors that may affect future results described below. Risks Related to Our Business and Industry We ~~face numerous risks related to the COVID- 19 PHE, which could have a material adverse effect on our business, financial condition, liquidity, results of operations and prospects. The extent to which the COVID- 19 PHE will continue impacting our operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including future waves of COVID- 19 variants and their severity, ongoing federal and state vaccination programs and requirements and the efficacy of vaccinations and the ongoing actions to contain the virus or treat its impact, among others. Some of the risks of COVID- 19 are being mitigated as a result of the federal vaccination program, including vaccinations and vaccine booster~~

~~requirements of nursing facility staff and residents, but there remains uncertainty as to what changes will be made to HHS' s emergency response to reflect the evolving and endemic nature of COVID- 19, analogous to seasonal spikes in influenza cases and the final details for unwinding the PHE' s Emergency Waivers and other administrative flexibilities at the federal and state levels. As discussed in Item 1., under Government Regulation, federal, state and local regulators have implemented new regulations and waived existing regulations to promote care delivery during the COVID- 19 PHE. While the majority of these changes are beneficial by reducing regulatory burdens, these accommodations may also have an adverse effect through increased legal and operational costs related to compliance and monitoring. Additionally, most of the accommodations are limited in duration and tied to the PHE declaration, thus there may be significant operational change requirements on short notice. As of December 31, 2022, sixteen of the Emergency Waivers relevant to SNFs and LTC facilities expired. Also, the reinstatement of waived state and federal regulations may not occur simultaneously, requiring heightened monitoring to ensure compliance. Other factors from the continuation of the COVID- 19 pandemic that could have an adverse effect on our business, financial condition, liquidity, results of operations and prospects, include: • potential for permanent government regulations and restrictions to combat COVID- 19; • increased strain on employees and resources caused by different waves of COVID- 19 variants with different infection and effects, affecting employee availability and capacity to work; • reduced occupancy as a result of concerns of residents and their families related to COVID- 19 transmissibility within LTC settings, as well as due to government- imposed orders; • increased costs related to additional and changing CDC protocols, federal and state workforce protection and related isolation procedures, including obligations to test patients and staff for COVID- 19 vaccination mandates; • limitations on availability of staff due to COVID- 19 related illness or exposure, or due to unwillingness to comply with vaccine mandates; • increased scrutiny by regulators of infection control and prevention measures, including increased reporting requirements related to suspected and confirmed COVID- 19 diagnoses of residents and staff, which may result in fines or other sanctions related to non- compliance; • increased risk of litigation and related liabilities arising in connection with patient or staff illness, hospitalization and / or death; • negative impacts on our patients' ability or willingness to pay for healthcare services and our third parties' ability or willingness to pay rents; and • regulations that require all of our workers to be fully vaccinated, including receiving vaccination boosters, against COVID- 19 as a condition of participating in the Medicare and Medicaid programs. • complexity, uncertainty and potential state- by- state rulemaking arising from the expiration of the COVID- 19 PHE and expiration of Emergency Waivers. The extent and duration of the impact of the COVID- 19 pandemic on our stock price is uncertain, our stock price may be more volatile, and our ability to raise capital could be impaired. Our revenue could be impacted by federal and state changes to reimbursement and other aspects of Medicare. We~~ derived **26. 6 % and** 27. 7 ~~% and 27. 8~~ % of our service revenue from the Medicare programs for the ~~years~~ **year** ended December 31, **2023 and** 2022 ~~and 2021~~, respectively. In addition, many other payors may use published Medicare rates as a basis for reimbursements. Accordingly, if Medicare reimbursement rates are reduced or fail to increase as quickly as our costs, if there are changes in the rules governing the Medicare program that are disadvantageous to our business or industry, or if there are delays in Medicare payments, our business and results of operations will be adversely affected. The Medicare program and its reimbursement rates and rules are subject to frequent change **,** ~~. These include~~ **including** statutory and regulatory changes, rate adjustments (including retroactive adjustments), annual caps that limit the amount that can be paid (including deductible and coinsurance amounts) **,** administrative or executive orders and government funding restrictions, all of which may materially adversely affect the rates at which Medicare reimburses us for our services. **See** ~~Budget pressures often lead the federal government to reduce or place limits on reimbursement rates under Medicare. Implementation of these and other types of measures has in the past and could in the future result in substantial reductions in our revenue and operating margins. For example, see~~ Item 1., under Government Regulation, Sequestration of Medicare Rates **, for further information. Implementation of these and other types of measures has in the past and could in the future result in substantial reductions in our revenue and operating margins** . Additionally, ~~Medicare~~ payments can be delayed or declined due to 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 medically 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. New legislation and regulatory proposals could impose further limitations on government payments to healthcare providers. ~~In addition,~~ CMS often changes the rules governing the Medicare program, including those governing reimbursement. Changes to the Medicare program that could adversely affect our business **could** include **, but are not limited to the following** : • administrative or legislative changes to base rates or the bases ~~of~~ **for** payment; • limits on the services or types of providers for which Medicare will provide reimbursement; • changes in methodology for patient assessment and / or determination of payment levels; • changes in staff requirements (i. e., requiring all workers to be vaccinated against COVID- 19 and receive booster injections for those vaccinations) as a condition of payment or eligibility for Medicare reimbursement (See also, Item 1., under Government Regulation); • the reduction or elimination of annual rate increases, or the end of the reduced payments deferment (See also, Item 1., under Government Regulation); ~~or~~ **and** • an increase in co- payments or deductibles payable by beneficiaries. Among the ~~important statutory~~ changes ~~that are~~ being implemented by CMS are provisions of the IMPACT Act **, which** ~~. This law~~ imposes a stringent timeline for implementing benchmark quality measures and data metrics across ~~post- acute care providers (long- stay hospitals, inpatient rehabilitation~~ facilities **that include** ~~, skilled nursing facilities (~~ SNFs ~~), and home health agencies)~~ . The enactment ~~also~~ mandates specific actions to design a unified payment methodology for post- acute providers ~~.~~ **, which** CMS ~~continues to promulgate~~ **implements through ongoing** regulations ~~to implement provisions of this enactment~~ . ~~Depending on the~~ **The costs of** final ~~details, the costs of~~ implementation ~~could~~ **may** be significant ~~. The~~ **, with potential fines and payment reductions resulting from a** failure to meet **CMS' s** implementation requirements ~~could expose providers to fines and payment reductions~~ . Reductions in reimbursement rates or the scope of services being reimbursed could have a material, adverse effect on our revenue, financial condition and results of operations or even result in reimbursement rates that are insufficient to cover our operating costs.

Congress' s budgetary planning has also resulted in a difficulty to financially forecast, as the Medicare conversion factor paid under the CAA 2023 was 2. 5 % greater than the conversion factor provided for in the CY 2023 PFS final rule. Nonetheless, the 2023 conversion factor for CY 2023 was lower than CY 2022 PFS' s conversion factor. In contrast, the CY 2024 PFS conversion factor decreased 3. 34 % from the CY 2023 PFS conversion factor. This decrease takes into account the expiration of the 2. 5 % statutory payment increase for 2023, the addition of a 1. 25 % statutory payment increase for 2024, a 0 % conversion factor update, and a 2. 17 % budget- neutrality adjustment. On July 31, 2023, the CMS released its final rule for the SNF PPS for FY 2024 which will increase payments by a net 4. 0 % in FY 2024 compared to FY 2023. The final rule includes updates to the SNF Quality Reporting Program and SNF Value- based Purchasing Program that assess staff turnover, discharge success, res- hospitalization, and resident falls with injuries, which may adversely affect revenues obtained through the Medicare program. The SNF FY 2024 Final Rule may result in an increase in payments relative to FY 2023 depending on the performance of our individual independent subsidiaries as evaluated by CMS. The final rule will also replace the SNF 30- day All- cause Readmission measure with the SNF Within Stay Potentially Reasonable Readmissions standard beginning in fiscal year 2025, which may also reduce the compensation our independent subsidiaries may receive under the SNF VBP program. As discussed in more detail in Item 1., under Government Regulation, CMS implemented a final rule in October 2019 implementing a new case- mix classification system, PDPM, that focuses on the clinical condition of the patient. CMS may make future adjustments to reimbursement levels and underlying reimbursement formulae as it continues to monitor the impact of PDPM on patient outcomes and budget neutrality. The Biden- Harris Administration continues to study the nursing home industry and for HHS to issue proposed rules based on those studies, including changes to SNF facility reimbursement, including the SNF- VBP Program, may also adversely affect our reimbursement. These metrics potentially affecting our revenues and expenses in future government fiscal years include the SNF healthcare- associated infections (HAI) measurement, total nursing hours per resident day measures, and discharge to community- post acute care measure. The Interoperability Final Rule' s implementation beginning in 2026, and to be completed by January 1, 2027, may also adversely affect our reimbursement paid through Medicare, specifically including Medicare Advantage. Loss of Medicare reimbursement ~~entirely~~ **, or a delay or default by the government in making Medicare payments,** would also have a material adverse effect on our revenue. **Non- compliance with** Medicare **regulations exist** ~~may rescind our certification and terminate its payor agreements if not all of our employees are fully vaccinated consistent with CMS' s IFR requiring vaccination of SNF employees~~ , ~~which has applied to all states since March 21, 2022. In addition, within certain states such as California~~ and **any** ~~Washington, if our employees are not fully vaccinated as required by those states' vaccination mandates, we could incur a deficiency that could endanger our Medicaid certification and participation status for certain locations within those states where employees have not been vaccinated. In addition, California required employees to receive at least one booster dose of the COVID- 19 vaccine by March 1, 2022 in order to comply with its State Public Health Officer Order requiring vaccination of SNF employees. Other states where we operate, such as Colorado, have allowed their COVID- 19 vaccinations to expire, or did not impose such mandates for the state' s healthcare workers. Any~~ penalty, suspension, termination, or other sanction under any state' s Medicaid program could lead to reciprocal and commensurate penalties being imposed under the Medicare program, up to termination or rescission of our Medicare participation and payor agreements as noted above. ~~Additionally, any delay or default by the government in making Medicare reimbursement payments could materially and adversely affect our business, financial condition and results of operations. Reductions in Medicaid reimbursement rates or changes in the rules governing the Medicaid program could have a material, adverse effect on our revenue, financial condition and results of operations.~~ A significant portion of reimbursement for skilled nursing services comes from Medicaid. In fact, Medicaid is our largest source of revenue, accounting for 46. 0 % ~~and 45. 8 %~~ of our revenue for **both** the ~~years~~ **year** ended December 31, **2023 and** 2022 ~~and 2021~~ , respectively. Medicaid is a state- administered program financed by both state funds and matching federal funds. Medicaid spending has increased rapidly in recent years, becoming a significant component of state budgets, which has led both the federal government and many states to institute measures aimed at controlling the growth of Medicaid spending, and in some instances reducing aggregate Medicaid spending. Since a significant portion of our revenue is generated from our skilled nursing ~~operating~~ **independent** subsidiaries in California, Texas and Arizona, any budget reductions or delays in these states could adversely affect our net patient service revenue and profitability. ~~Despite~~ **Due to** ~~present~~ **recent fluctuations in** state ~~budget~~ **budgets** ~~surpluses in~~ many of the states in which we operate **(including those with current budget surpluses)** , ~~we can expect continuing~~ **are seeking to contain** ~~cost~~ **costs** ~~containment pressures~~ on Medicaid outlays for SNFs, and any such decline could adversely affect our financial condition and results of operations. The Medicaid program and its reimbursement rates and rules are subject to frequent change at both the federal and state level **,** ~~. These include~~ **including through** ~~statutory and regulatory~~ changes **in laws, regulations** , rate adjustments (including retroactive adjustments), administrative or executive orders and government funding restrictions, all of which may materially adversely affect the rates at which our services are reimbursed by state Medicaid plans **or the amount of expense we incur** . To generate funds to pay for the increasing costs of the Medicaid program, many states utilize financial arrangements commonly referred to as provider taxes. Under provider tax arrangements, states collect taxes from healthcare providers and then use the revenue to pay the providers as a Medicaid expenditure, which allows the states to then claim additional federal matching funds on the additional reimbursements. Current federal law provides for a cap on the maximum allowable provider tax as a percentage of the providers' total revenue. There can be no assurance that federal law will continue to provide matching federal funds on state Medicaid expenditures funded through provider taxes, or that the current caps on provider taxes will not be reduced. Any discontinuance or reduction in federal matching of provider tax-related Medicaid expenditures could have a significant and adverse effect on states' Medicaid expenditures, and as a result could have a material and adverse effect on our business, financial condition or results of operations. ~~Upcoming changes to Medicaid reimbursement and FMAP may affect our revenues.~~ The **CAA** ~~bipartisan omnibus spending plan passed by Congress and~~

~~signed into law by the President on December 29, 2022~~ **2023 provided for the** ~~, contains provisions that will~~ wind ~~-~~ down and ~~end~~ **termination of** increased FMAP payments **under the FFCRA, and also** provided ~~for by FFCRA, as well as provide~~ for the disenrollment of Medicaid beneficiaries who have participated in the program since early in the COVID- 19 pandemic. **CMS' s increased** ~~In the first quarter of 2023, the~~ FMAP **payments declined from** ~~increase CMS provides to the States will remain elevated by~~ 6. 2 % **to** ~~, but will decline for the remaining quarters in 2023, at~~ 5 % in the second quarter **of 2023** , 2. 5 % in the third quarter, and 1. 5 % in the fourth quarter before **CMS' s** increased FMAP spending ends entirely. ~~Previously, the FMAP funding was dependent on the termination of the PHE.~~ The **CAA 2023** ~~ultimate amount of funding from each state will vary substantially based on that states' policies. This may result in reductions in Medicaid spending by states where we operate, causing reductions in rates, and delays or withholding of payment for our operating subsidiaries' services and effect our operating subsidiaries' ability to profitably perform their services. CMS' s ability to further reduce these declining amounts of increased FMAP payments to states may create further pressure on Medicaid reimbursement in states where we operate. The omnibus spending plan also grants~~ **granted** CMS the authority to impose fines, penalties, and other sanctions upon states that do not comply with this law' s requirements for the unwinding of increased FMAP payments. As a result, these reductions may impose further burdens on the Medicaid programs in states where we operate **in the form of fines and penalties** , which may result in reduced payments. ~~Additionally, beginning~~ **Beginning** on April 1, 2023, states ~~may~~ **were allowed to** begin disenrolling Medicaid beneficiaries. CMS guidance **allowing for** ~~regarding disenrollment of beneficiaries and~~ a return to **Medicaid' s** historical renewal, enrollment, and eligibility determination practices permits states up to 14 months to initiate and process traditional Medicaid renewals ~~, including the eligibility and enrollment process~~. The **CAA 2023' s** allowance of disenrollment and return to traditional Medicaid renewal processes, which will include pre- COVID eligibility determinations, may result in a reduction of the number of Medicaid beneficiaries and may result in a reduction of our current and potential patient population. As a result, there may be fewer current or potential patients able to pay for our ~~operating~~ **independent** subsidiaries' services, and increased competition for Medicaid beneficiaries able to provide reimbursement for those services. As **of December 2023** ~~discussed in more detail in Item 1.~~ , ~~under Government Regulation,~~ **nearly 12 million people were reported to be disenrolled from Medicaid as part of this disenrollment process.** CMS **is concerned that states are terminating enrollees without definitively establishing their eligibility due to state residents not receiving eligibility forms or understanding instructions. CMS is monitoring states' compliance with federal requirements and is working with the affected states to address issues related to renewal requirements. States risk losing federal Medicaid matching funds for non- compliance with CMS' s instructions, which could result in reduced Medicaid funds available for timely reimbursement of the Company' s independent subsidiaries for their operations. Estimates suggest that roughly 17 million people may lose Medicaid coverage during the redetermination process through their scheduled completion in May of 2024. Medicaid is an important source of funding for our independent subsidiaries. The Company may be adversely affected by the disenrollment of Medicaid beneficiaries, which may lead to a reduction in reimbursement that may adversely impact our revenue and profit. The temporary restoration of Medicaid benefits in states where redetermination has been paused can help relieve some of these economic concerns. The disruption caused by the temporary pauses and restoration of Medicaid coverage for beneficiaries can also create operational challenges for our independent subsidiaries, including adverse effects on cash flow, available funds to pay wages for staffing, and overall financial stability. The ultimate impact of Medicaid disenrollment on the Company' s finances and operations will depend on individual states' specific circumstances and actions. State- Level Direct Spending Requirements could negatively impact our results of operations Certain states where the Company operates have** implemented **direct spending requirements requiring SNFs** ~~a final rule in October 2019~~ to **spend a portion of their revenue, particularly including Medicaid- derived revenue, on expenses directly relating to care. These spending requirements could affect our operational results and** ~~replace~~ -- **place** the ~~existing~~ **Company at higher risk of suffering non- compliance consequences, such as penalties, pay- backs, restrict admissions and / or operational / financial penalties. For example, Washington state incorporates the costs of direct care, indirect care, and capital expenditures for SNF services in computing the State' s Medicaid payments to nursing facilities. Using periodically updated calculations that account for factors including** case **acuity, fair market value of capital expenditures, inflation, and facility performance, Washington sets facility compensation so that the majority of Medicaid reimbursement paid to a skilled nursing facility is used for care** - **related activities** ~~mix classification system, Resource Utilization Groups, Version IV~~ , with **limitations on how much** a ~~new~~ **facility' s reimbursement may increase from year to year. Washington state first adopted this** ~~case care~~ - ~~mix classification system~~ **based payment model in 2015 and has periodically updated it since** , ~~PDPM~~ **including in 2020** , **2022, and 2023; it is expected** that **Washington will continue to** ~~focuses more on the clinical condition of the patient and~~ **amend** ~~less on~~ **this law in** the ~~volume of services provided. CMS may make~~ future ~~adjustments~~ **. For state fiscal year 2024, Texas requires all nursing facilities must show that funds paid** to **SNFs by Texas' s Medicaid program, including both fee- for- service and managed care** reimbursement ~~levels as it continues to monitor the impact of PDPM on patient outcomes~~ **, were expanded for direct care activities, including direct care staff wages** and **benefits** ~~budget neutrality. CMS could remove the entire parity calculated adjustment and this would cause a drastic reduction in payments~~ . In addition, **California in** the ~~Administration continues to study the~~ **past has proposed bills that, if passed, would require** nursing **facilities** ~~home industry and for HHS~~ to ~~issue proposed rules based~~ **spend a stated percentage of revenue** on **direct patient** ~~those studies, including changes to SNF~~ - **related services** ~~VBP Program, may also adversely affect our reimbursement~~ . ~~The Administration continues~~ **While the most recent attempt by the California Assembly (Bill 1537)** to ~~act~~ **impose direct spending requirements** on ~~the issues identified in its February 28, 2022 fact sheet and further regulation is expected regarding LTC and SNF~~ **SNFs** ~~reimbursement. CMS elected to defer the SNF 30- Day All- Cause Readmission Measure (SNFRM) as~~ **has been placed in suspense** ~~part of performance scoring for fiscal year 2023, although the SNFRM will still be reported without affecting SNF payment. This final rule also provided for the SNF- VBP~~

