

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**Form 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2021

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 001-38973

**Viemed Healthcare, Inc.**

(Exact name of registrant as specified in its charter)

**British Columbia, Canada**  
(State or other jurisdiction of  
incorporation or organization)

**N/A**  
(IRS Employer  
Identification Number)

**625 E. Kaliste Saloom Rd.  
Lafayette, LA 70508**

(Address of principal executive offices, including zip code)

**(337) 504-3802**

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common Shares, no par value	VMD	The Nasdaq Stock Market LLC

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

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

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

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

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

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

As of October 23, 2021, there were 39,630,446 common shares of the registrant outstanding.

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**VIEMED HEALTHCARE, INC.**  
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## Item 1. Financial Statements

**VIEMED HEALTHCARE, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
*(Expressed in thousands of U.S. Dollars, except outstanding shares)*

	Note	At September 30, 2021 <i>(Unaudited)</i>	At December 31, 2020 <i>(Audited)</i>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 26,867	\$ 30,981
Accounts receivable, net of allowance for doubtful accounts of \$7,115 and \$9,013 at September 30, 2021 and December 31, 2020, respectively	2	12,696	12,373
Inventory, net of inventory reserve of \$1,237 and \$1,353 at September 30, 2021 and December 31, 2020, respectively	2	2,622	2,310
Income tax receivable		1,420	—
Prepaid expenses and other assets		3,761	1,511
<b>Total current assets</b>		<b>\$ 47,366</b>	<b>\$ 47,175</b>
<b>Long-term assets</b>			
Property and equipment, net	3	59,036	55,056
Equity investments	2	1,942	733
Deferred tax asset	9	6,281	8,733
Other long-term assets	8	861	863
<b>Total long-term assets</b>		<b>\$ 68,120</b>	<b>\$ 65,385</b>
<b>TOTAL ASSETS</b>		<b>\$ 115,486</b>	<b>\$ 112,560</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables		\$ 4,734	\$ 2,096
Deferred revenue		3,795	3,409
Income taxes payable		—	340
Accrued liabilities	4	9,283	12,595
Current portion of lease liabilities	5	481	2,741
Current portion of long-term debt	5	1,906	1,836
<b>Total current liabilities</b>		<b>\$ 20,199</b>	<b>\$ 23,017</b>
<b>Long-term liabilities</b>			
Accrued liabilities	7	730	1,292
Long-term lease liabilities	5	834	762
Long-term debt	5	4,347	5,796
<b>Total long-term liabilities</b>		<b>\$ 5,911</b>	<b>\$ 7,850</b>
<b>TOTAL LIABILITIES</b>		<b>\$ 26,110</b>	<b>\$ 30,867</b>
<b>Commitments and Contingencies</b>	8	—	—
<b>SHAREHOLDERS' EQUITY</b>			
Common stock - No par value: unlimited authorized; 39,630,446 and 39,185,182 issued and outstanding as of September 30, 2021 and December 31, 2020, respectively	7	\$ 13,957	\$ 9,181
Additional paid-in capital		6,501	7,320
Accumulated other comprehensive loss		(330)	(451)
Retained earnings		69,248	65,643
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>\$ 89,376</b>	<b>\$ 81,693</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 115,486</b>	<b>\$ 112,560</b>

See accompanying notes to the condensed consolidated financial statements

**VIEMED HEALTHCARE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
*(Expressed in thousands of U.S. Dollars, except share and per share amounts)*  
*(Unaudited)*

	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
		2021	2020	2021	2020
<b>Revenue</b>	2	\$ 29,285	\$ 33,447	\$ 85,100	\$ 100,107
Cost of revenue		10,904	13,994	31,352	39,174
<b>Gross profit</b>		\$ 18,381	\$ 19,453	\$ 53,748	\$ 60,933
<b>Operating expenses</b>					
Selling, general and administrative		13,260	13,550	40,653	40,555
Research and development		576	243	1,498	688
Stock-based compensation	7	1,302	1,234	3,845	3,581
Depreciation		211	202	618	612
Loss (gain) on disposal of property and equipment		145	203	304	(2,424)
Other expense (income)		(32)	(19)	(85)	(3,593)
<b>Income from operations</b>		\$ 2,919	\$ 4,040	\$ 6,915	\$ 21,514
<b>Non-operating income and expenses</b>					
Income from equity method investments		(331)	(21)	(782)	(36)
Interest expense, net of interest income	5	75	116	249	409
<b>Net income before taxes</b>		3,175	3,945	7,448	21,141
Provision (benefit) for income taxes	9	1,386	1,141	2,409	(5,318)
<b>Net income</b>		\$ 1,789	\$ 2,804	\$ 5,039	\$ 26,459
<b>Other comprehensive income (loss)</b>					
Change in unrealized gain/loss on derivative instruments, net of tax		21	24	121	(321)
<b>Other comprehensive income (loss)</b>		\$ 21	\$ 24	\$ 121	\$ (321)
<b>Comprehensive income</b>		\$ 1,810	\$ 2,828	\$ 5,160	\$ 26,138
<b>Net income per share</b>					
Basic	10	\$ 0.05	\$ 0.07	\$ 0.13	\$ 0.69
Diluted	10	\$ 0.04	\$ 0.07	\$ 0.12	\$ 0.66
<b>Weighted average number of common shares outstanding:</b>					
Basic	10	39,607,540	39,107,640	39,442,088	38,603,267
Diluted	10	40,659,353	41,155,668	40,716,747	40,377,608

See accompanying notes to the condensed consolidated financial statements

**VIEMED HEALTHCARE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
*(Expressed in thousands of U.S. Dollars, except share and per share amounts)*  
*(Unaudited)*

	Common Stock		Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total Shareholders' equity
	Shares	Amount				
<b>Shareholders' equity, December 31, 2019</b>	<b>37,952,660</b>	<b>\$ 3,366</b>	<b>\$ 6,377</b>	<b>\$ (157)</b>	<b>\$ 34,113</b>	<b>\$ 43,699</b>
Stock-based compensation - options	—	—	891	—	—	891
Stock-based compensation - restricted stock	—	—	260	—	—	260
Exercise of options	4,737	15	—	—	—	15
Shares issued for vesting of restricted stock units	529,375	3,276	(3,276)	—	—	—
Change in accumulated other comprehensive loss, net of tax	—	—	—	(312)	—	(312)
Net income	—	—	—	—	4,243	4,243
<b>Shareholders' equity, March 31, 2020</b>	<b>38,486,772</b>	<b>\$ 6,657</b>	<b>\$ 4,252</b>	<b>\$ (469)</b>	<b>\$ 38,356</b>	<b>\$ 48,796</b>
Stock-based compensation - options	—	—	933	—	—	933
Share-based compensation - restricted stock	—	—	263	—	—	263
Exercise of options	596,160	1,757	—	—	—	1,757
Change in accumulated other comprehensive loss, net of tax	—	—	—	(33)	—	(33)
Net income	—	—	—	—	19,412	19,412
<b>Shareholders' equity, June 30, 2020</b>	<b>39,082,932</b>	<b>\$ 8,414</b>	<b>\$ 5,448</b>	<b>\$ (502)</b>	<b>\$ 57,768</b>	<b>\$ 71,128</b>
Stock-based compensation - options	—	—	945	—	—	945
Stock-based compensation - restricted stock	—	—	289	—	—	289
Exercise of options	2,400	8	—	—	—	8
Shares issued for vesting of restricted stock units	59,850	663	(663)	—	—	—
Change in accumulated other comprehensive loss, net of tax	—	—	—	24	—	24
Net income	—	—	—	—	2,804	2,804
<b>Shareholders' equity, September 30, 2020</b>	<b>39,145,182</b>	<b>\$ 9,085</b>	<b>\$ 6,019</b>	<b>\$ (478)</b>	<b>\$ 60,572</b>	<b>\$ 75,198</b>

See accompanying notes to the condensed consolidated financial statements

**VIEMED HEALTHCARE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
*(Expressed in thousands of U.S. Dollars, except share and per share amounts)*  
*(Unaudited)*