~~program expansion beyond the use of its single, all- cause hospital readmission measure to determine payment,~~ with ~~the inclusion of measures beginning~~ **no action has been taken on, similar legislation** in ~~fiscal year 2026~~ **the future may seek to impose identical** ~~for~~ **or analogous funding requirements** ~~SNF healthcare-associated infections requiring hospitalization (SNF HAI) and total nursing hours per resident day measures. Beginning in fiscal year 2027, the SNF- VBP program will also consider the discharge to community- post acute care measure~~ for SNFs **operating in California** ~~, which assesses the rate of successful discharges to the community from a SNF setting~~. Reforms to the U. S. healthcare system **, including new regulations under the ACA,** continue to impose new requirements upon us **that could materially impact** ~~and may increase our costs or lower our reimbursements. The ACA included sweeping changes to how healthcare is paid for and furnished in the U. S. Applicable to~~ our business **As** ~~, as~~ discussed in greater detail in Item 1., under Government Regulation, the ACA has resulted in significant changes to our operations and reimbursement models for services we provide. CMS continues to issue rules to implement the ACA, including most recently **,** new rules regarding the implementation of the anti- discrimination provisions ~~. Courts continue to interpret~~ and ~~apply~~ **proposed rules requiring** the ~~ACA' s provisions~~ **disclosure of SNF ownership, organization, management and the identity of the real property owners from which the SNF leases or subleases its operating space**. With the passage of the IRA in August of 2022, Congress continues to expand and supplement the ACA, including through the continuation of federally funded insurance premium subsidies ~~for health insurance coverage purchased on the ACA- created marketplace for individual health insurance~~. This modification of the ACA by the IRA indicates that Congress may continue to change and expand the ACA in the future. The efficacy of the ACA is the subject of much debate among members of Congress and the public **and it has** ~~. Additionally, a number of lawsuits have~~ been **the subject** ~~filed challenging various aspects~~ of **extensive litigation before numerous courts, including the United States Supreme Court, with varying outcomes — some expanding and others limiting** the ACA ~~and related regulations with inconsistent outcomes- some expand the ACA while others limit the ACA~~. **If** ~~In the event that~~ the ACA is repealed or ~~materially amended as a result of future challenges, particularly~~ any elements of the ACA that are beneficial to our business **are materially amended** or ~~that cause changes~~ **changed** ~~in~~ **, such as provisions regarding** the health insurance industry, ~~including~~ reimbursement and **insurance** coverage by ~~private, Medicare or Medicaid~~ payers, our business, operating results and financial condition could be harmed. Thus, the future impact of the ACA on our business is difficult to predict and its continued uncertain future may negatively impact our business. ~~However,~~ **While it is not possible to predict whether and when** any **such changes will occur, specific proposals discussed during and after the midterm election in 2022, including a repeal or** material **amendment of the ACA, could harm our business, operating results and financial condition. The ACA continues to be a salient political topic and proposed** changes to **it may become the subject of campaign promises, litigation, administrative action, or legislation leading up to or following the 2024 Presidential election. In addition, even if** the ACA ~~or its~~ **is** ~~implementing regulations may negatively~~ **not amended or repealed, the President and the executive branch of the federal government, as well as CMS and HHS have a significant** impact **on the implementation of the provisions of the ACA, and a new administration could make changes impacting the implementation and enforcement of the ACA, which could harm** our **business,** ~~operations~~ **operating results and financial condition. We have already seen this with regulatory activity promulgating rules regarding anti- discrimination under Section 1557 of the ACA and most recently proposed rulemaking requiring the disclosure of SNF ownership and service providers under Section 6101 of the ACA. If we are slow or unable to adapt to any such changes, our business, operating results and financial condition could be adversely affected**. Similarly, the ~~proposed~~ Nursing Home Improvement Act **proposed during the prior Congress** may **be re-introduced in the future and could ultimately** have an impact on our business due to the proposed ~~two percent~~ **2 %** decrease in payments to SNFs, as well as the staffing and reporting requirements contained within the bill. ~~This bill primarily creates penalties such as reduced reimbursement and monetary penalties for submitting inaccurate cost reports or staffing data. If passed in its current form, however, this bill would provide participating states with a temporary enhanced federal Medicaid match to fund improvements in nursing home workforce and care. This match would last six years, and states would be responsible for showing CMS that Medicaid reimbursement increases were used to increase worker wages and yield new training resources and opportunities for nursing home staff.~~ While it is difficult to determine whether the Nursing Home Improvement Act **or an identical bill** will **even** be **reintroduced** ~~amended prior to adoption~~ , ~~or even passed~~ **if ultimately signed** into law ~~, if passed~~ , this bill may negatively impact our business, with the scope and nature of its consequences unknown. **On November 15** ~~As of December 31~~ , ~~2022~~ **2023** , ~~however~~ **CMS issued a final rule that** , **requires SNFs to disclose certain information regarding the** ~~the~~ **their ownership and managerial relationships, which is more invasive and comprehensive than the ownership information already disclosed through Medicare' s** Nursing Home **Compare website** ~~Improvement Act has not advanced out of the committee where it was introduced, and the same is true for a companion bill introduced in the House of Representatives~~. **Refer** ~~Statements that the Administration made earlier this year indicate that HHS and CMS are being instructed~~ to **Item 1** ~~study the nursing home industry, specifically with regard to staffing levels, and the Administration has called for greater oversight of LTC and SNF facilities — including greater penalties for non- compliance with federal laws and regulations~~. ~~On April 11~~ , **under** ~~2022, CMS issued a proposed rule that requested information to be used for study and potential rulemaking. Based upon this information- gathering and subsequent study, HHS and CMS are expected to issue new rules that may subject our business to greater oversight, increase penalties that the~~ Government **Regulation** ~~may seek to impose upon us~~ , ~~and impose additional conditions and measurements upon the reimbursement we receive from Medicare and Medicaid. In addition, CMS has published guidance to surveyors~~ for ~~consistently evaluating requirements of participation for LTC facilities, addressing topics including infection control, resident safety, arbitration of disputes, nurse staffing and mental health disorders. Surveyors' use of these additional Requirements of Participation to evaluate our affiliated facilities may increase our costs of compliance and subject us to additional fines and penalties for alleged non- compliance. CMS has also requested~~ additional information ~~from the public and industry participants that is expected to~~ **. The breadth of disclosure required by this new rule may** be ~~used by~~

~~HHS~~ **adverse to our business interests** and **detrimental to our** ~~CMS in creating additional regulations regarding staffing and~~ operations ~~of SNFs and LTC facilities in the future. These anticipated regulations~~ , **revenue** ~~consistent with the Administration's prior statements~~ , ~~may adversely affect our business, its operations,~~ and ~~its~~ profitability **and may have a chilling effect on investment due to the depth of the new reporting and transparency requirements** . We cannot predict what effect future reforms to the U. S. healthcare system will have on our business, including the demand for our services or the amount of reimbursement available for those services. However, it is possible these new laws may lower reimbursement or increase the cost of doing business and adversely affect our business. The ~~results of~~ **changes in Congress due to the most** recent U. S. midterm elections in 2022 **, changes in representation, and actions in anticipation of the 2024 Presidential election** may result in significant changes to regulatory framework, enforcements and reimbursements. The most recent midterm elections in 2022 **and resulting change in control of the House of Representatives, and representative departures that are expected to further narrow the margin of Republican control over the House of Representatives,** could result in significant changes in, and **has resulted in** uncertainty with respect to, legislation, regulation, implementation or repeal of laws and rules related to government health programs, including Medicare and Medicaid. Democratic proposals for Medicare for All or significant expansion of Medicare, could significantly impact our business and the healthcare industry if implemented **, although the implementation of such proposals remains unlikely under the political party currently holding a majority within the House of Representatives** . Additionally, Congress' s passage of the IRA in August of 2022, which expanded upon and continued certain provisions of the ACA ~~through administrative rule- making~~ , indicates that additional legislative changes to the ACA may be forthcoming ~~based on the limited changes in the political composition of the House of Representatives and Senate following the November 2022 mid- term elections~~ . If proposed policies specific to nursing facilities are implemented, these may result in significant regulatory changes, increased survey frequency and scope, and increased penalties for non-compliance **. As both political parties have begun their Presidential primaries and congressional elections in 2024, each of them may seek to introduce or pass legislation that would either expand or reduce the scope of the ACA as a credential for future campaigning. Based on the IRA and inflationary pressures in the economy, the ACA and affordability of healthcare generally may be a campaign issue and lead to promises, administrative action, or legislation that could adversely affect our business. As a result, future legislation may be proposed or passed that may adversely affect our business, operating results and financial condition** . We continually monitor these developments in order to respond to the changing regulatory environment impacting our business. While it is not possible to predict whether and when any such changes will occur, specific proposals discussed during and after the election, including a repeal or material amendment of the ACA (whether to increase or decrease its scope), could harm our business, operating results and financial condition. If we are slow or unable to adapt to any such changes, our business, operating results and financial condition could be adversely affected. ~~Our~~ **We are subject to various government reviews, audits and investigations that could adversely affect our** business ~~may be materially impacted if certain aspects of the ACA are amended, repealed, or successfully challenged. A number of lawsuits have been filed challenging various aspects of the ACA and related regulations. In addition, the ACA may be affected by both the recently completed midterm elections and forthcoming Presidential and Congressional elections in 2024. Cases challenging the ACA or related rules have had inconsistent outcomes- some expand the ACA while others limit the ACA. Thus, the future impact of the ACA on our business is difficult to predict. The uncertainty as to the future of the ACA may negatively impact our business, as will any material changes to the ACA. In the event that legal challenges are successful or the ACA is repealed or materially amended, particularly any elements of the ACA that are beneficial to our business or that cause changes in the health insurance industry~~ , including ~~reimbursement and~~ - **an** ~~coverage by private~~ **obligation to refund amounts previously paid to us** , **potential criminal charges, the imposition of fines, and / or the loss of our right to participate in** Medicare ~~or~~ **and** Medicaid **programs** ~~payers, our business, operating results and financial condition could be harmed. While it is not possible to predict whether and when any such changes will occur, specific proposals discussed during and after the election, including a repeal or material amendment of the ACA, could harm our business, operating results and financial condition. In addition, even if the ACA is not amended or repealed, the President and the executive branch of the federal government, as well as CMS and HHS have a significant impact on the implementation of the provisions of the ACA, and a new administration could make changes impacting the implementation and enforcement of the ACA, which could harm our business, operating results and financial condition. If we are slow or unable to adapt to any such changes, our business, operating results and financial condition could be adversely affected~~ . As a result of our participation in the Medicaid and Medicare programs, we are subject to various governmental reviews, audits and investigations to verify our compliance with the rules associated with these programs and related applicable laws and regulations ~~. We~~ **, including our claims for payments submitted to those programs, which** are subject to ~~regulatory~~ reviews **by** ~~relating to Medicare services, billings and potential overpayments resulting from the actions of~~ Recovery Audit Contractors, Zone Program Integrity Contractors, Program Safeguard Contractors, Unified Program Integrity Contractors, Supplemental Medical Review Contractors and Medicaid Integrity Contractors programs, (collectively referred to as Reviews) **. In these Reviews** , ~~in which~~ third **-** party firms engaged by CMS conduct extensive ~~reviews~~ **analysis** of claims data and medical and other records to identify potential improper payments under the ~~Federal~~ **federal** and ~~State~~ **state** programs. As discussed above, the **Biden- Harris** Administration has called for HHS and CMS to increase the level of scrutiny ~~in these audits~~ **of SNF facilities** and ~~has~~ requested those agencies to adopt rules that would impose greater penalties upon non- compliant ~~LTC and~~ SNF operators **. On February 17, 2023, CMS most recently updated the survey resources that CMS and state surveyors use in evaluating our SNFs' compliance with federal Requirements for Participation, incorporating recent changes to CMS' s methods for surveying infection control procedures** . On June 29, 2022, CMS announced updated guidance for Phase 2 and 3 of the requirements of participation **, discussed in greater detail in Item** . ~~The guidance updates the following topics: (~~ 1 **.** ~~) resident abuse and neglect (including reporting of abuse); (2) admission~~ , **under Government Regulation** ~~transfer and discharge; (3) mental health and substance abuse disorders; (4) nurse staffing and reporting of payroll~~

~~to evaluate staffing sufficiency; (5) residents' rights (including visitation); (6) potential inaccurate diagnoses or assessments; (7) prescription and use of pharmaceuticals, including psychotropics and drugs that act like psychotropics; (8) infection prevention and control; (9) arbitration of disputes between facilities and residents; (10) psychosocial outcomes and related severity; and (11) the timeliness and completion of state investigations to improve consistency in the application of standards among various states~~ . The application of CMS' s new guidance could result in more aggressive and stringent surveys, and potential fines, penalties, sanctions, or administrative actions taken against our independent ~~operating~~ subsidiaries **. Also described in Item 1., under Government Regulation, the Interoperability Final Rule and its changes intended to facilitate data exchange between and among patients, providers, and payors, will be implemented beginning in 2026 and must be fully implemented by January 1, 2027. This rule and the greater access to and use of data between and among payors transmitting funds for state and federal healthcare programs, may also trigger additional scrutiny or review of facilities such as ours, and may adversely affect our reimbursement paid through state and federal programs including Medicaid. CMS announced a new nationwide audit the " SNF 5- Claim Probe & Educate Review " in which the Medicare Administrative Contractors will review five claims from each of the facilities to check for compliance with PDPM billings, which could result in individual claim payment denials if errors are identified. All facilities that are not undergoing Targeted Probe and Educate (TPE) reviews, or have not recently passed a TPE review, will be subject to the nationwide audit** . Private pay sources also reserve the right to conduct audits. We believe that billing and reimbursement errors and disagreements are common in our industry ~~. We~~ **, and thus we** are regularly engaged in reviews, audits and appeals of our claims for reimbursement due to the subjectivities inherent in the process related to patient diagnosis and care, record keeping, claims processing and other aspects of the patient service and reimbursement processes, and the errors and disagreements those subjectivities can produce. An adverse review, audit or investigation could result in: • an obligation to refund amounts previously paid to us pursuant to the Medicare or Medicaid programs or from private payors, in amounts that could be material to our business; • state or federal agencies imposing fines, penalties or other sanctions on us; • temporary or permanent loss of our right to participate in the Medicare or Medicaid programs or one or more private payor networks; • an increase in private litigation against us; and • damage to our reputation in the geographies served by our independent ~~operating~~ subsidiaries ~~. Medicare administrative contractors conduct selected reviews of claims previously submitted by and paid to some of our independent operating entities~~ . Although we have always been subject to post- payment audits and reviews, more intensive " probe reviews " performed **by Medicare administrative contractors** in recent years appear to be a regular procedure with our fiscal intermediaries. All findings of overpayment from CMS contractors are eligible for appeal ~~through the CMS defined processes and procedures~~ . With the exception of rare findings of overpayment related to objective errors in Medicare payment methodology or claims processing, we utilize all defenses reasonably available to us to demonstrate that the services provided meet all clinical and regulatory requirements for reimbursement. In cases where claim and documentation review by ~~any~~ **a** CMS contractor results in repeated unsatisfactory results, an operation can be subjected to protracted regulatory oversight. This **CMS** oversight may include ~~repeat~~ education and ~~re- probe~~ **sampling of claims** , extended pre- payment review, referral **of the operating business** to recovery audit or integrity contractors, or extrapolation of an error rate to other reimbursement **made** outside of specifically reviewed claims. ~~Sustained~~ **Ongoing** failure to demonstrate improvement towards meeting all claim filing and documentation requirements could ultimately lead to Medicare decertification. As of December 31, ~~2022~~ **2023** and ~~since~~ **through the filing date of this report** , ~~34~~ **40** of our independent ~~operating~~ subsidiaries had reviews scheduled ~~, on appeal,~~ or in ~~a dispute resolution~~ process, either pre- or post- payment. We anticipate that these reviews could increase in frequency in the future. Additionally, both federal and state government agencies have heightened and coordinated civil and criminal enforcement efforts as part of numerous ongoing investigations of healthcare companies and, in particular, SNFs. The focus of these investigations includes, among other things ~~: •~~ **, billing and** cost reporting ~~and billing~~ practices; ~~•~~ quality of care **provided** ; ~~•~~ financial relationships with referral sources; and ~~•~~ **the** medical necessity of **rendered** services ~~provided~~ . ~~On May 31, 2018, we received a Civil Investigative Demand (CID) from the DOJ stating that it is investigating our company to determine whether we have violated the FCA or~~ **For example** ~~the Anti- Kickback Statute with respect to the relationships between certain of our SNFs and persons who served as medical directors~~ , ~~advisory board participants or other referral~~ --- **refer to** ~~sources. The CID covered~~ the ~~period from October~~ **matter discussed in Item** 3 ~~, 2013 through 2018 and was limited in scope to ten of our Southern California SNFs~~ . **Legal Proceedings** ~~In October 2018, the Department of Justice made an additional request for information covering the period of January 1, 2011 through 2018, relating to the same topic. As a general matter, our operating entities maintain policies and procedures to promote compliance with the FCA, the Anti- Kickback Statute, and other applicable regulatory requirements. We are fully cooperating with the U. S. Department of Justice. In April 2020, the Company was advised that the U. S. Department of Justice declined to intervene in any subsequent action filed by a relator in connection with the subject matter of this investigation~~ . If we should agree to a settlement of ~~,~~ claims or obligations under ~~federal~~ Medicare statutes, the **FCA, or similar** federal ~~FCA,~~ or ~~similar State~~ **state** ~~and Federal~~ statutes and related regulations, our business, financial condition and results of operations and cash flows could be materially and adversely affected, and our stock price could be adversely impacted. Among other things, any settlement or litigation could involve the payment of substantial sums to settle any alleged civil violations and may also include our assumption of specific procedural and financial obligations going forward under a corporate integrity agreement or other arrangement with the government. If the government or a court were to conclude that errors and deficiencies constitute criminal violations and / or that such errors and deficiencies resulted in the submission of false claims to federal healthcare programs, or were to discover other problems in addition to the ones identified by the probe reviews that rose to actionable levels, we and certain of our officers might face potential criminal charges and civil claims, administrative sanctions and penalties for amounts that could be material to our business, results of operations and financial condition. In addition, we or some of the key personnel of our independent ~~operating~~ subsidiaries could be temporarily or permanently excluded from future participation in state and federal healthcare