	Common Stock		Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total Shareholders' equity
	Shares	Amount				
<b>Shareholders' equity, December 31, 2020</b>	<b>39,185,182</b>	<b>\$ 9,181</b>	<b>\$ 7,320</b>	<b>\$ (451)</b>	<b>\$ 65,643</b>	<b>\$ 81,693</b>
Stock-based compensation - options	—	—	1,078	—	—	1,078
Stock-based compensation - restricted stock	—	—	229	—	—	229
Exercise of options	16,586	65	—	—	—	65
Shares issued for vesting of restricted stock units	556,840	4,403	(4,403)	—	—	—
Shares redeemed to pay income tax	(181,320)	—	—	—	(1,434)	(1,434)
Change in accumulated other comprehensive loss, net of tax	—	—	—	106	—	106
Net income	—	—	—	—	1,684	1,684
<b>Shareholders' equity, March 31, 2021</b>	<b>39,577,288</b>	<b>\$ 13,649</b>	<b>\$ 4,224</b>	<b>\$ (345)</b>	<b>\$ 65,893</b>	<b>\$ 83,421</b>
Stock-based compensation - options	—	—	998	—	—	998
Stock-based compensation - restricted stock	—	—	238	—	—	238
Exercise of options	11,011	47	—	—	—	47
Change in accumulated other comprehensive loss, net of tax	—	—	—	(6)	—	(6)
Net income	—	—	—	—	1,566	1,566
<b>Shareholders' equity, June 30, 2021</b>	<b>39,588,299</b>	<b>\$ 13,696</b>	<b>\$ 5,460</b>	<b>\$ (351)</b>	<b>\$ 67,459</b>	<b>\$ 86,264</b>
Stock-based compensation - options	—	—	1,051	—	—	1,051
Stock-based compensation - restricted stock	—	—	251	—	—	251
Shares issued for vesting of restricted stock units	42,147	261	(261)	—	—	—
Change in accumulated other comprehensive loss, net of tax	—	—	—	21	—	21
Net income	—	—	—	—	1,789	1,789
<b>Shareholders' equity, September 30, 2021</b>	<b>39,630,446</b>	<b>\$ 13,957</b>	<b>\$ 6,501</b>	<b>\$ (330)</b>	<b>\$ 69,248</b>	<b>\$ 89,376</b>

See accompanying notes to the condensed consolidated financial statements

**VIEMED HEALTHCARE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(Expressed in thousands of U.S. Dollars)*  
*(Unaudited)*

	Note	Nine Months Ended September 30,	
		2021	2020
<b>Cash flows from operating activities</b>			
Net income		\$ 5,039	\$ 26,459
Adjustments for:			
Depreciation		8,192	6,745
Change in allowance for doubtful accounts	2	5,250	7,031
Change in inventory reserve		(116)	—
Share-based compensation	7	3,845	3,581
Distributions of earnings received from equity method investments		172	—
Income from equity method investments		(782)	(36)
Loss (gain) on disposal of property and equipment		304	(2,424)
Deferred income tax expense (benefit)		2,410	(7,593)
Net change in working capital			
Increase in accounts receivable		(5,573)	(6,986)
Increase in inventory		(196)	(1,402)
Increase in prepaid expenses and other assets		(2,259)	(1,771)
Increase in trade payables		2,638	2,739
Increase in deferred revenue		386	297
(Decrease) increase in accrued liabilities		(3,711)	2,397
Change in income tax payable/receivable		(1,760)	282
<b>Net cash provided by operating activities</b>		<b>\$ 13,839</b>	<b>\$ 29,319</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(13,080)	(8,204)
Investment in equity investments		(599)	(30)
Proceeds from sale of property and equipment		496	5,187
<b>Net cash used in investing activities</b>		<b>\$ (13,183)</b>	<b>\$ (3,047)</b>
<b>Cash flows from financing activities</b>			
Proceeds from exercise of options		112	1,780
Principal payments on notes payable	5	(113)	(104)
Principal payments on term note	5	(1,255)	(1,199)
Shares redeemed to pay income tax	7	(1,434)	—
Repayments of lease liabilities		(2,080)	(7,708)
<b>Net cash used in financing activities</b>		<b>\$ (4,770)</b>	<b>\$ (7,231)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(4,114)</b>	<b>19,041</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>30,981</b>	<b>13,355</b>
<b>Cash and cash equivalents at end of period</b>		<b>\$ 26,867</b>	<b>\$ 32,396</b>
<b>Supplemental disclosures of cash flow information</b>			
Cash paid during the period for interest		\$ 278	\$ 437
Cash paid during the period for income taxes, net of refunds received		\$ 1,760	\$ 1,975
<b>Supplemental disclosures of non-cash transactions</b>			
Net non-cash changes to finance lease balances		\$ 42	\$ 3,002
Net non-cash changes to operating lease balances		\$ 372	\$ 57