reimbursement programs such as Medicaid and Medicare. If any of our ~~independently~~ -- **independent** ~~operated subsidiary~~ **subsidiaries** ~~facilities~~ is decertified or loses its licenses, our revenue, financial condition or results of operations would be adversely affected. In addition, the report of such issues at any of our ~~independently~~ -- **independent** ~~operated subsidiary~~ **subsidiaries** ~~facilities~~ could harm our reputation for quality care and lead to a reduction in the patient referrals to and ultimately a reduction in occupancy at these facilities. Also, responding to auditing and enforcement efforts diverts material time, resources and attention away from our management team and our staff, and could have a materially detrimental impact on our results of operations during and after any such investigation or proceedings, regardless of whether we prevail on the underlying claim ~~. We are subject to extensive and complex laws and government regulations. If we are not operating in compliance with these laws and regulations or if these laws and regulations change, we could be required to make significant expenditures or change our operations in order to bring our facilities and operations into compliance~~ . We, along with other companies in the healthcare industry, are required to comply with extensive and complex laws and regulations at the federal, state and local government levels relating to, among other things: • licensure and certification; • **disclosure of ownership and affiliated parties; •** adequacy and quality of healthcare services; • qualifications ~~and vaccination (including boosting)~~ of healthcare and support personnel; • **state- specified and potential federal mandates for specific nurse staffing levels; •** quality **and maintenance** of medical equipment **and facilities** ; • confidentiality, maintenance and security issues associated with medical records and claims processing; • relationships with physicians and other referral sources and recipients; • constraints on protective contractual provisions with patients and third- party payors; • operating policies and procedures; • addition of facilities and services; and • billing for services. The laws and regulations governing our operations, along with the terms of participation in various government programs, regulate how we ~~do~~ **conduct our** business, the services we offer, and our interactions with patients and other healthcare providers. These laws and regulations are subject to frequent change. As noted above, the **Biden- Harris** Administration has called upon HHS and CMS to study and propose new rules regarding staffing requirements and reimbursement for the nursing home industry, including tying reimbursement to staffing levels, salary, benefits, and retention. CMS' s ~~guideline~~ **recently finalized ownership transparency rule, discussed in Item 1., under Government Regulation, may provide** ~~and~~ **an additional basis for further investigation, administrative action and ultimately fines, penalties, or** ~~sanction~~ **sanctions if finalized** ~~addressed topics including infection control~~ , ~~resident safety, arbitration of disputes, nurse staffing,~~ and **may dissuade parties from working** ~~mental health disorders. In addition, CMS' new guidance including the use of masks and face coverings in connection~~ with **us** ~~visitations to combat the transmission of COVID- 19, testing of nursing home staff and residents regardless of COVID- 19 vaccination status and verifying vaccination of all SNF and LTC facility staff could result in enhanced scrutiny by state surveyors and a potential increase in fines, penalties, sanctions,~~ or ~~administrative actions against~~ our independent ~~operating~~ subsidiaries **due to the reporting and disclosure obligations of being an Additional Disclosable Party under that final rule** . We believe that such regulations **that may adversely affect our business, operation and profitability** may increase in the future and we cannot predict the ultimate content, timing or impact on us of any healthcare reform legislation ~~. Changes in existing laws or regulations, or the enactment of new laws or regulations, could negatively impact our business~~ . If we fail to comply with these applicable laws and regulations, **or their interpretations as determined by courts or enforced by regulators,** we could suffer civil or criminal penalties and other detrimental consequences, including denial of reimbursement, imposition of fines, temporary suspension of admission of new patients, suspension or decertification from the Medicaid and Medicare programs, restrictions on our ability to acquire new facilities or expand or operate existing facilities, the loss of our licenses to operate and the loss of our ability to participate in federal and state reimbursement programs. Additionally, in the future, different interpretations or enforcement of these laws and regulations could subject our current or past practices to allegations of impropriety or illegality or could require us to make changes in our facilities, equipment, personnel, services, capital expenditure programs and operating expenses. As discussed in greater detail in Item 1., under Government Regulation, we are subject to federal and state laws intended to prevent healthcare fraud and abuse ~~, including the federal FCA, state false claims acts, the illegal remuneration provisions of the Social Security Act, the AKS, state anti- kickback laws, the Civil Monetary Penalties Law and the federal " Stark " Law . Among other things,~~ **Possible sanctions for violation of any of** these laws ~~prohibit kickbacks, bribes~~ and **regulations** ~~rebates, as well as other direct and indirect payments or fee- splitting arrangements that are designed to induce the referral of patients to a particular provider for medical products or services payable by any federal healthcare program and prohibit presenting a false or misleading claim for payment under a federal or state program. They also prohibit some physician self- referrals. Possible sanctions for violation of any of these restrictions or prohibitions~~ include loss of eligibility to participate in federal and state reimbursement programs and civil and criminal penalties. If we fail to comply, even inadvertently, with any of these requirements, we could be required to alter our operations, refund payments to the government, enter into a corporate integrity agreement, deferred prosecution or similar agreements with state or federal government agencies, and become subject to significant civil and criminal penalties. These anti-fraud and abuse laws and regulations are complex, and we do not always have the benefit of significant regulatory or judicial interpretation of these laws and regulations. While we do not believe we are in violation of these prohibitions, we cannot assure you that governmental officials charged with the responsibility for enforcing these prohibitions will not assert that we are violating the provisions of such laws and regulations. Our company is currently aware of **litigation filed by** an **individual** ~~investigation by the DOJ~~ related to allegations ~~some~~ **that certain** of our ~~California facilities~~ **independent SNFs** may have violated the FCA or the AKS with respect to the relationships between certain ~~of our~~ SNFs and persons who served as medical directors ~~, advisory board participants or other referral sources~~ . While our ~~operating entities~~ **independent subsidiaries** maintain policies and procedures to promote compliance with the FCA, the AKS, and other applicable regulatory requirements, we cannot predict when the investigation will be resolved, the outcome of the investigation or its potential impact on our company. **On September 1, 2023, CMS issued a proposed rule setting forth proposed minimum nurse staffing requirements for SNFs. As discussed in more detail in Item 1., under Government Regulation, this proposed rule contains three primary**

staffing proposals: 1) minimum nurse staffing standards of 0. 55 HPRD for RNs and 2. 45 HPRD for NAs; 2) a requirement to have a RN on- site 24 hours per day, seven days per week; and 3) requirements for enhanced facility assessments. The proposed rule features a staggered implementation of these requirements, with potential accommodations for facilities that can demonstrate financial hardship and a delayed implementation schedule for rural facilities. Within this proposed rule, CMS also seeks comments about other staffing models, including alternate, higher standards for imposing staffing minimums, which will have a potentially adverse effect on our operations and profitability, the extent of which currently is not known. Pending legislation in both the House of Representative and the Senate has been introduced to prevent CMS' s proposed minimum staffing rule from taking effect, however the outcome of this legislation is unknown and we cannot predict proposed legislation might be finalized. We are unable to predict the future course of federal, state and local regulation or legislation, including **as it pertains to** Medicare ~~and ,~~ Medicaid **, or** ~~statutes and regulations related to~~ fraud and abuse **laws** , **and how the** ~~they are enforced~~ ~~intensity of federal and state enforcement actions or the extent and size of any potential sanctions, fines or penalties~~ . Changes in the regulatory framework, our failure to obtain or renew required regulatory approvals **, credentials, qualifications,** or licenses or to comply with applicable regulatory requirements, ~~the suspension or revocation of our licenses or our disqualification from participation in federal and state reimbursement programs,~~ or the imposition of other enforcement sanctions, fines or penalties could have a material adverse effect upon our business, financial condition or results of operations. Furthermore, should we lose licenses or certifications for a number of our facilities or other businesses as a result of regulatory action or legal proceedings, we could be deemed to be in default under some of our agreements, including agreements governing outstanding indebtedness. Public and government calls for increased survey and enforcement efforts toward **SNFs** ~~LTC facilities~~ , and potential rulemaking that may result in enhanced enforcement and penalties, could result in increased scrutiny by state and federal survey agencies. In addition, potential sanctions and remedies based upon alleged regulatory deficiencies could negatively affect our financial condition and results of operations. As CMS turns its attention to enhancing enforcement activities towards **SNFs** ~~LTC facilities~~ , as discussed in Item 1., under Government Regulation, state survey agencies will have more accountability for their survey and enforcement efforts. The ~~Administration' s fact sheet regarding~~ enhanced penalties against SFFs **under the Biden- Harris Administration** , discussed in greater ~~length within that section~~ **detail in Item 1., under Government Regulation** , represents further federal calls for oversight and penalties for low- ranked and underperforming ~~LTC~~ **SNFs. These enhanced penalties and enforcement** ~~facilities~~ **activities** . ~~This fact sheet~~ precedes greater focus by CMS in obtaining oversight over SFFs, and continuing that oversight even after those SFFs improve, and subjecting them to more exacting and routine oversight. The likely result may be more frequent surveys of our ~~affiliated facilities~~ **independent subsidiaries** , with more substantial penalties, fines and consequences if they do not perform well. For low- performing facilities in the SFF program, the standards for successfully emerging from that program and not being subject to ongoing and enhanced government oversight will be higher and measured over a longer period of time, prolonging the risks of monetary penalties, fines and potential suspension or exclusion from the Medicare and Medicaid programs. As discussed in Item 1., under Government Regulation, from time to time in the ordinary course of business, we receive deficiency reports from state and federal regulatory bodies resulting from such inspections or surveys. ~~The focus of~~ **CMS' s updated guidance to** these ~~deficiency reports tends~~ **surveyors incorporate recent changes** to ~~vary~~ **CMS' s methods for surveying infection control procedures. Additionally, CMS' s recently finalized rule requiring disclosure of ownership and financial relationships between nursing facilities and property owners or management entities, as well as other state rules over ownership transparency, may provide an additional basis for further investigation, administrative action, and ultimately fines, penalties, or sanctions and could dissuade individuals and businesses** from **doing business** ~~year to year and state to state. Based on its October 2022 guidance, CMS and its state surveyors will place greater emphasis on COVID- 19 vaccination reporting and will potentially assess penalties for failing to comply~~ with ~~vaccination administration and reporting obligations~~ **us or our independent subsidiaries** . Although most inspection deficiencies are resolved through an agreed- upon plan of corrective action, the reviewing agency typically has the authority to take further action against a licensed or certified facility ~~, which~~ **. These remedial actions** could result in the imposition of fines, imposition of a license to a conditional or provisional status, suspension or revocation of a license, suspension or denial of payment for new admissions, loss of certification as a provider under state or federal healthcare programs, or imposition of other sanctions, including criminal penalties. In the past, we have experienced inspection deficiencies that have resulted in the imposition of a provisional license and could experience these results in the future. Furthermore, in some states, citation of one ~~affiliated facility~~ **independent subsidiaries** could negatively impact other ~~affiliated facilities~~ **independent subsidiaries** in the same state. Revocation of a license at a given facility could therefore impair our ability to obtain new licenses or to renew, or maintain, existing licenses at other facilities, which may also trigger defaults or cross- defaults under our leases and our credit arrangements, or adversely affect our ability to operate or obtain financing in the future. **CMS'** ~~If state or federal regulators were to determine, formally or otherwise, that one facility's~~ **proposed rules requiring disclosure** ~~regulatory history ought to impact another~~ of **ownership, management and the owners of real property lessors** ~~our~~ **or sublessors, which are greater and more intrusive than** existing **disclosure requirements heighten** ~~or prospective facilities,~~ this **risk** ~~could also increase costs, result in increased scrutiny by state and federal survey agencies, and even impact our expansion plans~~ . **Our** ~~Therefore, our~~ failure to comply with applicable legal and regulatory requirements in any single facility could negatively impact our financial condition and ~~overall~~ **results** of operations ~~results~~ . From time to time, we have opted to voluntarily stop accepting new patients pending completion of a new state survey, in order to avoid possible denial of payment for new admissions during the deficiency cure period, or simply to avoid straining staff and other resources while retraining staff, upgrading operating systems or making other operational improvements. If we elect to voluntary close any operations in the future or to opt to stop accepting new patients pending completion of a state or federal survey, it could negatively impact our financial condition and results of operation. We have received notices of potential sanctions and remedies based upon alleged regulatory deficiencies from time to

time, and such sanctions have been imposed on some of our ~~affiliated facilities~~ **independent subsidiaries** . We have had ~~affiliated facilities~~ **independent subsidiaries** placed on **SFF** ~~special focus facility~~ status in the past ~~, continue to have some facilities on this status currently~~ and other ~~operating~~ **independent** subsidiaries may be identified for such status in the future. We currently have ~~no~~ **one** ~~facilities~~ **facility** placed on ~~special focus~~ **SFF status. As discussed in discussed in greater detail in Item 1., under Government Regulation, in October of 2022 CMS updated the SFF program with the intent to reduce the amount of time a SNF spends as an SFF and increase the number of nursing homes that progress through the SFF program. CMS clarified certain details of the SFF program updates in 2023 and how they are to be implemented by each state survey agency (SA). As part of the revisions to the SFF program, a priority in revising the SFF program was to address " yo- yo " noncompliance of SNFs that would graduate from the SFF program only to later see their compliance and quality measures regress after graduation, potentially requiring readmission to the SFF program. Among the measures implemented to avoid this issue of " yo- yo " noncompliance was a three- year lookback period for facilities that graduate from the SFF program to ensure that the quality and compliance improvements achieved through the SFF program were sustained. Facilities that graduate from the SFF program but continue to demonstrate poor compliance as evidenced by any SA' s survey, such as for actual harm, substandard quality of care, or immediate jeopardy deficiencies, may be subject to enhanced enforcement by CMS, up to and including termination from the Medicare and / or Medicaid programs. This three- year lookback for sustained improvements by facilities that graduate the SFF program poses risk for our independent subsidiaries, specifically those that may be subject to the SFF program or that have been subject to the SFF program in the past. As of December 31, 2023, we have three facilities graduated from the SFF program within the past three years. First, for SNFs that are selected by CMS for participation in the SFF program, or which currently are in the SFF program, even graduation from the program is no longer an assurance that the SNF will be able to continue its operations. Even one survey with a significant compliance deficiency, such as actual harm or an immediate jeopardy deficiency, may result in CMS — acting solely within its discretion — terminating the SNF' s Medicare or Medicaid participation, likely triggering the termination of other payor contracts and rendering the** facility ~~status~~ **economically unviable. Second, and relatedly, for SNFs that have graduated from the SFF program, they are subject to a three- year period of enhanced scrutiny where adverse findings by a SA and a single survey' s finding of poor compliance may result in CMS discretionarily terminating that facility' s Medicare and / or Medicaid participation, which would likely cause other payors to terminate their agreements with the facility as well. As a result, the financial and manpower resources needed for graduation from the SFF program may be for nothing if, in the three years following graduation from the SFF program, a SNF receives a poor survey result and permits CMS to impose fines and penalties up to the termination of the facility' s Medicare and Medicaid participation. As discussed above, Medicare and Medicaid represent significant sources of payment for our independent subsidiaries. Any of our facilities' loss of a Medicare or Medicaid contract would significantly harm the financial performance of that facility. Additionally, if CMS perceived there to be common upstream ownership of multiple facilities that were participants in or graduates of the SFF program, CMS may seek to take enforcement actions against those other facilities due to their common ownership based on another facility' s deficiencies after graduating the SFF program, with CMS imposing penalties up to and potentially including termination of those SNFs' participation in the Medicare and / or Medicaid programs. On September 1, 2023, CMS issued a proposed rule setting forth proposed minimum nurse staffing requirements for SNFs. As discussed in more detail in Item 1., under Government Regulation, this proposed rule contains three primary staffing proposals: 1) minimum nurse staffing standards of 0. 55 HPRD for RNs and 2. 45 HPRD for NAs; 2) a requirement to have a RN on- site 24 hours per day, seven days per week; and 3) requirements for enhanced facility assessments. The proposed rule features a staggered implementation of these requirements, with potential accommodations for facilities that can demonstrate financial hardship and a delayed implementation schedule for rural facilities. Within this proposed rule, CMS also seeks comments about other staffing models, including alternate, higher standards for imposing staffing minimums, which will have a potentially adverse effect on our operations and profitability, the extent of which currently is not known. While the full effects of these proposed federal staff level minimums are not fully known at this time, the expected effects likely will be studied by industry groups in the coming months, to include within responsive comments submitted to CMS for consideration while any final rule is being prepared. The exact effects of these proposed minimum staffing levels cannot be ascertained without a final rule that will specify the required number of staff for the Company' s independent subsidiaries to comply with such a regulation, we expect that such a mandate will have adverse financial consequences upon our business. Depending on the requirements of a final mandate and the time period over which its requirements are phased in, we may be required to hire substantially more staff members, particularly nurse practitioners, registered nurses, licensed practical nurses and nursing aides than currently staffed. Additionally, a federal mandate of this nature would place similar pressure on our competitors and result in sudden, expanded demand for nursing staff across the SNF industry. This sudden demand across the SNF industry may exacerbate an already difficult labor market, with demand for nursing staff far outstripping the supply of qualified individuals, and the salary requirements of both current and prospective staff increasing markedly to increase the likelihood of recruiting and retaining skilled caregivers** . Future cost containment initiatives undertaken by private third- party payors may limit our revenue and profitability. Our non- Medicare and non- Medicaid revenue and profitability are affected by continuing efforts of third- party payors to maintain or reduce costs of healthcare **, such as** by lowering payment rates, narrowing the scope of covered services, increasing case management review of services and negotiating pricing. In addition, sustained unfavorable economic conditions may affect the number of patients enrolled in managed care programs and the profitability of managed care companies, which could result in reduced payment rates. ~~There can be no assurance that third~~ **Third -** party payors ~~will~~ **may not** make timely payments for our services, **and** ~~or that~~ we ~~will continue~~ **may be unable** to maintain our current payor or revenue