See accompanying notes to the condensed consolidated financial statements

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**VIEMED HEALTHCARE, INC.**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(Tabular dollar amounts expressed in thousands of U.S. Dollars, except per share amounts)*  
*(Unaudited)*

**September 30, 2021 and 2020**

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## **1. Nature of Business and Operations**

Viemed Healthcare, Inc. (the "Company"), through its subsidiaries, is a provider of in-home durable medical equipment ("DME") and post-acute respiratory healthcare services in the United States. The Company's service offerings are focused on effective in-home treatment with clinical practitioners providing therapy and counseling to patients in their homes using cutting edge technology. The Company currently serves patients in 46 states in the United States. The Company was incorporated under the Business Corporations Act (British Columbia) on December 14, 2016. The Company's registered and records office is located at Suite 2800, Park Place, 666 Burrard Street, Vancouver, British Columbia V6C 2Z7 and its corporate office is located at 625 E. Kaliste Saloom Road, Lafayette, Louisiana 70508.

The Company is an "emerging growth company," as defined in the Jumpstart Our Business Startups Act (the "JOBS Act") and a "smaller reporting company" under Rule 12b-2 of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), and, as such, has elected to comply with certain reduced U.S. public company reporting requirements.

The Company's common shares are traded in the U.S. on the Nasdaq Capital Market under the symbol VMD and in Canada on the Toronto Stock Exchange ("TSX") under the symbol VMD.TO.

## **2. Summary of Significant Accounting Policies**

### **Principles of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The accompanying condensed consolidated financial statements are unaudited, but reflect all adjustments consisting of normal recurring accruals, which, in the opinion of management, are necessary to present fairly our Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Income and Comprehensive Income, Condensed Consolidated Statements of Changes in Shareholders' Equity and Condensed Consolidated Statements of Cash Flows for the interim periods presented. Our fiscal year ends on December 31. The Condensed Consolidated Balance Sheet as of December 31, 2020 was derived from audited consolidated financial statements but does not include all disclosures required by GAAP. These condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements and the notes thereto and the report of our independent registered public accounting firm included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. The nature of our business is such that the results of any interim period may not be indicative of the results to be expected for the entire year.

### ***Basis of consolidation***

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions have been eliminated.

### ***Use of estimates***

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases these estimates and assumptions upon historical experience, existing and known circumstances, authoritative accounting pronouncements and other factors that management believes to be reasonable. Significant areas requiring the use of management estimates relate to revenue recognition, accounts receivable and the related allowance for doubtful accounts, income tax provisions, and fair value of financial instruments. Actual results could differ from these estimates.

### ***Accounts receivable***

Accounts receivable are regularly reviewed for collectability and an allowance is recorded to cover the estimated bad debts and billing modifications. The accounts receivable are presented on the Condensed Consolidated Balance Sheets net of the allowance for doubtful accounts. It is possible that the estimates of the allowance for doubtful accounts could change, which could have a material impact on our operations and cash flows.

**VIEMED HEALTHCARE, INC.**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(Tabular dollar amounts expressed in thousands of U.S. Dollars, except per share amounts)*  
*(Unaudited)*

**September 30, 2021 and 2020**

The Company writes off receivables when the likelihood for collection is remote, and when the Company believes collection efforts have been fully exhausted and it does not intend to devote additional resources in attempting to collect. The write-offs are charged against the allowance for doubtful accounts.

For the nine months ended September 30, 2021, our evaluation takes into consideration such factors as historical bad debt experience, national and local economic trends and conditions, industry and regulatory conditions, other collection indicators and information about disaggregated receivables. The complexity of many third-party billing arrangements, patient qualification for medical necessity of equipment and the uncertainty of reimbursement amounts for certain services from certain payors may result in adjustments to amounts originally recorded.

The estimates and write-offs for the allowance for doubtful accounts for each reporting period were as follows:

	<b>September 30, 2021</b>	<b>September 30, 2020</b>
Balance, beginning of year	\$ 9,013	\$ 7,782
Change in allowance for doubtful accounts	5,250	7,031
Amounts written off	(7,148)	(6,025)
<b>Balance, end of period</b>	<b>\$ 7,115</b>	<b>\$ 8,788</b>

Included in accounts receivable at September 30, 2021 are amounts due from Medicare and Medicaid which represent 36% and 10%, respectively, and 46% combined, of total outstanding receivables. As of December 31, 2020, 46% of total outstanding receivables were due from Medicare and Medicaid.

Revenues from Medicare and Medicaid as percentages of the Company's traditional revenue streams, excluding COVID-19 response sales and services, for the three and nine months ended September 30, 2021 and 2020 were as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Medicare revenues	53 %	57 %	56 %	58 %
Medicaid revenues	9 %	9 %	9 %	8 %
<b>Total Medicare and Medicaid</b>	<b>62 %</b>	<b>66 %</b>	<b>65 %</b>	<b>66 %</b>

***Inventory***

Inventory represents non-serialized respiratory supplies that consist of equipment parts, consumables, and associated product supplies and is expensed at the time of sale or use. The Company values inventory at the lower of cost or net realizable value. Obsolete and unserviceable inventories are valued at estimated net realizable value. Inventory is presented net of a reserve balance of \$1,237,000 and \$1,353,000 at September 30, 2021 and December 31, 2020, respectively, that relates to COVID-19 response supplies.

***Property and equipment***

Property and equipment is presented on the Condensed Consolidated Balance Sheets at historic cost less accumulated depreciation. Major renewals and improvements that extend the useful life of assets are capitalized to the respective property accounts, while maintenance and repairs, which do not extend the useful life of the respective assets, are expensed as incurred. Management has estimated the useful lives of equipment leased to customers. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Property and equipment are amortized on a straight-line basis over their estimated useful lives.

Depreciation of medical equipment commences at the date of service, which represents the date that the asset has been delivered to a patient and is put in use and continues through the useful life of the asset. Property and equipment with definite useful lives are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

**VIEMED HEALTHCARE, INC.**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(Tabular dollar amounts expressed in thousands of U.S. Dollars, except per share amounts)*  
*(Unaudited)*

**September 30, 2021 and 2020**

**Equity investments**

Equity investments on the Condensed Consolidated Balance Sheets are comprised of an investment accounted for under the equity method and an equity investment without a readily determinable fair value which is accounted for under the measurement alternative described in ASC 321-10-35-2.

The following table details the Company's equity investments:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Equity method investments	\$ 744	\$ 134
Other equity investments	1,198	599
<b>Balance, end of period</b>	<b>\$ 1,942</b>	<b>\$ 733</b>

Investments accounted for under the equity method are investments in unconsolidated entities over whose operating and financial policies the Company has the ability to exercise significant influence but not control. Equity method investments are initially measured at cost in the Condensed Consolidated Balance Sheets with any subsequent adjustments made to the carrying amount of the investment for the Company's proportionate share of income or loss. The Company has recognized its share of income or loss on the gain (loss) from equity method investments within non-operating expenses in the Condensed Consolidated Statements of Income. Equity method investments are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the investments may exceed the fair value. No events or changes have occurred as of September 30, 2021 that would affect the carrying value of equity method investments.

Other equity investments are investments without a readily determinable fair value which do not qualify for the practical expedient in ASC 820. For these investments, the Company has elected the measurement alternative which measures the investment at cost, less any impairment. ASU 2019-04 clarifies that if an entity identifies observable price changes in orderly transactions for the identical or a similar investment of the same issuer, it must measure its equity investment at fair value in accordance with ASC 820 as of the date that the observable transaction occurred. The Company was not aware of any impairment or observable price change adjustments that needed to be made as of September 30, 2021 on its investments in equity securities without a readily determinable fair value.

**Comprehensive income**

Comprehensive income reflects the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Our comprehensive income represents net income adjusted for unrealized gains and losses on derivative instruments, net of tax. Accumulated other comprehensive loss is presented on the accompanying Condensed Consolidated Balance Sheets as a component of shareholders' equity.

As a result of the "backward tracing" prohibition in ASC 740, certain previously measured unrealized gains or losses have resulted in the existence of "dangling" amounts within other comprehensive income. The Company has elected the individual security approach to the release of these effects. Under the individual security approach, dangling amounts are tracked on a security-by-security basis and cleared out of the other comprehensive income balance upon sale of each individual security. During the periods presented, none of the individual securities associated with a dangling balance were sold.