mix ~~. Trade publications within the healthcare industry have reported on the trend of payors using the No Surprises Act as a means to force re- negotiation of reimbursement rates for providers and facilities, and this trend has led to ongoing litigation between these providers and / or facilities against payors. Although the services provided in our business generally are outside the scope of the No Surprises Act, subsequent rulemaking and potentially aggressive behaviors by payors may pose a risk to our business~~ . We are continuing our efforts to develop our non- Medicare and non- Medicaid sources of revenue and any changes in payment levels from current or future third- party payors could have a material adverse effect on our business and consolidated financial condition, results of operations and cash flows. ~~Changes~~ **As discussed** in ~~Medicare reimbursements~~ **greater detail in Item 1., under Government Regulation, MACRA revised the payment system** for physician and non- physician services ~~could impact reimbursement for medical professionals~~ . **The changes** ~~As discussed in greater detail in Item 1., under Government Regulation, MACRA revised the payment system for physician and non- physician services. Section 1 of that law, the sustainable growth rate repeal and Medicare Provider Payment Modernization will impact payment provisions for medical professional services. That enactment also extended for two~~ - **to the** ~~years provisions that permit an exceptions process from~~ therapy caps imposed on Medicare Part B outpatient therapy ~~. There was a combined cap for PT~~ **from this law have been changed by the BBA,** and ~~SLP~~ **are subject to future budgetary changes through rulemaking** and ~~a separate cap~~ **legislation, resulting in ongoing uncertainty regarding payment** for ~~OT~~ **these Medicare Part B** services **. Under the CY 2024 PF Final Rule, reductions in conversion factor, payments to providers and conditions imposed in exchange for higher payments may impose operational requirements and working conditions** that **further detract from and** ~~apply subject to certain exceptions. On February 9, 2018, the BBA was signed into law, which provides for the repeal of all therapy caps retroactively to January 1, 2018. The law also reduced~~ - **reduce our financial performance** ~~the monetary threshold that triggers a manual medical review (MMR), in certain instances through 2028~~ . ~~The reduction in~~ **Similarly, new final rules concerning** the ~~MMR threshold~~ **PACE program and the information it** will ~~likely result in increased number of reviews for~~ **collect from our independent subsidiaries may adversely affect** the ~~foreseeable future~~ **risk- adjusted reimbursement. We face numerous risks related to the COVID- 19 PHE' s expiration and surrounding wind- down and uncertainty** , which could **individually or** in ~~turn~~ **the aggregate** have a ~~negative~~ **material adverse** effect on our business, financial condition ~~or~~ **, liquidity,** results of operations **and prospects** . ~~We may~~ **The extent to which the COVID- 19 PHE' s termination will affect our operations will depend on future developments, which are highly uncertain and cannot** be ~~subject~~ **predicted with confidence. The remains uncertainty as** to ~~increased investigation~~ **what changes will be made to HHS' s emergency response requirements for our SNFs** and ~~enforcement~~ **senior living** ~~activities~~ - **facilities in order to better respond to the issues experienced during the COVID- 19 PHE. Additionally, the expiration of the Emergency Waivers and other flexibilities allowed under the COVID- 19 PHE** ~~related~~ -- **create** ~~to HIPAA violations. We are~~ **the risk of non- compliance and delays in operation as more attention is** required to **ensure that our operations** comply with ~~numerous legislative~~ **applicable laws** and ~~regulatory~~ **regulations . As** ~~requirements at the federal and state levels addressing patient privacy and security of health information, as~~ discussed ~~in greater detail~~ in Item 1., under Government Regulation **, federal, state and local regulators implemented new regulations and waived existing regulations to promote care delivery during the COVID- 19 PHE, which ended as of May 11, 2023. The ending of the Emergency Waivers and wind- down of other flexibilities may require and continue to require operational change requirements on short notice. The reinstatement of waived state and federal regulations has not occurred simultaneously, requiring heightened monitoring to ensure compliance. We and our independent subsidiaries may face continued challenges from ongoing infection control and emergency preparedness requirements made part of state laws or regulations as a result of the COVID- 19 endemic. Additionally, the long- term effects of the COVID- 19 pandemic may include long- term decline in demand for care in SNFs and senior living facilities, which will be borne out only through time. The extent and duration of the impact of the COVID- 19 pandemic on our stock price is uncertain, our stock price may be more volatile, and our ability to raise capital could be impacted** . HIPAA, as amended by the HITECH Act, requires us to adopt and maintain business procedures and systems designed to protect the privacy, security and integrity of patients' individual health information ~~. States also have~~ **, in addition to state** laws **governing** ~~that apply to~~ the privacy of ~~healthcare~~ **patient** information. We must comply with these state privacy laws to the extent that they are more protective of healthcare information or provide additional protections not afforded by HIPAA. **The regulations enacting HIPAA periodically change and the last proposed change was issued in late 2022. This proposed rulemaking may be made final in 2023 and, if adopted as proposed, may require our independent subsidiaries to modify certain policies, procedures and practices regarding the disclosure of residents' information.** If we fail to comply with these state and federal laws, we could be subject to criminal penalties, civil sanctions, litigation, and be forced to modify our policies and procedures ~~. Additionally~~ , ~~if a~~ **in addition to undertaking costly** breach **notification and** ~~under HIPAA or other privacy laws were to occur,~~ remediation efforts **, as well as sustaining** ~~could be costly and damage to our reputation~~ **reputational harm** ~~could occur~~ . In addition to breaches of protected patient information, under HIPAA and the 21st Century Cures Act (Cures Act) **and other federal regulations** , healthcare entities are also required to afford patients with certain rights of access to their health information **and to promote sharing of patient data between and among healthcare providers involved in the same patient' s course of care** . Recently, the Office ~~of~~ **for** Civil Rights, the agency responsible for HIPAA enforcement, has targeted investigative and enforcement efforts on violations of patients' rights of access, imposing significant fines for violations largely initiated from patient complaints. If we fail to comply with our obligations under HIPAA, we could face significant fines. Likewise, if we fail to comply with our obligations under the Cures Act, we could face fines from the Office of the National Coordinator for Health Information Technology, the agency responsible for Cures Act enforcement. Healthcare businesses are increasingly the target of cyberattacks whereby hackers disrupt business operations or obtain protected health information, often demanding large ransoms. ~~In~~ **At the end of the first quarter of** ~~2021~~ **2023** ~~alone~~ , the healthcare sector saw a ~~45~~ **60** % increase in ~~ransomware attacks, with~~ the average ~~cost to remediate being~~ **weekly number of**

cyberattacks over ~~$ 1 million per incident~~ **2021. By August of 2023, industry observers note that cybersecurity breaches in the healthcare industry had become less frequent, but larger in scope and affecting more patients than the prior year** . Our business is dependent on the proper functioning and availability of our computer systems and networks. **We** ~~While we have taken steps to protect the safety and security of our information systems and the patient health information and other data maintained within those systems, we~~ cannot assure you that our safety and security measures and disaster recovery plan will prevent damage, interruption or breach of our information systems and operations. Additionally, we cannot control the safety and security of our information held by third- party vendors with whom we contract. **The** ~~Because the~~ techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may be difficult to detect, **and as such** we (or third- party vendors) may be unable to anticipate these techniques or implement adequate preventive measures. In addition, hardware, software or applications we (or third- party vendors) develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise the security of information systems. Unauthorized parties may attempt to gain access to our systems or facilities, or those of third parties with whom we do business, through fraud or other forms of **deception** ~~deceiving our employees or contractors~~ . On occasion, we have acquired additional information systems through our business acquisitions, and these acquired systems may expose us to risk. We also license certain third- party software to support our operations and information systems. Our inability, or the inability of third- party vendors, to continue to maintain and upgrade information systems and software could disrupt or reduce the efficiency of our operations. 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 our operations. A cyber- attack or other incident that bypasses **the security measures of** our information systems ~~security~~ could cause a security breach **,** which may lead to a material disruption to our information systems infrastructure or business, significant costs to remediate (e. g., ~~payment to cyber attackers to recover our~~ data **recovery**) and may involve a significant loss of business or patient health information. If a cyber- attack or other unauthorized attempt to access our systems or facilities were ~~to be~~ successful, it could **also** 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 our ability to provide various healthcare services. Any successful cyber- attack or other unauthorized attempt to access our systems or facilities also could result in negative publicity which could damage our reputation or brand with our patients, referral sources, payors or other third parties and could subject us to a number of adverse consequences, the vast majority of which are not insurable, including but not limited to ~~significant payment to cyber attackers to recover data~~ , disruptions in our 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, Office of Civil Rights, the OIG or state attorneys general), fines, private litigation with those affected by the data breach **(including class action litigation)** , loss of customers, disputes with payors and increased operating expense, which either individually or in the aggregate could have a material adverse effect on our business, financial position, results of operations ~~and ,~~ liquidity **, and stock price** . We may not be fully reimbursed for all services for which each facility bills through consolidated billing, which could adversely affect our revenue, financial condition and results of operations. SNFs are required to perform consolidated billing for certain items and services furnished to patients and residents. The consolidated billing requirement **requires** ~~essentially confers on~~ the SNF **to effectively bill** ~~itself the Medicare billing responsibility~~ for the entire package of care that its patients receive in these situations. ~~The BBA also affected SNF payments by requiring that post~~ **Post** - hospitalization skilled nursing services **must** be " bundled " into the hospital' s diagnostic related group (DRG) payment in certain circumstances ~~. Where this rule applies~~ , **in which case** the hospital and ~~the~~ SNF must **effectively** ~~, in effect,~~ divide the payment ~~which~~ **that** otherwise would have been ~~paid~~ **made** to the hospital ~~alone for the patient' s treatment, and no additional funds are paid by Medicare for skilled nursing care of the patient~~ . Although this **practice is uncommon** ~~provision applies to a limited number of DRGs~~ , it ~~has~~ **adversely affects SNF utilization and payments, whether due to the practical difficulty of this apportionment or hospitals being reluctant to lose revenue by discharging patients to** a ~~negative~~ **SNF. If more payments are required to be bundled in the future, this trend may continue, with our SNFs not receiving full reimbursement for all the services they provide, and have a further adverse** effect on SNF utilization and ~~payments, either because hospitals are finding it difficult to place patients in SNFs which will not be paid as before or because hospitals are reluctant to discharge the patients to SNFs and lose part of their payment. This bundling requirement could be extended to more DRGs in the future, which would accentuate the negative impact on SNF utilization and payments. We may not be fully reimbursed for all services for which each facility bills through consolidated billing, which could adversely affect our~~ revenue ~~, financial condition and results of operations~~ . Increased competition for, or a shortage of, nurses and other skilled personnel could increase our staffing and labor costs and subject us to monetary fines. Our success depends upon our ability to retain and attract nurses and other skilled personnel, such as Certified Nurse Assistants, social workers and speech, physical and occupational therapists **, as well as** ~~. Our success also depends upon our ability to retain and attract~~ skilled management personnel ~~who are~~ responsible for ~~the~~ day- to- day **facility** ~~operations~~ - **operation** ~~of each of our affiliated facilities~~ . Each facility has a facility leader responsible for the overall day- to- day operations of the facility, including quality of care, social services and financial performance. Depending upon the size of the facility, each facility leader is supported by facility staff ~~that is~~ **who are** directly responsible for day- to- day care of the patients ~~and ,~~ marketing and community outreach programs. Other key positions supporting each facility may include individuals responsible for physical, occupational and speech therapy, food service and maintenance. We compete with various healthcare service providers, including other skilled nursing providers, in retaining and attracting qualified and skilled personnel. **Our independent** ~~We operate one or more affiliated~~ SNFs **are located** in the states of Arizona, California, Colorado, Idaho, Iowa, Kansas, Nebraska, Nevada, South Carolina, **Tennessee,** Texas, Utah, Washington and Wisconsin. ~~With~~ **All states follow** the ~~exception of Utah~~ **current federal regulation relative to staffing** , which ~~follows federal regulations, each of~~ **establishes that SNFs are required to staff to meet** ~~these~~ -- **the needs of the**

residents present in the facility. In addition, several states ~~has~~ **have** established minimum staffing requirements for facilities operating in ~~that~~ **those** ~~state~~ **states** . Failure to comply with these requirements can, among other things, jeopardize a facility' s compliance with the conditions of participation under relevant state and federal healthcare programs. **If** ~~In addition, if~~ a facility is determined to be out of compliance with these requirements, it may be subject to a notice of deficiency, a citation, or a significant fine or litigation risk **, with penalties including** ~~. Deficiencies (depending on the level) may also result in~~ the suspension of patient admissions and the termination of Medicaid participation, or the suspension, revocation or non- renewal of the SNF' s license. ~~If~~ **On September 1, 2023, CMS published a long- awaited proposed rule setting forth proposed SNF minimum staffing requirements at** the federal **level. In relevant part, these proposed federal standards require 1) minimum nurse staffing standards of 0. 55 HPRD** ~~or~~ **for RNs and 2. 45 HPRD for NAs; and 2) a requirement to have a RN on- site 24 hours per day, seven days per week. This proposed rule contains numerous other provisions discussed in more detail in Item 1., under Government Regulation. Comments are still being submitted for this proposed rule, and the substance of both the comments and any revisions to the later- issued final rule setting forth minimum staffing requirements may influence the effect that this rule has on our business and its financial performance. Nonetheless, for the federal government or any** state ~~governments~~ **government** ~~were~~ to ~~issue regulations which~~ materially change the way compliance with the minimum staffing standard is calculated or enforced, our labor costs could increase and the current shortage of healthcare workers could impact us more significantly ~~, including the increased scrutiny on staffing at the state and federal levels as a result of the COVID- 19 virus~~ . The broader labor market where we compete is in a ~~unique~~ state of disequilibrium where the needs of businesses such as ours outstrip the supply of available and willing workers. There is additional upward pressure on wages from different industries and more generally due to the ~~reported~~ **current** rate of inflation ~~for the preceding 12 months~~ . Some of these industries compete with us for labor and others that do not, which makes it difficult to make significant hourly wage and salary increases due to the fixed nature of our reimbursement under insurance contracts as well as Medicare and Medicaid, in addition to our increasing variable costs. Due to the limited supply of qualified applicants who seek or are willing to accept employment, these broader concerns, ~~as well as those specific to both federal COVID- 19 vaccination mandates and existing state mandates,~~ may increase our labor costs or lead to potential staffing shortages, reduced operations to comply with applicable laws and regulations, or difficulty complying with those laws and regulations at current operational levels. Federal laws and regulations **, including the proposed minimum nurse staffing levels if they are made final,** may increase our costs of maintaining qualified nursing and skilled personnel, or make it more difficult for us to attract or retain qualified nurses and skilled staff members. ~~The~~ **Proposed legislation, such as the previously** proposed Nursing Home Improvement Act **and the proposed HCBS Access Act, may make it more expensive to compete for, hire, and retain nursing staff** , if passed into law in substantially the same form as **previously introduced** ~~the proposed bill, may increase our responsibility~~ to **Congress** ~~provide nursing coverage and the costs associated with that increased coverage~~ . ~~There~~ -- **The Biden-Harris** ~~has been an increase in the~~ Administration' s desire to **increase** ~~have HHS and CMS study~~ staffing level requirements for the nursing home industry and to tie ~~Medicare and Medicaid~~ reimbursement to the salary, benefits, and retention of staff **also may increase our labor costs** . CMS has published guidance to surveyors addressing topics that specifically include nurse staffing and collection of payroll data to evaluate appropriate staffing levels, ~~requiring the use of masks and face coverings by~~ **which may lead to future regulation that increase our** ~~staff~~ **staffing** ~~and testing of nursing home staff and residents regardless of COVID- 19 vaccination status, emphasizing the scope of information to be gathered from and reported by facilities, including SNFs and LTC facilities and emphasizing the penalties for non- compliance, as well as the obligations of facilities seeking to demonstrate their corrective actions. These~~ requirements **and labor** ~~may also increase our operating~~ costs ~~and require additional compensation to be paid to employees in the form of wages and benefits. We are monitoring our~~ - **or lower revenues** ~~facilities for potential effects from CMS' s IFR requiring employees of Medicare and Medicaid- participating medical facilities to be vaccinated, which may cause disruption to our affiliated facilities' nursing staff and may additionally disrupt our operations if affected personnel decline to be vaccinated and replacement staffing cannot be located~~ . Similar state- level requirements in the states where our ~~affiliated~~ **independent** SNFs operate, whether such requirements are passed by statute, regulation, or executive order, may result in a shortage or inability to obtain nurses and skilled staff. **Prior concerns about** ~~As noted above, California, Washington, and Colorado have all mandated vaccinations for workers in health care facilities that include nursing homes. These administrative mandates precede, may be more restrictive than and are not likely to be preempted by CMS' s IFR. As of July 14, 2022, however, Colorado' s Board of Health allowed its emergency rule requiring all healthcare workers be vaccinated against COVID- 19 to expire, other than those working within Medicare and Medicaid- certified facilities. At this time, state vaccine mandates, including their status and enforcement, continues to be an area that varies widely from state to state, and as seen by Colorado permitting its mandate to expire, is subject to ongoing change. While federal litigation over~~ the COVID- 19 vaccination IFR **may be abated by** ~~has concluded, federal enforcement of this IFR remains an enforcement priority and could subject our affiliated SNFs to scrutiny and potential fines, penalties, and other~~ -- **the Omnibus Final Rule** ~~consequences for non- compliance up to and including suspension or termination of their authorization to operate. State survey authorities that are tasked with enforcing their own state~~ ' s **withdrawal of that IFR. The withdrawal of the COVID** ~~mandate have similar powers to screen for compliance and impose fines and penalties for non- compliance, including suspension~~ **19 vaccination IFR may allow** ~~or~~ **for** ~~termination~~ **nursing and other personnel unwilling to receive the COVID- 19 vaccination to re- enter the workforce for Medicare- certified facilities and increase the pool** of ~~operating licenses~~ **hirable talent** . Increased competition for, or a shortage of, nurses or other trained personnel, or general ongoing inflationary pressures may require that we enhance our pay and benefits packages to compete effectively for such personnel ~~. We may not be able to offset such added costs by increasing the rates we charge to the patients of our operating subsidiaries~~ . Turnover rates and the magnitude of the shortage of nurses or other trained personnel vary substantially from facility to facility ~~. An increase in costs associated with , or a shortage of, skilled nurses, could negatively impact our business~~ **and may adversely affect those facilities' quality ratings based on**