**Revenue recognition**

Revenue from a customer consists of any combination of the sale and rental of DME and/or patient medical services. Revenues are billed to and collections received from Medicare, Medicaid, third-party insurers, co-insurance and patient-pay. Revenue is recognized net of contractual adjustments and bad debt based on contractual arrangements with third-party payors, an evaluation of expected collections resulting from the analysis of current and past due accounts, past collection experience in relation to amounts billed and other relevant information. Contractual adjustments result from the differences between the rates charged for services and reimbursement rates paid by government-sponsored healthcare programs and insurance companies for such services.

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The Company's contracts with customers often include multiple products and services, and the Company evaluates these arrangements to determine the unit of accounting for revenue recognition purposes based on whether the product or service is distinct from other products or services in the arrangement and should be accounted for as a separate performance obligation. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company's ability to transfer the goods or services is separately identifiable from other promises in the contractual arrangement with the customer (e.g. patient). Revenue is then allocated to each separately identifiable good or service based on the standalone price of the items underlying the performance obligations. Most of the Company's products fall in the Medicare Fee-for-Service ("FFS") program which is a payment model where services are unbundled and paid for separately. These services are paid based on a Medicare determined price that is publicly available on the website for the Centers for Medicare & Medicaid Services ("CMS").

For commercial payors, DME companies must negotiate in-network pricing separately, though in general, the Company's payors tend to benchmark their contract rates and coverage policies closely to those of Medicare.

The Company considers performance obligations for sales and rentals to be met when the customer receives the equipment, and revenue for rentals is recognized over time, over the respective rental period. For revenue associated with DME rentals, the Company recognizes revenue in accordance with ASC 842, "Leases," (Topic 842). For any DME sales and services, the Company recognizes revenue under FASB ASU 2014-09, "Revenue from Contracts with Customers," (Topic 606) and related amendments.

The Company recognizes equipment rental revenue over the non-cancelable lease term, which is one month, less estimated adjustments, in accordance with Topic 842. The Company has separate contracts with each patient that are not subject to a master lease agreement with any third-party payor. The Company would first consider the lease classification issue (sales-type lease or operating lease) and then appropriately recognize or defer rental revenue over the lease term.

The revenues from each major source are summarized in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<i>Revenue from rentals</i>				
Ventilator rentals, non-invasive and invasive	\$ 21,305	\$ 19,962	\$ 61,962	\$ 58,672
Other durable medical equipment rentals	3,598	2,649	9,833	7,184
<i>Revenue from sales and services</i>				
Equipment and supply sales	2,415	1,890	6,258	3,962
COVID-19 response sales and services	1,452	8,553	5,542	29,306
Service revenues	515	393	1,505	983
<b>Total revenues</b>	<b>\$ 29,285</b>	<b>\$ 33,447</b>	<b>\$ 85,100</b>	<b>\$ 100,107</b>

**Revenue Accounting under Topic 842**

The Company leases DME such as non-invasive and invasive ventilators, positive airway pressure ("PAP") machines, percussion vests, oxygen concentrator units and other small respiratory equipment to customers for a fixed monthly amount on a month-to-month basis. The customer generally has the right to cancel the lease at any time during the rental period. The Company accounts for these rentals as operating leases.

Under FASB ASC Topic 842, the Company recognizes rental revenue on operating leases on a straight-line basis over the contractual lease term which varies based on the type of equipment rental. The lease term begins on the date products are delivered to patients, and revenues are recorded at amounts estimated to be received under reimbursement arrangements with third-party payors, including Medicare, private commercial payors, and Medicaid. Certain customer co-payments are included in revenue when considered probable of payment, which is generally when paid.

Due to the nature of the industry and the reimbursement environment in which the Company operates, certain estimates are required to record net revenue and accounts receivable at their net realizable values. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of many third-party billing arrangements and the uncertainty of reimbursement amounts for certain services from certain payors may result in adjustments to amounts originally recorded. Such adjustments are typically identified and recorded at the point of cash application or claim denial.

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***Revenue Accounting under Topic 606***

The Company sells DME, replacement parts and supplies to customers and recognizes revenue based on contractual payment rates as determined by the payors at the point in time where control of the good or service is transferred through delivery to the customer. The customer and, if applicable, the payors are generally charged at the time that the product is sold. For sales of equipment previously placed in service, proceeds associated with these sales are recorded to gain (loss) on disposal of property and equipment.

The Company also provides sleep study services to customers and recognizes revenue when the sleep study results are complete, satisfying the performance obligation. In response to the COVID-19 pandemic, the Company began offering contact and vaccine tracing services, which revenues are recognized in the period in which the service has been provided. The transaction price on equipment sales, sleep studies and contact and vaccine tracing is the amount that the Company expects to receive in exchange for the goods and services provided. Due to the nature of the DME business, gross charges are retail charges and generally do not reflect what the Company is ultimately paid. As such, the transaction price is constrained for the difference between the gross charge and what is estimated to be collected from payors and from patients. The transaction price therefore is predominantly based on contractual payment rates as determined by the payors. The Company does not generally contract with uninsured customers. The payment terms and conditions of customer contracts vary by customer type and the products and services offered.

The Company determines its estimates of contractual allowances and discounts based upon contractual agreements, its policies and historical experience. While the rates are fixed for the product or service with the customer and the payors, such amounts typically include co-payments, co-insurance and deductibles, which vary in amounts, and are due from the patient. The Company includes in the transaction price only the amount that the Company expects to be entitled, which is substantially all of the payor billings at contractual rates. The transaction price is initially constrained by the amount of customer co-payments, which are included in the transaction price when considered probable of payment and included in revenue if the product or service has already been provided to the customer.

Due to the nature of the industry and the reimbursement environment in which the Company operates, certain estimates are required to record net revenue and accounts receivable at their net realizable values. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of many third-party billing arrangements and the uncertainty of reimbursement amounts for certain services from certain payors may result in adjustments to amounts originally recorded. Such adjustments are typically identified and recorded at the point of cash application or claim denial.

Returns and refunds are not accepted on equipment sales, sleep study services or contact and vaccine tracing services. The Company does not offer warranties to customers in excess of the manufacturer's warranty. Any taxes due upon sale of the products or services are not recognized as revenue. The Company does not have any partially or unfilled performance obligations related to contracts with customers and as such, the Company has no contract liabilities as of September 30, 2021.

***Stock-based compensation***

The Company accounts for its stock-based compensation in accordance with ASC 718, "*Compensation—Stock Compensation*", which establishes accounting for share-based awards exchanged for employee services and requires companies to expense the estimated fair value of these awards over the requisite employee service period. Stock-based compensation costs for stock options are determined at the grant date using the Black-Scholes option pricing model. Stock-based compensation costs for restricted stock units ("RSUs") are determined at the grant date based on the closing stock price. The expense of such stock-based compensation awards is recognized using the graded vesting attribution method over the vesting period and the offsetting credit is recorded as an increase in additional paid-in capital. Forfeitures are recorded as incurred. Any excess tax benefit or deficiency is recognized as a component of income taxes and within operating cash flows upon vesting of the share-based award.

For the Company's phantom share units settled in cash, the Company computes the fair value of the phantom share units using the closing price of the equivalent Company's stock value at the end of each period and records a liability based on the percentage of requisite service.

***Interest rate swaps***

The Company utilizes an interest rate swap contract to reduce exposure to fluctuations in variable interest rates for future interest payments on the Term Note (as defined below).

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For determining the fair value of the interest rate swap contract, the Company uses significant other observable market data or assumptions (Level 2 inputs) that market participants would use in pricing similar assets or liabilities, including assumptions about counterparty risk. These fair value estimates reflect an income approach based on the terms of the interest rate swap contract and inputs corroborated by observable market data including interest rate curves. The Company presents a positive ending period fair value of the interest rate swap contract in other long-term assets, as a component of long-term assets, and a negative ending period fair value of the interest rate swap contract in accrued liabilities, as a component of long-term liabilities on the Condensed Consolidated Balance Sheets.

The Company recognizes any differences between the variable interest rate payments and the fixed interest rate settlements from its swap counterparty as an adjustment to interest expense over the life of the swap. If determined to be an effective cash flow hedge, the Company will record the changes in the estimated fair value of the swaps to accumulated other comprehensive income or loss on the Condensed Consolidated Balance Sheets. To the extent that interest rate swaps are determined to be ineffective, the Company would recognize the changes in the estimated fair value of swaps in interest and other non-operating expenses, net in its Condensed Consolidated Statements of Income.