data reported to CMS . In addition, ~~if~~ **state laws regarding minimum wage increases, such as California' s minimum wage increases for both health care and fast- food workers, may intensify competition for unskilled labor in both skilled and unskilled settings. For skilled workers within the skilled care market where we operate, the costs of skilled labor, which are already greater than unskilled labor, could increase further. Similarly, the increased minimum wage of unskilled labor will not only increase the cost of unskilled labor, but may also have effects that dissuade workers from training to join the skilled workforce to earn higher wage growth, resulting in a smaller pool of available skilled workers and further increased competition — and higher wages — for them. If** we fail to attract and retain qualified and skilled personnel, our ability to conduct our business operations ~~effectively~~ could be harmed. **Annual caps and other cost- reductions for outpatient therapy services** ~~Additionally, turnover in nursing staff, particularly among registered nurses,~~ may ~~adversely affect~~ **reduce our future revenue and profitability or cause** us ~~and the ratings of the facilities we operate under the new five- star measurement formulation used by the Nursing Home Compare website, when quality measure thresholds were increased, making it more difficult for our affiliated SNFs~~ to **incur losses** ~~obtain the highest scores~~ . As discussed in detail in Item 1., under Government Regulation, sub- heading Part B Rehabilitation Requirements, several government actions have been taken in recent years to try and contain the costs of rehabilitation therapy services provided under Medicare Part B, including the MPPR, institution of annual caps, mandatory medical reviews for annual claims beyond a certain monetary threshold, and a reduction in reimbursement rates for therapy assistant claim modifiers. Of specific concern has been CMS **efforts** ~~' s decision~~ to lower Medicare Part B reimbursement rates for outpatient therapy services **in** ~~by 9 %, beginning on January 1,~~ 2021 **,** ~~. These reductions continued in~~ 2022 and ~~are expected to continue in~~ 2023 ~~pursuant to the 2023 PFS final rule~~ . Such cost- containment measures and ongoing payment changes could have an adverse effect on our revenue. The Office of the Inspector General or other regulatory authorities may choose to more closely scrutinize billing practices in areas where we operate or propose to expand, which could result in an increase in regulatory monitoring and oversight, decreased reimbursement rates, or otherwise adversely affect our business, financial condition and results of operations. As discussed in greater detail in Item 1., under Government Regulation, Civil and Criminal Fraud and Abuse Laws and Enforcement, the OIG regularly conducts investigations regarding certain payment or compliance issues within ~~various~~ **the** healthcare ~~sectors~~ **industry** . **The** ~~Following these investigations, the~~ OIG ~~publishes reports, in part, to educate involved stakeholders and signal future enforcement focus. Reports published in 2019 and 2020 demonstrate the OIG' s increased scrutiny on post- hospital SNF care and continues to identify~~ **identified** SNF compliance as an issue **of concern** in its 2021 and 2022 semi- annual reports to Congress ~~. This may impact the~~ **, and its January 2023 study regarding** SNF ~~industry~~ **emergency preparedness identified the need for further oversight and addition of SNF emergency readiness to the OIG' s 2023 work plan. In November of 2023, OIG added to its work plan an audit of nursing homes' nurse staffing hours reported in CMS' s payroll- based journal, for which OIG expects to issue a report in FY 2025. Nursing homes were also a topic of discussion in the OIG' s 2023 semiannual report to Congress, which emphasized the continued protection and oversight of care that nursing facilities provide to residents. Among other things, the OIG recommended a reduction in the use of psychotropic drugs in nursing homes and urged CMS to evaluate the appropriateness of psychotropic drug use among residents, including the use of data to identify nursing homes with higher rates of use for potential further scrutiny and action. Based on this information, SNFs in particular are potential targets for more robust scrutiny and examination** by **regulators** ~~motivating additional reviews and stricter compliance in the areas outlined in the recent reports, expending material time and resources~~ . Recent publications and statements by the **Biden- Harris** Administration have also called for greater scrutiny of SNF ~~and LTC~~ facilities **. To respond to** ~~based on OIG' s 2022 findings that these~~ -- **the local community needs** ~~facilities did not implement appropriate infection control measures during the COVID- 19 pandemic,~~ and ~~calling for more authorities to impose penalties and other~~ -- **the shifting** ~~remedies on facilities that violate federal laws and regulations. Additionally, OIG reports published in 2010 and 2015 show the OIG' s concerns related to the billing practices~~ of ~~SNFs based on Medicare Part A claims and financial incentives for facilities to bill for~~ higher ~~levels of therapies, even when not needed by patients. In its fiscal year 2014 work plan, and again in 2017, OIG specifically stated that it will continue to study and report on questionable Part A and Part B billing practices amongst SNFs. Recently, in its 2021 work plan, OIG stated it will evaluate whether payments to SNFs under PDPM complied with Medicare requirements. OIG' s 2022 work plan states it will use a series of audits to confirm compliance with COVID- 19 vaccination requirements for LTC facility staff and will study nursing home emergency preparedness — particularly with managing resident care and collaborating with other health care providers. The study findings of nursing home emergency preparedness will be used to develop a key performance indicator to track challenges faced by nursing homes over time. On May 19, 2022, the OIG updated its Nursing Homes webpage, stating its key goals for nursing home oversight were (1) to protect residents from fraud, abuse and neglect, and to promote quality of resident care; (2) promote emergency preparedness and response efforts; and (3) to strengthen frontline oversight. Each of these priorities could signal an increased focus on compliance with the Requirements of Participation and other laws and regulations applicable to SNF and LTC facilities. OIG last updated its website regarding nursing homes in November of 2022, noting that an additional purpose of OIG' s mission was to support the federal monitoring of nursing homes to mitigate risks to residents. Our business model, like those of some other for- profit operators, is based in part on seeking out higher-~~ acuity patients ~~whom we believe~~ **from the acute** ~~are~~ **care** ~~generally more profitable~~ **setting to the SNF setting** , ~~and~~ over time our overall patient mix has consistently shifted to higher ~~-~~acuity and higher- resource utilization patients in most facilities we operate. We also use specialized care- delivery software that assists our caregivers in more accurately capturing and recording activities of daily living services, among other things. These efforts may place us under greater scrutiny with the OIG, CMS, our fiscal intermediaries, recovery audit contractors and others. Some states require healthcare providers, including SNFs, to obtain prior approval, known as a certificate of need, for: (~~i~~ **1**) the purchase, construction or expansion of healthcare facilities; (~~ii~~ **2**) capital expenditures exceeding a prescribed amount; or (~~iii~~ **3**) changes in services or bed capacity. ~~In addition, other~~ **Other** states that do not require certificates of need have effectively barred the

expansion of existing facilities and the establishment of new ones by placing partial or complete moratoria on the number of new Medicaid beds ~~they~~ **those states** will certify in certain areas or ~~in~~ **throughout** the entire state. **Still** ~~Other~~ **other** states have established such stringent development standards and approval procedures for constructing new healthcare facilities that the construction of new facilities, or the expansion or renovation of existing facilities, may become cost- prohibitive or extremely time- consuming. In addition, some states require the approval of the state Attorney General for acquisition of a facility being operated by a non- profit organization. Our ability to acquire or construct new facilities or expand or provide new services at existing facilities would be adversely affected if we are unable to obtain the necessary approvals, if there are changes in the standards applicable to those approvals, or if we experience delays and increased expenses associated with obtaining those approvals. We may not be able to obtain licensure, certificate of need approval, Medicaid certification, state Attorney General approval or other necessary approvals for future expansion projects. Conversely, the elimination or reduction of state regulations that limit the construction, expansion or renovation of new or existing facilities could result in increased competition to us or result in overbuilding of facilities in some of our markets. If overbuilding in the skilled nursing industry in the markets in which we operate were to occur, it could reduce the occupancy rates of existing facilities and, in some cases, might reduce the private rates that we charge for our services. ~~For example, AB 35~~ **Newly enacted and proposed legislation in the States where our independent subsidiaries are located may affect our operations in terms of individual litigation and the broader regulatory environment. A bill** in the State of California was recently signed into law ~~,~~ which increases the cap of non- economic damages awarded to plaintiffs who are successful in medical malpractice litigation. The cap increases from $ 0. 25 million to $ 0. 35 million beginning on January 1, 2023, **then** ~~with incremental~~ increases over the following 10 years until the cap reaches a maximum of $ 0. 75 million **, with further adjustments for inflation** . In wrongful death cases, the cap increases from $ 0. 25 million to $ 0. 5 million on January 1, 2023, with incremental increases over the following 10 years until the cap reaches a maximum of $ 1 **. 0** million **, with adjustments for inflation** . Due to ~~the~~ **California' s** influence ~~of California~~ on other states, other jurisdictions where we operate may enact similar laws ~~and~~ **. Similar to the potential incentive of increased damages caps, the Supreme Court' s recent decision in certain case may** increase **public interest in potential claims against SNFs and senior living facilities, particularly pertaining to specific civil rights claims against governmental actors rather than general liability claims against privately owned SNFs such as those operated by our independent subsidiaries. While** ~~their~~ **there** ~~current limits~~ **may be additional claims and litigation that arise from the Supreme Court' s decision that have an adverse impact** on ~~damages in medical malpractice litigation depending~~ **our cash flow, it is not expected that the decision will have a significant impact** on **our business** ~~the outcomes of upcoming elections~~ . ~~Additionally~~ **Another example** , California' s adoption of ~~AB 1502~~ **the Skilled Nursing Facility Ownership and Management Reform Act of 2022** , discussed in Item 1., Government Regulation, imposes new requirements for obtaining licenses to operate SNFs. These new requirements may delay **or limit** the ability to obtain new SNF licenses within that state, whether through acquisition of existing facilities or opening a new facility. **This new law'** ~~The additional background research that California' s~~ **obligations** ~~Department of Public Health is required to engage in~~ may increase the costs of obtaining licensure, make applications more time- consuming and complex, and may result in civil penalties and other sanctions against our ~~affiliated facilities~~ **independent subsidiaries** in the event they are not compliant with these new licensure application requirements. As a result, this new law may delay or impede growth within California. As with ~~AB 35~~ **the bill that increases the cap of non- economic damages for medical malpractice litigation** , California' s influence on other states may result in this legislation becoming a model for other states and having similar, potentially adverse effects within those jurisdictions as well. **More recently, California' s legislature has proposed bills related to increasing the minimum wage for workers, spending requirements and increased disclosure. As discussed in Item 1., Government Regulation, these proposed bills would create new and costly obligations on our independent subsidiaries if they became law and if enacted, would adversely affect our business, operations, and profitability. As another example, Texas passed a bill which partially restored Medicaid state relief funding for SNFs through August 31, 2023, while it also considered legislation that contained direct care spending requirements and ownership, similar to proposed federal rulemaking discussed in Item 1., Government Regulation. While this bill provided financial relief to our independent subsidiaries in Texas, other proposed bills may impose the same regulatory requirements and limitations inherent in both the proposed legislation in other states and the federally proposed rule requiring disclosure of such information in applications and change- of- ownership disclosures, which may adversely affect our business, operations, and profitability.** Our ~~operating~~ **independent** subsidiaries are subject to a variety of federal and state employment- related laws and regulations, including, but not limited to, the U. S. Fair Labor Standards Act ~~which~~ **that** governs such matters as minimum wages, overtime and other working conditions, the ADA and similar state laws that provide civil rights protections to individuals with disabilities in the context of employment, public accommodations and other areas, the National Labor Relations Act, regulations of the EEOC, regulations of the Office of Civil Rights, regulations of state attorney generals, family leave mandates and a variety of similar laws enacted by the federal and state governments that govern these and other employment law matters. On ~~November 17~~ **October 13** , ~~2022~~ **2023** , **the California Governor signed into law** a ~~coalition~~ **bill that impacts the minimum wage** of ~~22~~ **healthcare workers. Effective June 1, 2024, the law raises the minimum wage for California healthcare employees and sets a new standard salary threshold for those who are considered exempt healthcare employees. The bill only becomes effective for SNFs if a patient care minimum spending bill is also passed, which is expected to be introduced in the near future. If the minimum wage that must be paid to SNF employees in California increases, this would result in increased labor costs and challenges achieving or maintaining profitability within the state. Further, as** states ~~formally called~~ **raise industry specific minimum wages employees will anticipate higher pay, placing additional pressure** on ~~the~~ **our business to meet wage demands and compete for skilled talent in an already challenging labor market. The** Biden- Harris ~~administration to withdraw its vaccine mandate for healthcare workers and all related guidance. Other than this petition, the uncertain environment regarding COVID- 19~~

~~vaccination mandates and potential attempts to enforce similar mandates in 2022 appear to have concluded and there is no nationally significant litigation concerning such mandates. Nonetheless, the possibility of future or related action regarding COVID- 19 vaccination mandates is one we are monitoring, as it represents a risk of uncertainty to the Company that may result in limitations on staff availability, disruption caused by staff departure, potential claims under the ADA and other laws and potential government sanctions which could cause disruptions to the operations of our subsidiaries, limit our ability to grow and otherwise adversely affect our business and financial results. Furthermore, the~~ Administration has requested HHS and CMS study and issue proposed rules regarding ~~the sustainability of~~ care- based careers, including improving access to training, increasing the attractiveness of compensation in care- based positions, and improving the retention and career progression of care workers. The ~~Administration~~ **administration** has sought proposed rules that tie some of these issues, such as wages and retention, to Medicare reimbursement for facilities **. Other pending legislation, such as the HCBS Access Act, indicate a legislative priority of providing funding for care- based careers that may affect our pool of desired workers** . Rising operating costs due to labor shortages, greater compensation and incentives required to attract and retain qualified personnel and higher- than- usual inflation on items including energy, utilities, food and other goods used in our facilities and the costs for transporting these items could increase our cost and decrease our profits. **On September 1, 2023, CMS published a long-awaited proposed rule setting forth proposed SNF minimum staffing requirements at the federal level. In relevant part, these proposed federal standards require 1) minimum nurse staffing standards of 0. 55 HPRD for RNs and 2. 45 HPRD for NAs; and 2) a requirement to have a RN on- site 24 hours per day, seven days per week. This proposed rule contains numerous other provisions discussed in more detail in Item 1., under Government Regulation. Comments are still being submitted for this proposed rule, and the substance of both the comments and any revisions to the later- issued final rule setting forth minimum staffing requirements may influence the effect that this rule has on our business and its financial performance. Any implementation of this proposed rule, however, is likely to increase demand for labor, including skilled caregivers, increase our costs, and may adversely affect our financial performance.** The compliance costs associated with these laws and evolving regulations could be substantial. ~~For~~ **By way of** example, all of our ~~affiliated facilities~~ **independent subsidiaries** are required to comply with the ADA **, which** ~~. The ADA~~ has separate compliance requirements for " public accommodations " and " commercial properties, " but generally requires that buildings be made accessible to people with disabilities. Compliance with ADA requirements could require removal of access barriers and non- compliance could result in imposition of government fines or an award of damages to private litigants. Further legislation may impose additional burdens or restrictions with respect to access by disabled persons. In addition, federal proposals to introduce a system of mandated health insurance and flexible work time and other similar initiatives could, if implemented, adversely affect our operations. We also may be subject to employee- related claims such as wrongful discharge, discrimination or violation of equal employment law. While we are insured for these types of claims, we could be subject to damages that are not covered by our insurance policies or that exceed our insurance limits, and we may be required to pay such damages directly, which would negatively impact our cash flow from operations. The operations of our ~~operating~~ **independent** subsidiaries must be licensed under applicable state law and, depending upon the type of operation, certified or approved as providers under the Medicare and / or Medicaid programs. In the process of acquiring or transferring operating assets, our operations must receive change of ownership approvals from state licensing agencies, Medicare and Medicaid as well as third **-** party payors. ~~The Administration has requested HHS and CMS issue proposed~~ **Proposed** rules ~~that~~ **regarding the disclosure of SNF facility ownership, if made effective,** may increase the scrutiny placed on companies that operate, directly or indirectly, multiple ~~SNF~~ **SNFs** ~~and LTC facilities~~ , and may subject our licensing and approval process to additional scrutiny or delays ~~if such proposals are codified into regulations~~ . If there are any delays in receiving regulatory approvals from the applicable federal, state or local government agencies, or the inability to receive such approvals, such delays **or denials** could result in delayed or lost reimbursement related to periods of service prior to the receipt of such approvals, which could negatively impact our cash position. Compliance with federal and state fair housing, fire, safety and other regulations may require us to make unanticipated expenditures, which could be costly to us. We must comply with the federal Fair Housing Act and similar state laws, which prohibit us from discriminating against individuals if it would cause such individuals to face barriers in gaining residency in any of our ~~affiliated facilities~~ **independent subsidiaries** . Additionally, the Fair Housing Act and other similar state laws require that we advertise our services in such a way that we promote diversity and not limit it. We may be required, among other things, to change our marketing techniques to comply with these requirements. In addition, ~~we~~ **our independent subsidiaries** are required to operate ~~our affiliated facilities~~ in compliance with applicable fire and safety regulations, building codes and other land use regulations and food licensing or certification requirements as they may be adopted by governmental agencies and bodies from time to time. Like other healthcare facilities, our ~~affiliated~~ **independent** SNFs are subject to periodic surveys or inspections by governmental authorities to assess and assure compliance with regulatory requirements. Surveys occur on a regular (often annual or biannual) schedule, and special surveys may result from a specific complaint filed by a patient, a family member or one of our competitors. We may be required to make substantial capital expenditures to comply with these requirements. **In some cases, we may be unable to comply with new regulations prior to their effective date exposing us to potential fines or regulatory action. We depend largely upon reimbursement from third- party payors, and our revenue, financial condition and results of operations could be negatively impacted by any changes in the acuity mix of patients in our independent subsidiaries as well as payor mix and payment methodologies.** Our revenue is affected by the percentage of the patients of our ~~operating~~ **independent** subsidiaries who require a high level of skilled nursing and rehabilitative care, whom we refer to as high acuity patients, and by our mix of payment sources. Changes in the acuity level of patients we attract, as well as our payor mix among Medicaid, Medicare, private payors and managed care companies, significantly affect our profitability ~~because we~~ **. We** generally receive higher reimbursement rates for high acuity patients **,** and ~~because the~~ payors reimburse us at different rates. For the ~~years~~ **year** ended December 31, **2023 and** 2022 ~~and 2021~~ , **72. 6 % and** 73. 7 ~~% and 73. 6~~ %, of our revenue was provided by government

payors that reimburse us at predetermined rates, respectively. If our labor or other operating costs increase, we will be unable to recover such increased costs from government payors. Accordingly, if we fail to maintain our proportion of high acuity patients or if there is any significant increase in the percentage of the patients of our ~~operating~~ **independent** subsidiaries for whom we receive Medicaid reimbursement, our results of operations may be adversely affected. Initiatives undertaken by major insurers and managed care companies to contain healthcare costs may adversely affect our business. ~~Among other initiatives, these~~ **These tactics include** ~~payors attempt to control healthcare costs by~~ contracting with healthcare providers to obtain services on a discounted basis. We believe that this trend will continue and may limit reimbursements for healthcare services. If insurers or managed care companies from whom we receive substantial payments were to reduce the amounts they pay for services **and we did not wish to accept such reductions** , we may lose patients if we choose not to renew our contracts with these insurers at lower rates. Additionally, trade publications within the healthcare industry have reported on the ~~recent~~ trend of payors using the No Surprises Act as a means to force re- negotiation of reimbursement rates for providers and facilities **, leading** ~~. This trend has led~~ to ~~ongoing~~ litigation between these providers and / or facilities against payors and it may adversely affect us as well. **As** ~~On November 5, 2021, CMS issued the IFR~~ discussed under Item 1., Government Regulation, **the Biden** ~~subheading Coronavirus requiring all eligible staff to be fully vaccinated against COVID~~ - **Harris** ~~19. CMS has been empowered to enforce the IFR nationwide and require compliance with its vaccination requirements since March 21, 2022. In the event we or our affiliated facilities do not comply with the IFR, our Medicare and Medicaid agreements could be terminated and the termination of those agreements may lead to other payors terminating their agreements with us or our affiliated facilities and operating subsidiaries, which would materially and adversely affect our business, financial condition and results of operations. In addition to the IFR, the~~ Administration has requested HHS and CMS conduct studies ~~about additional requirements pertaining~~ to **evaluate potential** staffing, data reporting, employee compensation and retention, and resident experience **regulations** that may result in a reduction of our revenue from Medicare and Medicaid. CMS ~~issued its~~ first **requested** ~~proposed rule seeking~~ information regarding these priorities in 2022 and subsequently published **further** requests for information from the public in the Federal Register to aid in ~~ongoing or future~~ studies and anticipated rulemaking. ~~These study results~~ **CMS' s proposed rule regarding disclosure of significant information regarding their ownership, operations, management and the owners of real property leased or subleased by our independent subsidiaries,** may result in additional ~~conditions of~~ **regulatory requirements for** participation ~~within~~ **in** those programs. The skilled nursing business involves a significant risk of liability given the age and health of the patients and residents of our ~~operating~~ **independent** subsidiaries and the services we provide. The industry has experienced an increased trend in the number and severity of litigation claims, due in part to the number of large verdicts, including large punitive damage awards. These claims are filed based upon a wide variety of claims and theories, including deficiencies under conditions of participation under certain state and federal healthcare programs. Plaintiffs' attorneys have become increasingly more aggressive in their pursuit of claims against healthcare providers, including skilled nursing providers, employing a wide variety of advertising and solicitation activities to generate more claims. The increased caps on damages awarded in such actions, as discussed above, may trigger a larger number of these lawsuits against our independent ~~operating~~ subsidiaries in California and other states **that** ~~where we operate if they~~ adopt similar legislation. The defense of lawsuits has in the past, and may in the future, result in significant legal costs, regardless of the outcome. Additionally, increases to the frequency and / or severity of losses from such claims and suits may result in increased liability insurance premiums or a decline in available insurance coverage levels, which could materially and adversely affect our business, financial condition and results of operations. We have in the past been subject to class action litigation involving claims of violations of various regulatory requirements **and** ~~. While we have~~ been able to settle these claims without an ongoing material adverse effect on our business ~~,~~**.** ~~future~~ **Future** claims could be brought that may materially affect our business, financial condition and results of operations. Other claims and suits, including class actions, continue to be filed against us and other companies in our industry. For example, there has been a general increase in the number of wage and hour class action claims filed in several of the jurisdictions where we **operate,** ~~are present. Allegations~~ typically ~~include claimed~~ **based on alleged** failures to permit or properly compensate for meal and rest periods, or failure to pay for time worked. If there were a significant increase in the number of these claims against us or an increase in amounts owing should plaintiffs be successful in their ~~prosecution of these~~ claims, this could have a material adverse effect to our business, financial condition, results of operations and cash flows **. We are subject to potential lawsuits under the FCA and comparable state laws alleging submission of fraudulent claims for services to any healthcare program (such as Medicare or Medicaid) or other payor. Under the qui tam or" whistleblower" provisions of the FCA, a private individual with knowledge of fraud or potential fraud may bring a claim on behalf of the federal government and receive a percentage of the federal government' s recovery. Due to these whistleblower incentives, qui tam lawsuits have become more frequent. For example, despite the decision of the DOJ to decline to participate in litigation based on the subject matter of its previously issued CID, the involved qui tam relator moved forward with the complaint in December 2020. Refer to Item 3. Legal Proceedings for additional information on this case** . Beyond our skilled nursing business, we engage in numerous ancillary businesses through one or more of our subsidiaries. These ancillary businesses generally support and provide services complementary to our operations, including but not limited to non- emergent ground transportation for patients and residents ~~of our facilities~~ . Our ancillary businesses may also be the subject of claims, lawsuits, and regulatory oversight that are specific to the particular services they offer. Noncompliance with the laws and regulations that may apply to our ancillary businesses may result in fines, penalties, and civil claims paid by our affected independent subsidiaries. Specific to our non- emergent ground transportation business, the drivers employed by this business may be subject to additional state- specific regulations regarding working time allowed to be spent driving, waiting time, and break or rest periods, and violations of these rules may lead to regulatory fines, penalties, or claims to be paid to individual drivers, in addition to the general employment risks described above. Our ancillary businesses also are susceptible to general liability claims based on facts and circumstances that are specific to their activities and operations ~~. In the case of~~ **, such**

as claims for automobile- involved accidents against our non- emergent ground transportation business ~~, this liability likely exists in the form of automobile- involved accidents, which may involve property, individuals, or other automobiles~~ . The defense of **claims** ~~automobile accident~~ and ~~general liability~~ lawsuits relating to our ancillary businesses in the past, and may in the future, result in significant legal costs, regardless of the outcome. As our ancillary businesses grow, the independent subsidiaries may be subject to increased frequency and / or severity of losses from such claims and suits which may result in increased liability insurance premiums **and** ~~for those businesses or a~~ decline in available ~~insurance~~ coverage ~~levels~~ **as described above** , which could materially and adversely affect our business, financial condition and results of operations. In addition, we contract with a variety of landlords, lenders, vendors, suppliers, consultants and other individuals and businesses. These contracts typically contain covenants and default provisions. If the other party to one or more of our contracts were to allege that we have violated the contract terms, we could be subject to civil liabilities which could have a material adverse effect on our financial condition and results of operations. If litigation is instituted against one or more of our subsidiaries, a successful plaintiff might attempt to hold us or another subsidiary liable for the alleged wrongdoing of the subsidiary principally targeted by the litigation. If a court in such litigation decided to disregard the corporate form, the resulting judgment could increase our liability and adversely affect our financial condition and results of operations. Congress has repeatedly considered, without passage, a bill that would require, among other things, that agreements to arbitrate nursing home disputes be made after the dispute has arisen rather than before prospective patients move in, to prevent nursing home operators and prospective patients from mutually entering into a pre- admission pre- dispute arbitration agreement. This bill, known as the Fairness in Nursing Home Arbitration Act, was introduced in the House of Representatives in 2021; **the** ~~as of December 31, 2022, neither~~ bill **and its analogue introduced in the Senate have never** made it out of the committees to which ~~it was~~ **they were** referred for discussion ~~to be voted on by~~ **. This legislation or similar bills have not yet been introduced in** the ~~entire House~~ **current session** of ~~Representatives~~ **Congress, which commenced at the beginning of 2023** . Our ~~independently~~ -- **independent** ~~operating~~ subsidiaries use arbitration agreements, which have generally been favored by the courts, to streamline the dispute resolution process and reduce our exposure to legal fees and excessive jury awards. CMS has identified these arbitration agreements as an area **of focus** ~~for further review~~ and issued guidance to state surveyors regarding **federal requirements for the use of** arbitration agreements **in nursing home care** ~~and their requirements under federal regulations~~ , with non- compliance potentially resulting in fines and other sanctions. If we are not able to secure pre- admission arbitration agreements, our litigation exposure and costs of defense in patient liability actions could increase, our liability insurance premiums could increase, and our business may be adversely affected. **The outcomes of any of these litigation matters are difficult to predict and litigation and other legal claims are subject to inherent uncertainties. Those uncertainties include, but are not limited to, litigation costs and attorneys' fees, unpredictable judicial or jury decisions and the differing laws and judicial proclivities regarding damage awards among the states in which we operate. A further complication is that even where the possibility of an adverse outcome is remote under traditional legal analysis, juries sometimes substitute their subjective views in place of facts and established legal principles. Unexpected outcomes in such legal proceedings, or changes in management' s evaluation or predictions of the likely outcomes of such proceedings (possibly resulting in changes in established reserves) could have a material adverse effect on our business, financial condition, and results of operations.** We conduct regular internal investigations into the care delivery, recordkeeping and billing processes of our ~~operating~~ **independent** subsidiaries. These reviews sometimes detect instances of noncompliance which we attempt to correct, which can decrease our revenue. As an operator of healthcare facilities, we have a program to help us comply with various requirements of federal and private healthcare programs. Our compliance program includes, among other things, (~~i~~ **1**) policies and procedures modeled after applicable laws, regulations, ~~government manuals~~ **sub- regulatory guidance** and industry practices and customs that govern the clinical, reimbursement and operational aspects of our subsidiaries; (~~ii~~ **2**) training about our compliance process for all of the employees of our ~~operating~~ **independent** subsidiaries, our directors and officers, and training about Medicare and Medicaid laws, fraud and abuse prevention, clinical standards and practices, and claim submission and reimbursement policies and procedures for appropriate employees; and (~~iii~~ **3**) internal controls that monitor, ~~for example~~ **among other things** , the accuracy of claims, reimbursement submissions, cost reports and source documents, provision of patient care, services, and supplies as required by applicable standards and laws, accuracy of clinical assessment and treatment documentation, and implementation of judicial and regulatory requirements (i. e., background checks, licensing and training). From time to time our systems and controls highlight potential compliance issues, which we investigate as they arise. Historically, we have, and ~~would~~ **will** continue to do so in the future, initiated internal inquiries into possible recordkeeping and related irregularities at our ~~affiliated~~ **independent** SNFs, which were detected by our internal compliance team in the course of its ongoing reviews. Through these internal inquiries, we have identified potential deficiencies in the assessment of and recordkeeping for small subsets of patients. We have ~~also identified and, at the conclusion of such investigations,~~ assisted in implementing, targeted improvements in the assessment and recordkeeping practices to make them consistent with the existing standards and policies applicable to our ~~affiliated~~ **independent** SNFs ~~in these areas~~ . We continue to monitor the measures implemented for effectiveness and perform follow- up reviews to ensure compliance. Consistent with healthcare industry accounting practices, we record any charge for refunded payments against revenue in the period in which the claim adjustment becomes known. If additional reviews result in identification and quantification of additional amounts to be refunded, we will accrue additional liabilities for claim costs and interest, and repay any amounts due in normal course **and within the time permitted by law** . ~~Furthermore, failure~~ **Failure** to refund overpayments within required time frames (as described in greater detail above) could result in FCA liability ~~. If future investigations ultimately result in findings of significant billing~~ and ~~reimbursement noncompliance which could require us to record significant additional provisions or remit payments,~~ our business, financial condition and results of operations could be materially and adversely affected and our stock price could decline. We may be unable to complete future facility or business acquisitions at attractive prices or at all, which may adversely

affect our revenue; we may also elect to dispose of underperforming or non- strategic ~~operating~~ **independent** subsidiaries, which would also decrease our revenue. To date, our revenue growth has been significantly impacted by our acquisition of new facilities and businesses. Subject to general market conditions and the availability of essential resources and leadership within our company, we continue to seek both single- and multi- facility acquisition and business acquisition opportunities that are consistent with our geographic, financial and operating objectives. We face competition for the acquisition of facilities and businesses and expect this competition to increase. Based upon factors such as our ability to identify suitable acquisition candidates, future regulations affecting ~~the~~ **our** ability to purchase facilities, the purchase price of the facilities, increasing interest rates for debt- financed purchases, prevailing market conditions, the availability of leadership to manage new facilities and our own willingness to take on new operations, the rate at which we have historically acquired facilities has fluctuated significantly. In the future, we anticipate the rate at which we may acquire facilities will continue to fluctuate, which may affect our revenue. We have also ~~historically~~ **previously** acquired a few facilities, which were or have proven to be non- strategic or less desirable, and we may consider disposing of such facilities or exchanging them for facilities ~~which~~ **that** are more desirable, either because they were included in larger, indivisible groups of facilities or under other circumstances. To the extent we dispose of such a facility without simultaneously acquiring a facility in exchange, our revenue may decrease. We may not be able to successfully integrate acquired facilities and businesses into our operations, and we may not achieve the benefits we expect from any of our facility acquisitions. We may not be able to successfully or efficiently integrate new acquisitions of facilities and businesses with our existing ~~operating~~ **independent** subsidiaries, culture and systems. The process of integrating acquisitions into our existing operations may result in unforeseen operating difficulties, divert management' s attention from existing operations, or require an unexpected commitment of staff and financial resources, and may ultimately be unsuccessful. Existing operations available for acquisition frequently serve or target different markets than those that we currently serve. We also may determine that renovations of acquired facilities and changes in staff and operating management personnel are necessary to successfully integrate those acquisitions into our existing operations. We may not be able to recover the costs incurred to reposition or renovate newly ~~operating~~ **independent** subsidiaries. The financial benefits we expect to realize from many of our acquisitions are largely dependent upon our ability to improve clinical performance, overcome regulatory deficiencies, rehabilitate or improve the reputation of the operations in the community, increase and maintain occupancy, control costs, and in some cases change the patient acuity mix. If we are unable to accomplish any of these objectives at the ~~operating~~ **independent** subsidiaries we acquire, we will not realize the anticipated benefits and we may experience lower than anticipated profits, or even losses. During the year ended December 31, ~~2022~~ **2023** , we expanded our operations **and real estate portfolio** through a combination of long- term leases and real estate purchases, with the addition of **26** ~~twenty- three stand- alone~~ skilled nursing operations ~~and one campus operation. In addition, we added five senior living operations that were transferred from Pennant, three of which are part of campuses operated by our affiliated operating subsidiaries~~ . This growth has placed and will continue to place significant demands on our current management resources. Our ability to manage our growth effectively and to successfully integrate new acquisitions into our existing business will require us to continue to expand our operational, financial and management information systems and to continue to retain, attract, train, motivate and manage key employees, including facility- level leaders and our local directors of nursing. We may not be successful in attracting qualified individuals necessary for future acquisitions to be successful, and our management team may expend significant time and energy working to attract qualified personnel to manage facilities we may acquire in the future. Also, the newly acquired facilities may require us to spend significant time improving services that have historically been substandard, and if we are unable to improve such facilities quickly enough, we may be subject to litigation and / or loss of licensure or certification. If we are not able to successfully overcome these and other integration challenges, we may not achieve the benefits we expect from any of our acquisitions, and our business may suffer. In undertaking acquisitions, we ~~may be adversely impacted by costs, liabilities and regulatory issues that may adversely affect our operations. In undertaking acquisitions, we~~ also may be adversely impacted by unforeseen liabilities attributable to the prior providers who operated those facilities, against whom we may have little or no recourse. Many facilities we have historically acquired were underperforming financially and had clinical and regulatory issues prior to and at the time of acquisition. Even where we have improved ~~operating~~ **independent** subsidiaries and patient care at ~~affiliated~~ facilities that we have acquired, we still may face post- acquisition regulatory issues related to pre- acquisition events. These may include, without limitation, payment recoupment related to our predecessors' prior noncompliance, the imposition of fines, penalties, operational restrictions or special regulatory status. Further, we may incur post- acquisition compliance risk due to the difficulty or impossibility of immediately or quickly bringing non- compliant facilities into full compliance. Diligence materials pertaining to acquisition targets, especially the underperforming facilities that often represent the greatest opportunity for return, are often inadequate, inaccurate or impossible to obtain, sometimes requiring us to make acquisition decisions with incomplete information. Despite our due diligence procedures, facilities that we have acquired or may acquire in the future may generate unexpectedly low returns, may cause us to incur substantial losses, may require unexpected levels of management time, expenditures or other resources, or may otherwise not meet a risk profile that our investors find acceptable. In addition, we might encounter unanticipated difficulties and expenditures relating to any of the acquired facilities, including contingent liabilities. For example, when we acquire a facility, we generally assume the facility' s existing Medicare provider number for purposes of billing Medicare for services. If CMS later determines that the prior owner of the facility had received overpayments from Medicare for the period of time during which it operated the facility, or had incurred fines in connection with the operation of the facility, CMS could hold us liable for repayment of the overpayments or fines. We may be unable to improve every facility that we acquire. In addition, operation of these facilities may divert management time and attention from other operations and priorities, negatively impact cash flows, result in adverse or unanticipated accounting charges, or otherwise damage other areas of our company if they are not timely and adequately improved. We also incur regulatory risk in acquiring certain facilities due to the licensing, certification and other regulatory requirements affecting our right to operate the acquired

facilities. For example, in order to acquire facilities on a predictable schedule, or to acquire declining operations quickly to prevent further pre- acquisition declines, we frequently acquire such facilities prior to receiving license approval or provider certification. ~~Anticipated future regulations may cause delays in acquiring the required licenses and certifications, if it is possible to do so at all.~~ We operate such facilities as the interim manager for the outgoing licensee, assuming financial responsibility, among other obligations for the facility. To the extent that we may be unable or delayed in obtaining a license, we may need to operate the facility under a management agreement from the prior operator. Any inability in obtaining consent from the prior operator of a target acquisition to utilizing its license in this manner could impact our ability to acquire additional facilities **. Further, anticipated future regulations may cause delays in acquiring the required licenses and certifications, if it is possible to do so at all** . If we were subsequently denied licensure or certification for any reason, we might not realize the expected benefits of the acquisition and would likely incur unanticipated costs and other challenges which could cause our business to suffer. As discussed in Item 1., under Government Regulation, CMS ~~, as well as certain private organizations engaged in similar monitoring activities,~~ provides comparative public data, rating every SNF operating in each state based upon quality- of- care indicators. **Certain private organizations engage in similar monitoring and ranking activities.** CMS' s system is the Five- Star Quality Rating System **which** ~~, intended to compare nursing homes more easily. The Five- Star Quality Rating System~~ gives each nursing home a rating of between one and five stars in various categories, with five- star ratings harder to obtain over time. The ratings are available on a consumer- facing website, Nursing Home Compare. In cases of acquisitions, the previous operator' s clinical ratings are included in our overall Five- Star Quality Rating **and the rating may not reflect the improvements we were able to make until it is recalculated** . Based on CMS **' s** guidance **and regulations** ~~issued in June of 2022~~ , **we** ~~it is expected~~ -- **expect** ~~that~~ more data ~~will~~ **to** be collected by CMS and ~~ultimately~~ reported on the Nursing Home Compare website **in the future** . ~~Similarly~~ **Additionally** , ~~due to~~ CMS' s ~~June 2022 guidance~~ **ownership transparency final rule** , ~~we expect~~ **which requires the disclosure of SNF ownership and affiliated parties, will ultimately provide for the public disclosure of information reported to** CMS ~~will seek~~ **under that rule. This publicly available information may result in potential residents perceiving our highly rated facilities** to ~~make~~ **be less desirable if** ~~the~~ **they** ~~data reported on~~ **share ownership with lower rated facilities, even if** the **lower rated facility is a new acquisition** ~~Nursing Home Compare website more readily accessible and understandable for~~ - **or** ~~consumers~~ **has a lower score for reasons beyond our control** . CMS continues to increase quality measure thresholds, making it more difficult to achieve upward and five- star ratings. ~~Most recently,~~ CMS increased its quality measure thresholds in October of 2022, making it more difficult for facilities to obtain or maintain four- and five- star ratings **, which were most recently re- calculated in July of 2023, allowing only 10 % of nursing facilities within a state to receive a five- star rating. CMS discloses the increasing standards for four- and five- star ratings in its star rating cut point table, which discloses the points needed for each star rating within every state** . CMS has indicated that it will increase these quality measure thresholds every six months. ~~CMS acknowledges that some~~ **Some** facilities may see a decline in their overall five- star rating absent any new inspection information **, and as a result** ~~. This is relevant to our business because~~ the five- star ratings of our ~~affiliated facilities~~ **independent subsidiaries** may decline even as their quality measures remain unchanged ~~,~~ or ~~even if their quality measures~~ improve ~~. This change could further affect star ratings across the industry~~ . Additionally, on the Nursing Home Compare website, CMS recently began displaying a consumer alert icon next to nursing homes that have been cited on inspection reports for incidents of abuse, neglect, or exploitation. In July of 2022, CMS updated the scoring measures used for SNFs to include six dimensions of staffing and turnover, which may **adversely** affect the rating of our facilities on the Nursing Home Compare website. **In July 2023,** CMS ~~' s expanded~~ **revised the nursing- home level exclusion criteria used on the administrator turnover measure, adding information regarding its** ~~evaluation~~ **calculation of the staff turnover measure and publishing** ~~and~~ - **an** ~~measurement~~ **updated ratings table, which identifies the points needed for each nursing facility to obtain certain star ratings within its state. This change made it more competitive to obtain a five- star rating, and more difficult to maintain such a rating once achieved. Only 10 %** of **nursing facilities can receive a five- star rating in the state where it operates. The July 2023 change also increases the pressure on our independent subsidiaries to obtain a smaller number of available five- star ratings, as lower ratings may make it more difficult to attract prospective residents to receive our services. In September 2023, CMS announced that it will update the** staffing **level case- mix adjustment methodology** and ~~turnover, including~~ **freeze four of the quality** measures **used in** ~~of all nurses, registered nurses, and administrators, may adversely affect~~ the **Nursing Home** ~~scoring and evaluation of our facilities under CMS' s~~ Five- Star Quality Rating System **beginning with the April 2024 refresh of the Nursing Home Compare website data** . ~~See~~ **In July 2024, CMS will change the staffing case- mix adjustment methodology to a model based on PDPM. The Nursing Home Compare website will then begin posting staffing level measures that use this methodology. CMS will revise the staffing rating thresholds to maintain the same distribution of points for staffing measures that will be affected by this freeze and replacement. Further, CMS will penalize SNFs that submit erroneous data, or fail to submit data, by awarding** ~~Item~~ - **them** ~~1~~ **the lowest possible rating on that measure** . **We may be significantly affected if any of our independent subsidiaries fail to submit information for the MDS in 2024** , ~~under Government Regulation~~ **or if CMS deems their MDS submissions to be erroneous. In addition to the uncertainty created by coming changes to CMS' s five- star ratings that currently are unknown, the potential negative consequences of freezing unfavorable data may adversely affect our star rating and negatively impact our ability to attract residents** . Providing quality patient care is the cornerstone of our business. We believe that hospitals, physicians and other referral sources refer patients to us in large part because of our reputation for delivering quality care. If we should fail to achieve our internal rating goals or fail to exceed the national average rating on the Five- Star Quality Rating System, including due to nursing and administrative staffing and turnover, or have facilities displaying a consumer alert icon for incidents of abuse, neglect, or exploitation, it may affect our ability to generate referrals, which could have a material adverse effect upon our business and consolidated financial condition, results of operations and cash flows. If we are unable to obtain insurance, or if insurance

becomes more costly for us to obtain, our business may be adversely affected. It may become more difficult and costly for us to obtain coverage for resident care liabilities and other risks, including property, automobile and casualty insurance. For example, the following circumstances may adversely affect our ability to obtain insurance at favorable rates: • we experience higher- than- expected professional liability, property and casualty, or other types of claims or losses; • we receive survey deficiencies or citations of higher- than- normal scope or severity; • we acquire especially troubled operations or facilities that present unattractive risks to current or prospective insurers; • insurers **choose to stop operating or offering policies in certain states due to changes in economic conditions or laws; • insurers** tighten underwriting standards applicable to us or our industry; or • insurers or reinsurers are unable or unwilling to insure us or the industry at historical premiums and coverage levels. If any of these potential circumstances were to occur, our insurance carriers may **cancel or not renew our policies, or** require us to significantly increase our self- insured retention levels or pay substantially higher premiums for the same or reduced coverage for insurance, including workers compensation, property and casualty, automobile, employment practices liability, directors and officers liability, employee healthcare and general and professional liability coverages. In some states, the law prohibits or limits insurance coverage for the risk of punitive damages arising from professional liability and general liability claims or litigation **. Other states where we operate have experienced a withdrawal of insurers from the marketplace due to prior losses, or are at risk of insurers leaving the market due to changes in the law that make it difficult for those insurers to operate within the state** . Coverage for punitive damages is also excluded under some insurance policies. As a result, we may be liable for punitive damage awards in these states that either are not covered or are in excess of our insurance policy limits. Claims against us, regardless of their merit or eventual outcome, **could** also ~~could~~ inhibit our ability to attract patients or expand our business and could require our management to devote time to matters unrelated to the day- to- day operation of our business. With few exceptions, workers compensation and employee health insurance costs have also increased markedly in recent years **and are expected to increase in the future** . To partially offset these increases, we have increased the amounts of our self- insured retention and deductibles in connection with general and professional liability claims. We also have implemented a self- insurance program for workers compensation in all states, ~~except Washington,~~ and elected non- subscriber status for workers compensation in Texas ~~. In Washington, the insurance coverage is financed through premiums paid by the employers and employees~~ . Due to the nature of our business and the residents we serve, including the risk of claims from residents as well as potential governmental action, it may be difficult to complete the underwriting process and obtain insurance at commercially reasonable rates. If we are unable to obtain insurance, or if insurance becomes more costly for us to obtain, or if the coverage levels we can economically obtain decline, our business may be adversely affected. Our self- insurance programs may expose us to significant and unexpected costs and losses. We have maintained general and professional liability insurance since 2002 and workers compensation insurance since 2005 through a wholly- owned captive insurance subsidiary to insure our self- insurance reimbursements and deductibles as part of a continually evolving overall risk management strategy. We establish the insurance loss reserves based on an estimation process that uses information obtained from both company- specific and industry data. The estimation process requires us to continuously monitor and evaluate the life cycle of the claims. Using data obtained from this monitoring and our assumptions about emerging trends, we, along with an independent actuary, develop information about the size of ultimate claims based on our historical experience and other available industry information. The most significant assumptions used in the estimation process include determining the trend in costs, the expected cost of claims incurred but not reported and the expected costs to settle or pay damages with respect to unpaid claims. It is possible, however, that the actual liabilities may exceed our estimates of loss. We may also experience an unexpectedly large number of successful claims or claims that result in costs or liability significantly in excess of our projections. For these and other reasons, our self- insurance reserves could prove to be inadequate, resulting in liabilities in excess of our available insurance and self- insurance. If a successful claim is made against us and it is not covered by our insurance or exceeds the insurance policy limits, our business may be negatively and materially impacted. Further, because our self- insurance reimbursements under our general and professional liability and workers compensation programs applies on a per claim basis, there is no limit to the maximum number of claims or the total amount for which we could incur liability in any policy period. We also self- insure our employee health benefits. With respect to our health benefits self- insurance, our reserves and premiums are computed based on a mix of company specific and general industry data that is not specific to our own company. Even with a combination of limited company- specific loss data and general industry data, our loss reserves are based on actuarial estimates that may not correlate to actual loss experience in the future. Therefore, our reserves may prove to be insufficient and we may be exposed to significant and unexpected losses. The ~~frequency and magnitude of claims and legal costs may increase due to the COVID- 19 pandemic or our related response efforts. The~~ geographic concentration of our ~~affiliated facilities~~ **independent subsidiaries** could leave us vulnerable to an economic downturn, regulatory changes or acts of nature in those areas. Our ~~affiliated facilities~~ **independent subsidiaries** located in Arizona, California, and Texas account for the majority of our total revenue. As a result of this concentration, the conditions of local economies **and real estate markets** , changes in governmental rules **, presence and participation of insurers** , regulations and reimbursement rates or criteria, changes in demographics, state funding, acts of nature and other factors that may result in a decrease in demand and / or reimbursement for skilled nursing services in these states could have a disproportionately adverse effect on our revenue, costs and results of operations. Moreover, since over ~~20~~ **24** % of our ~~affiliated facilities~~ **independent subsidiaries** are located in California, we are particularly susceptible to revenue loss, cost increase or damage caused by natural disasters such as electrical power shortages, fires, earthquakes or mudslides, or increased liabilities that may arise from regulations as discussed within Item 1., under Government Regulation. In addition, our ~~affiliated facilities~~ **independent subsidiaries** in Iowa, Nebraska, Kansas, South Carolina, Washington and Texas are more susceptible to revenue loss, cost increases or damage caused by natural disasters including hurricanes, tornadoes and flooding. These acts of nature may cause disruption to us, the employees of our ~~operating~~ **independent** subsidiaries ~~and our affiliated facilities~~ , which could have an adverse impact on the patients of our ~~operating~~ **independent** subsidiaries and our business. In

order to provide care for the patients of our ~~operating~~ **independent** subsidiaries, we are dependent on consistent and reliable delivery of food, pharmaceuticals, utilities and other goods to our ~~affiliated facilities~~ **independent subsidiaries**, and the availability of employees to provide services ~~at our affiliated facilities~~. If the delivery of goods or the ability of employees to reach our ~~affiliated facilities~~ **independent subsidiaries** were interrupted in any material respect due to a natural disaster or other reasons, it would have a significant impact on our ~~affiliated facilities~~ **independent subsidiaries** and our business. Furthermore, the impact, or impending threat, of a natural disaster may require that we evacuate one or more facilities, which would be costly and would involve risks, including potentially fatal risks, for the patients. The impact of disasters and similar events is inherently uncertain. Such events could harm the patients and employees of our ~~operating~~ **independent** subsidiaries, severely damage or destroy one or more of our ~~affiliated facilities~~ **independent subsidiaries**, harm our business, reputation and financial performance, or otherwise cause our business to suffer in ways that we currently cannot predict. We continue to maintain our right to inform the employees of our ~~operating~~ **independent** subsidiaries about our views of the potential impact of unionization upon the workplace generally and upon individual employees. **Historically** ~~With one exception~~, ~~to our knowledge~~ the staff at our ~~affiliated facilities~~ **independent subsidiaries** that have been approached to unionize have uniformly rejected union organizing efforts. Forthcoming proposed rules from ~~HHS and~~ CMS, which, based on the **Biden- Harris** Administration' s ~~statements and guidance since February of 2022~~ **executive orders discussed under Government Regulation in Item 1.**, **as well as potential legislation such as the HCBS Access Act aimed toward providing more resources to those considering are care - based careers** ~~anticipated within the next year~~, may increase the likelihood of employee unionization due to increased emphasis on care- based careers in ~~SNFs~~ **SNF** ~~and LTC~~ facilities. If employees decide to unionize, our cost of doing business could increase, and we could experience contract delays, difficulty in adapting to a changing regulatory and economic environment, cultural conflicts between unionized and non- unionized employees, strikes and work stoppages, and we may conclude that affected facilities or operations would be uneconomical to continue operating. Because we lease the majority of our ~~affiliated facilities~~ **independent subsidiaries**, we are subject to risks associated with leased real property, including risks relating to lease termination, lease extensions and special charges, any of which could adversely affect our business, financial position or results of operations. As of December 31, ~~2022~~ **2023**, we leased ~~192~~ **214** of our ~~271 affiliated facilities~~ **297 independent subsidiaries**. Most of our leases are triple- net leases, which means that, in addition to rent, we are required to pay for the costs related to the property (including property taxes, insurance, and maintenance and repair costs). We are responsible for paying these costs notwithstanding the fact that some of the benefits associated with paying these costs accrue to the landlords as owners of the associated facilities. Each lease provides that the landlord may terminate the lease for a variety of reasons, including the default in any payment of rent, taxes or other payment obligations or the breach of any other covenant or agreement in the lease. Termination of a lease could result in a default under our debt agreements and could adversely affect our business, financial position or results of operations. There can be no assurance that we will be able to comply with all of our obligations under the leases in the future. Our ~~Amended Credit Agreement provides for a Revolving~~ Credit Facility ~~with~~ **has a** borrowing capacity of up to $ 600. 0 million in aggregate principal amount. As of December 31, ~~2022~~ **2023** and through the filing **date** of this report, we had no outstanding borrowings under our ~~Revolving~~ Credit Facility. Twenty- three of our subsidiaries have mortgage loans insured with **the** Department of Housing and Urban Development (HUD) for an aggregate amount of $ ~~153~~ **150**. ~~5~~ **2** million, which subjects these subsidiaries to HUD oversight and periodic inspections. The terms of the mortgage loans range from 25- to 35- years. We also have ~~two~~ **one** outstanding promissory ~~notes~~ **note** with an aggregate principal amount of approximately $ 2. ~~8~~ **1** million as of December 31, ~~2022~~ **2023**. The term of the ~~notes~~ **note is** ~~are 10 months and~~ 12 years. Because this ~~mortgage loan~~ **promissory note** is insured with HUD, our borrower subsidiary under the ~~loan~~ **note** is subject to HUD oversight and periodic inspections. In addition, we had $ 2. ~~2~~ **7** billion of future operating lease obligations as of December 31, ~~2022~~ **2023**. We intend to continue financing our ~~operating~~ **independent** subsidiaries through mortgage financing, long- term operating leases and other types of financing, including borrowings under our lines of credit and future credit facilities we may obtain. We may not generate sufficient cash flow from operations to cover required interest, principal and lease payments. In addition, our outstanding ~~Amended~~ Credit ~~Agreement~~ **Facility** and mortgage loans contain restrictive covenants and require us to maintain or satisfy specified coverage tests on a consolidated basis and on a facility or facilities basis. These restrictions and operating covenants include, among other things, requirements with respect to occupancy, debt service coverage, project yield, net leverage ratios, minimum interest coverage ratios and minimum asset coverage ratios. These restrictions may interfere with our ability to obtain additional advances under our ~~Revolving~~ Credit Facility or to obtain new financing or to engage in other business activities, which may inhibit our ability to grow our business and increase revenue. From time to time, the financial performance of one or more of our mortgaged facilities may not comply with the required operating covenants under the terms of the mortgage. Any non- payment, noncompliance or other default under our financing arrangements could, subject to cure provisions, cause the lender to foreclose upon the facility or facilities securing such indebtedness or, in the case of a lease, cause the lessor to terminate the lease, each with a consequent loss of revenue and asset value to us or a loss of property. Furthermore, in many cases, indebtedness is secured by both a mortgage on one or more facilities, and a guaranty by us. In the event of a default under one of these scenarios, the lender could avoid judicial procedures required to foreclose on real property by declaring all amounts outstanding under the guaranty immediately due and payable, and requiring us to fulfill our obligations to make such payments. If any of these scenarios were to occur, our financial condition would be adversely affected. For tax purposes, a foreclosure on any of our properties would be treated as a sale of the property for a price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds, which would negatively impact our earnings and cash position. Further, because our mortgages and operating leases generally contain cross- default and cross- collateralization provisions, a default by us related to one facility could affect a significant number of other facilities and their corresponding financing arrangements and operating leases.

Because our term loans, promissory ~~notes~~ **note** , bonds, mortgages and lease obligations are fixed expenses and secured by specific assets, and because our revolving loan obligations are secured by virtually all of our assets, if reimbursement rates, patient acuity mix or occupancy levels decline, or if for any reason we are unable to meet our loan or lease obligations, we may not be able to cover our costs and some or all of our assets may become at risk. Our ability to make payments of principal and interest on our indebtedness and to make lease payments on our operating leases depends upon our future performance, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our ~~operating~~ **independent** subsidiaries, many of which are beyond our control. If we are unable to generate sufficient cash flow from operations in the future to service our debt or to make lease payments on our operating leases, we may be required, among other things, to seek additional financing in the debt or equity markets, refinance or restructure all or a portion of our indebtedness, sell selected assets, reduce or delay planned capital expenditures or delay or abandon desirable acquisitions. Such measures might not be sufficient to enable us to service our debt or to make lease payments on our operating leases. The failure to make required payments on our debt or operating leases or the delay or abandonment of our planned growth strategy could result in an adverse effect on our future ability to generate revenue and sustain profitability. In addition, any such financing, refinancing or sale of assets might not be available on terms that are economically favorable to us, or at all. **Move- in and occupancy rates may remain unpredictable even after the COVID- 19 pandemic is over.** Occupancy levels at ~~SNFs are likely~~ **our operations have not returned** to **pre-** ~~remain vulnerable to the effects of~~ COVID- 19 ~~even after~~ **rates despite** the ~~pandemic is over~~ **end of the PHE** . Facilities experiencing decreases in move- in rates ~~in 2021~~ cite resident or family member concerns as the basis for such decreases. These and other similar concerns may continue to impact our ability to attract new residents and our ability to retain existing residents. A housing downturn could decrease demand for senior living services. Seniors often use the proceeds of home sales to fund their admission to senior living facilities. A downturn in the housing markets, including reductions in sales prices caused by increasing mortgage interest rates, **economic uncertainty, recession, or a reduction in activity in the market for residential real estate,** could adversely affect seniors' ability to afford our resident fees and entrance fees. If national or local housing markets enter a persistent decline, our occupancy rates, revenues, results of operations and cash flow could be negatively impacted. ~~As part~~ **We lease 30** of **our properties** ~~, and subsequent~~ to **third** ~~the spin~~ - **party** ~~off transaction in 2019, we lease 29 of our properties to Pennant' s senior living operations~~ - **operators** . In the future, we might expand our leasing property portfolio to additional ~~Pennant operations or other unaffiliated~~ tenants. We have very limited control over the success or failure of our tenants' and operators' businesses and, at any time, a tenant or operator may experience a downturn in its business that weakens its financial condition. If that happens, the tenant or operator may fail to make its payments to us when due. Although our lease agreements give us the right to exercise certain remedies in the event of default on the obligations owing to us, we may determine not to do so if we believe that enforcement of our rights would be more detrimental to our business than seeking alternative approaches. An important part of our business strategy is to continue to expand and diversify our real estate portfolio through accretive acquisition and investment opportunities in healthcare properties. Our execution of this strategy by successfully identifying, securing and consummating beneficial transactions is made more challenging by increased competition and can be affected by many factors, including our relationships with current and prospective tenants, our ability to obtain debt and equity capital at costs comparable to or better than our competitors and our ability to negotiate favorable terms with property owners seeking to sell and other contractual counterparties. Our competitors for these opportunities include healthcare REITs, real estate partnerships, healthcare providers, healthcare lenders and other investors, including developers, banks, insurance companies, pension funds, government- sponsored entities and private equity firms, some of whom may have greater financial resources and lower costs of capital than we do. Potential regulations may affect the ability of these entities, as well as ourselves, to compete for these opportunities or enter into transactions for real estate related to our business. If we are unsuccessful at identifying and capitalizing on investment or acquisition opportunities, our growth and profitability in our real estate investment portfolio may be adversely affected. Investments in and acquisitions of healthcare properties entail risks associated with real estate investments generally, including risks that the investment will not achieve expected returns, that the cost estimates for necessary property improvements will prove inaccurate or that the tenant or operator will fail to meet performance expectations. Income from properties and yields from investments in our properties may be affected by many factors, including changes in governmental regulation (such as licensing and government payment), general or local economic conditions (such as fluctuations in interest rates, senior savings, and employment conditions), the available local supply of and demand for improved real estate, a reduction in rental income as the result of an inability to maintain occupancy levels, natural disasters (such as hurricanes, earthquakes and floods) or similar factors. Furthermore, healthcare properties are often highly customized, and the development or redevelopment of such properties may require costly tenant- specific improvements. As a result, we cannot assure you that we will achieve the economic benefit we expect from acquisition or investment opportunities. The majority of our ~~affiliated facilities~~ **independent subsidiaries** have historically been SNFs. As we expand our presence in other relevant healthcare industries, our existing overall business model will continue to change and expose our company to risks in markets in which we have limited experience **, such as the Eliminating Kickbacks in Recovery Act and other state laws that are not as well- developed in regulation and decisional authority as their federal equivalents** . We expect that we will have to adjust certain elements of our existing business model, which could have an adverse effect on our business. We rely significantly on appropriate referrals from **hospitals,** physicians, ~~hospitals~~ and other healthcare providers in the communities in which we deliver our services to attract appropriate residents and patients to our ~~affiliated facilities~~ **independent subsidiaries** . Our referral sources are not obligated to refer business to us and may refer business to other healthcare providers. We believe many of our referral sources refer business to us as a result of the quality of our patient care and our efforts to establish and build a relationship with our referral sources. If we lose, or fail to maintain, existing relationships with our referral resources, fail to develop new relationships, or if we are perceived by our referral sources as not providing high quality patient care, our occupancy rate and the quality of our patient mix could suffer. In addition, if any of our referral sources

have a reduction in patients whom they can refer due to a decrease in their business, our occupancy rate and the quality of our patient mix could suffer. Our ability to maintain and enhance our ~~operating~~ **independent** subsidiaries and equipment in a suitable condition to meet regulatory standards, operate efficiently and remain competitive in our markets requires us to commit substantial resources to continued investment in our ~~affiliated facilities~~ **independent subsidiaries** and equipment. We are sometimes more aggressive than our competitors in capital spending to address issues that arise in connection with aging and obsolete facilities and equipment. In addition, continued expansion of our business through the acquisition of existing facilities, expansion of our existing facilities and construction of new facilities may require additional capital, particularly if we were to accelerate our acquisition and expansion plans. Financing may not be available to us or may be available to us only on terms that are not favorable, including being subject to interest rates that are higher than those incurred in the recent past. In addition, some of our outstanding indebtedness and long- term leases restrict, among other things, our ability to incur additional debt. If we are unable to raise additional funds or obtain additional funds on terms acceptable to us, we may have to delay or abandon some or all of our 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 our common stock. The condition of the financial markets, including volatility and deterioration in the capital and credit markets, could limit the availability of debt and equity financing sources to fund the capital and liquidity requirements of our business, as well as negatively impact or impair the value of our current portfolio of cash, cash equivalents and investments, including U. S. Treasury securities and U. S.- backed investments. Our cash, cash equivalents and investments are held in a variety of interest- bearing instruments, including U. S. treasury securities. As a result of the uncertain domestic and global political, economic, credit and financial market conditions, including the ~~recent~~ significant ~~increase~~ **increases** in the federal funds rate **since 2021** , an increase in the Consumer Price Index of ~~seven percent~~ **7 %** in ~~2021, which has continued at a comparable rate for~~ 2022 **, expected Consumer Price Index increases above historical norms for 2023** , investments in these types of financial instruments pose risks arising from liquidity and credit concerns. Given that future deterioration in the U. S. and global credit and financial markets is a possibility, no assurance can be made that losses or significant deterioration in the fair value of our cash, cash equivalents, or investments will not occur. Uncertainty surrounding the trading market for U. S. government securities or impairment of the U. S. government' s ability to satisfy its obligations under such treasury securities could impact the liquidity or valuation of our current portfolio of cash, cash equivalents, and investments, a substantial portion of which were invested in U. S. treasury securities. Further, continued domestic and international political uncertainty, along with credit, and financial market uncertainty, may make it difficult for us to liquidate our investments prior to their maturity without incurring a loss, which would have a material adverse effect on our consolidated financial position, results of operations or cash flows. We may need additional capital if a substantial acquisition or other growth opportunity becomes available or if unexpected events occur or opportunities arise. U. S. capital markets can be volatile. We cannot assure you that additional capital will be available or available on terms acceptable to us. If capital is not available, we may not be able to fund internal or external business expansion or respond to competitive pressures or other market conditions. If we experience problems with our billing information systems or if issues arise with Medicare, Medicaid or other payors, ~~including attempts by commercial health insurance companies to renegotiate rates by reducing or withholding payment,~~ we may encounter delays in our payment cycle. From time to time, we have experienced such delays as a result of government payors instituting planned reimbursement delays for budget balancing purposes or as a result of prepayment reviews. Some states in which we operate are operating with budget deficits or could have budget deficit in the future, which may delay reimbursement in a manner that would adversely affect our liquidity. In addition, from time to time, procedural issues require us to resubmit or appeal claims before payment is remitted, which contributes to our aged receivables. Unanticipated delays in receiving reimbursement from state programs **or commercial payors** due to changes in their policies or billing or audit procedures may adversely impact our liquidity and working capital. The continued use and growth of ~~Medicaid~~ managed care organizations (MCOs) may contribute to delays or reductions in our **reimbursement, including Managed** Medicaid ~~reimbursement~~ . In forty- one states, including some of the largest where we operate, state Medicaid benefits are administered through MCOs. Typically, these MCOs **manage** ~~are also~~ commercial health **and federal** ~~insurers that administer state Medicaid~~ **Medicare Advantage** benefits under a managed care contract. Nationally, MCOs cover approximately 57 million **and 30 million** Medicaid **and Medicare Advantage** beneficiaries **, respectively** . ~~Due to these~~ MCOs ~~' experience in healthcare reimbursement, they~~ may be more aggressive than state Medicaid **and federal Medicare** agencies in denying claims or seeking recoupment of payments so that their services under these managed contracts are profitable. ~~Additionally, the transfer of funds from state Medicaid agencies to these MCOs for disbursement may cause further delays in payment.~~ The additional steps created by the use of MCOs in disbursement of ~~Medicaid~~ funds creates more risk of delayed, reduced, or recouped payments for our independent ~~operating~~ subsidiaries, and additional avenues for risks that include fines and other sanctions, including suspension or exclusion from participation in ~~state Medicaid~~ **various governmental** programs. Twenty- three of our ~~affiliated facilities~~ **independent subsidiaries** are currently subject to regulatory agreements with HUD that give the Commissioner of HUD broad authority to require us to be replaced as the operator of those facilities in the event that the Commissioner determines there are operational deficiencies at such facilities under HUD regulations. Compliance with HUD' s requirements can often be difficult because these requirements are not always consistent with the requirements of other federal and state agencies. Appealing a failed inspection can be costly and time- consuming and, if we do not successfully remediate the failed inspection, we could be precluded from obtaining HUD financing in the future or we may encounter limitations or prohibitions on our operation of HUD- insured facilities. If we fail to safeguard the monies held in our patient trust funds, we will be required to reimburse such monies, and we may be subject to citations, fines and penalties. Each of our ~~affiliated facilities~~ **independent subsidiaries** is required by federal law to maintain a patient trust fund to safeguard certain assets of their residents and patients. If any money held in a patient trust fund is misappropriated, we are required to reimburse the patient trust fund for the amount of money that was misappropriated. If any monies held in our patient trust funds are

misappropriated in the future and are unrecoverable, we will be required to reimburse such monies, and we may be subject to citations, fines and penalties pursuant to federal and state laws **. We are a holding company with no operations and rely upon our multiple independent subsidiaries to provide us with the funds necessary to meet our financial obligations. Liabilities of any one or more of our subsidiaries could be imposed upon us or our other subsidiaries** . We are a holding company with no direct operating assets, employees or revenue. Each of our ~~affiliated facilities~~ **independent subsidiaries** is operated through a separate, wholly- owned, independent subsidiary, which has its own management, employees and assets. Our principal assets are the equity interests we directly or indirectly hold in our multiple operating and real estate holding subsidiaries. As a result, we are dependent upon distributions from our subsidiaries to generate the funds necessary to meet our financial obligations and pay dividends. Our subsidiaries are legally distinct from us and have no obligation to make funds available to us. The ability of our subsidiaries to make distributions to us will depend substantially on their respective operating results and will be subject to restrictions under, among other things, the laws of their jurisdiction of organization, which may limit the amount of funds available for distribution to investors or stockholders, agreements of those subsidiaries, the terms of our financing arrangements and the terms of any future financing arrangements of our subsidiaries. If the separation of Pennant fails to qualify as generally tax- free for U. S. federal income tax purposes, we and our stockholders could be subject to significant tax liabilities. The spin- off in 2019 is intended to qualify for tax- free treatment to us and our stockholders for U. S. federal income tax purposes. Accordingly, completion of the transaction was conditioned upon, among other things, our receipt of opinions from outside tax advisors that the distributions would qualify as a transaction that is intended to be tax- free to both us and our stockholders for U. S. federal income tax purposes under Sections 355 and 368 (a) (1) (D) of the Internal Revenue Code. The opinions were based on and relied on, among other things, certain facts and assumptions, as well as certain representations, statements and undertakings, including those relating to the past and future conduct. If any of these facts, assumptions, representations, statements or undertakings is, or becomes, inaccurate or incomplete, or if any of the parties **'** breach any of their respective covenants relating to the transactions, the tax opinions may be invalid. Moreover, the opinions are not binding on the IRS or any courts. Accordingly, notwithstanding receipt of the opinion, the IRS could determine that the distribution and certain related transactions should be treated as taxable transactions for U. S. federal income tax purposes. If the spin- off fails to qualify as a transaction that is generally tax- free under Sections 355 and 368 (a) (1) (D) of the Internal Revenue Code, in general, for U. S. federal income tax purposes, we would recognize taxable gain with respect to the distributed securities and our stockholders who received securities in such distribution would be subject to tax as if they had received a taxable distribution equal to the fair market value of such shares. We also have obligations to provide indemnification to a number of parties as a result of the transaction. Any indemnity obligations for tax issues or other liabilities related to the spin- off, could be significant and could adversely impact our business. Certain of our directors who serve on our Board of Directors also serve on the board of directors of Pennant. This may create, or appear to create, conflicts of interest when our, or Pennant' s management and directors face decisions that could have different implications for us and Pennant, including the resolution of any dispute regarding the terms of the agreements governing the spin- off **transaction** and the relationship between us and Pennant after the spin- off **transaction** or any other commercial agreements entered into in the future between us and **Pennant** ~~the spun- off business~~ and the allocation of such directors' time between us and Pennant. All of our executive officers and some of our non- employee directors own shares of the common stock of Pennant. The continued ownership of such common stock by our directors and executive officers following the spin- off creates, or may create, the appearance of a conflict of interest when these directors and executive officers are faced with decisions that could have different implications for us and Pennant. If Standard Bearer fails to qualify or remain qualified as a REIT, it will be subject to U. S. federal income tax as a regular corporation and could face substantial tax liability. Standard Bearer currently operates, and intends to continue to operate, in a manner that ~~will~~ allows it to qualify to be taxed as a REIT for U. S. federal income tax purposes. Standard Bearer ~~intends to elect~~ **elected** to be taxed as a REIT for U. S. federal income tax purposes beginning with its taxable year ended December 31, 2022. If Standard Bearer fails to qualify to be taxed as a REIT in any year, it would be subject to U. S. federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and dividends paid to its shareholders would not be deductible by it in computing its taxable income. Any resulting corporate liability could be substantial and would reduce the amount of cash available for distribution to its shareholders. Unless it was entitled to relief under certain Code provisions, it also would be disqualified from re- electing to be taxed as a REIT for the four taxable years following the year in which it failed to qualify to be taxed as a REIT. Legislative or other actions affecting REITs could have a negative effect on Standard Bearer. The rules dealing with U. S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U. S. Department of the Treasury (~~the "~~ Treasury ~~"~~). Changes to the tax laws or interpretations thereof, with or without retroactive application, could materially and adversely affect Standard Bearer' s investors or Standard Bearer. We cannot predict how changes in the tax laws, including any tax reform called for by the current presidential administration, might affect Standard Bearer or its investors. New legislation, Treasury regulations, administrative interpretations or court decisions could significantly and negatively affect its ability to qualify to be taxed as a REIT or the U. S. federal income tax consequences to Standard Bearer or its investors of such qualification. For instance, the **"** Tax Cuts and Jobs Act ~~"~~ (**TCJA** ~~the " Act "~~) significantly changed the U. S. federal income tax laws applicable to businesses and their owners, including REITs and their shareholders. Technical corrections or other amendments to the ~~Act~~ **TCJA** or administrative guidance interpreting the ~~Act~~ **TCJA** may be forthcoming at any time. We cannot predict the long- term effect of the ~~Act~~ **TCJA** or any future law changes on REITs or their shareholders. Changes to the U. S. federal tax laws and interpretations thereof, whether under the ~~Act~~ **TCJA** or otherwise, could adversely affect an investment in our stock **. Additionally, REIT' s that are related to our operation will likely be subject to the disclosure requirements of CMS' s ownership transparency final rule, and may subject these REITs to additional public scrutiny** . No prediction can be made regarding whether new legislation or regulation (including new tax measures) will be enacted by legislative bodies or

governmental agencies, nor can we predict what consequences would result from this legislation or regulation. Accordingly, no assurance can be given that the currently anticipated tax treatment of an investment will not be modified by legislative, judicial or administrative changes, possibly with retroactive effect. Standard Bearer could fail to qualify to be taxed as a REIT if income it receives from our tenants is not treated as qualifying income. Under applicable provisions of the Code, Standard Bearer will not be treated as a REIT unless it satisfies various requirements, including requirements relating to the sources of its gross income. Rents received or accrued by it from its tenants will not be treated as qualifying rent for purposes of these requirements if the leases are not respected as true leases for U. S. federal income tax purposes and are instead treated as service contracts, joint ventures or other arrangements. If the leases are not respected as true leases for U. S. federal income tax purposes, Standard Bearer will likely fail to qualify to be taxed as a REIT. Even if Standard Bearer remains qualified as a REIT, it may face other tax liabilities that reduce its cash flow. Even if Standard Bearer remain qualified for taxation as a REIT, it may be subject to certain U. S. federal, state, and local taxes on its income and assets, including taxes on any undistributed income and state or local income, property and transfer taxes. For example, Standard Bearer may hold some of its assets or conduct certain of its activities through one or more taxable REIT subsidiaries (each, a ~~"~~ TRS ~~"~~) or other subsidiary corporations that will be subject to U. S. federal, state, and local corporate- level income taxes as regular C corporations. In addition, it may incur a 100 % excise tax on transactions with a TRS if they are not conducted on an arm' s- length basis. Any of these taxes would decrease cash available for distribution to its shareholders. Our ability to pay and maintain cash dividends is based on many factors, including our ability to make and finance acquisitions, our ability to negotiate favorable lease and other contractual terms, anticipated operating cost levels, the level of demand for **occupancy at** our ~~beds~~ **facilities** , the rates we charge and actual results that may vary substantially from estimates. Some of the factors are beyond our control and a change in any such factor could affect our ability to pay or maintain dividends. The ~~Amended~~ Credit ~~Agreement~~ **Facility** restricts our ability to pay dividends to stockholders if we receive notice that we are in default under ~~this~~ **the** agreement. The failure to pay or maintain dividends could adversely affect our stock price. Our amended and restated certificate of incorporation and our amended and restated bylaws contain provisions that may enable our Board of Directors to resist a change in control. These provisions may discourage, delay or prevent a change in the ownership of our company or a change in our management, even if doing so might be beneficial to our stockholders. In addition, these provisions could limit the price that investors would be willing to pay in the future for shares of our common stock. Such provisions set forth in our amended and restated certificate of incorporation or our amended and restated bylaws include: • our Board of Directors is authorized, without prior stockholder approval, to create and issue preferred stock, commonly referred to as " blank check " preferred stock, with rights senior to those of common stock; • advance notice requirements for stockholders to nominate individuals to serve on our Board of Directors or to submit proposals that can be acted upon at stockholder meetings; • our Board of Directors is classified so not all members of our board are elected at one time, which may make it more difficult for a person who acquires control of a majority of our outstanding voting stock to replace our directors; • stockholder action by written consent is limited; • special meetings of the stockholders are permitted to be called only by the chairman of our Board of Directors, our chief executive officer or by a majority of our Board of Directors; • stockholders are not permitted to cumulate their votes for the election of directors; • newly created directorships resulting from an increase in the authorized number of directors or vacancies on our Board of Directors are filled only by majority vote of the remaining directors; • our Board of Directors is expressly authorized to make, alter or repeal our bylaws; and • stockholders are permitted to amend our bylaws only upon receiving the affirmative vote of at least a majority of our outstanding common stock. We are also subject to the anti- takeover provisions of Section 203 of the General Corporation Law of the State of Delaware. Under these provisions, if anyone becomes an " interested stockholder, " we may not enter into a " business combination " with that person for three years without special approval, which could discourage a third **-** party from making a takeover offer and could delay or prevent a change of control. For purposes of Section 203, " interested stockholder " means, generally, someone owning more than 15 % or more of our outstanding voting stock or an affiliate of ours that owned 15 % or more of our outstanding voting stock during the past three years, subject to certain exceptions as described in Section 203. These and other provisions in our amended and restated certificate of incorporation, amended and restated bylaws and Delaware law could discourage acquisition proposals and make it more difficult or expensive for stockholders or potential acquirers to obtain control of our Board of Directors or initiate actions that are opposed by our then- current Board of Directors, including delaying or impeding a merger, tender offer or proxy contest involving us. Any delay or prevention of a change of control transaction or changes in our Board of Directors could cause the market price of our common stock to decline.