***Income taxes***

The Company is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. The Company's income tax provisions reflect management's interpretation of country and state tax laws. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and may remain uncertain for several years after their occurrence. The Company recognizes assets and liabilities for taxation when it is probable that we will receive refunds from or pay taxes to the relevant tax authority. Where the final determination of tax assets and liabilities is different from the amounts that were initially recorded, such differences will impact the current and deferred income taxes provision in the period in which such a determination is made. Changes in tax law or changes in the way tax law is interpreted may also impact our effective tax rate as well as our business and operations.

Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying value of assets and liabilities and their respective income tax bases. Deferred income tax assets or liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled. The calculation of current and deferred income taxes requires management to make estimates and assumptions and to exercise a certain amount of judgment concerning the carrying value of assets and liabilities. The current and deferred income tax assets and liabilities are also impacted by expectations about future operating results and the timing of reversal of temporary differences as well as possible audits of tax filings by regulatory agencies. Changes or differences in these estimates or assumptions may result in changes to the current and deferred tax assets and liabilities on the Condensed Consolidated Balance Sheets and a charge to or recovery of income tax expense.

***Recently adopted accounting pronouncements***

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The new guidance simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The new guidance also improves consistent application of and simplifies GAAP for other areas of Topic 740 by clarifying and amending the existing guidance. The Company adopted this standard on January 1, 2020, which did not have any impact on the Company's condensed consolidated financial statements.

***Recently issued accounting pronouncements***

The Company is an "emerging growth company" as defined by the JOBS Act. The JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, for complying with new or revised accounting standards. In other words, an emerging growth company can selectively delay the adoption of all accounting standards until those standards would otherwise apply to private companies. The Company has elected to utilize this exemption and, as a result, our condensed consolidated financial statements may not be comparable to the financial statements of issuers that are required to comply with the effective dates for new or revised accounting standards that are applicable to public companies. To date, however, the Company has not delayed the adoption of any accounting standards except as noted below. Section 107 of the JOBS Act provides that the Company can elect to opt out of the extended transition period at any time, which election is irrevocable.

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In November 2019, the FASB issued ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments – Credit Losses. In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments, which is intended to improve financial reporting by requiring earlier recognition of credit losses on certain financial assets. The standard replaces the current incurred loss impairment model that recognizes losses when a probable threshold is met with a requirement to recognize lifetime expected credit losses immediately when a financial asset is originated or purchased. Further, the FASB issued ASU 2019-04 and ASU 2019-05 to provide additional guidance on the credit losses standard. The standard is effective for fiscal years beginning after December 15, 2022 for smaller reporting companies, including interim periods within those annual periods, with early adoption permitted. The Company is currently evaluating the effect that this standard will have on its consolidated financial statements and related disclosures.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848), which provides optional guidance to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. Specifically, the guidance permits an entity, when certain criteria are met, to consider amendments to contracts made to comply with reference rate reform to meet the definition of a modification under GAAP. It further allows hedge accounting to be maintained and a one-time transfer or sale of qualifying held-to-maturity securities. The expedients and exceptions provided by the amendments are permitted to be adopted any time through December 31, 2022 and do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for certain optional expedients elected for certain hedging relationships existing as of December 31, 2022. The Company is currently evaluating the effect that this standard will have on its consolidated financial statements and related disclosures.

### **3. Property and Equipment**

The Company's fixed assets consist of its medical equipment held for rental, furniture and equipment, real property and related improvements, and vehicles and other various small equipment.

The following table details the Company's fixed assets:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Medical equipment	\$ 72,795	\$ 63,307
Furniture and equipment	2,410	2,722
Land	2,138	2,138
Buildings	5,863	5,966
Leasehold improvements	296	290
Vehicles	972	922
Less: Accumulated depreciation	(25,438)	(20,289)
<b>Property and equipment, net of accumulated depreciation and amortization</b>	<b>\$ 59,036</b>	<b>\$ 55,056</b>

Depreciation in the amount of \$2,656,000 and \$2,224,000 is included in cost of revenue for the three months ended September 30, 2021 and 2020, respectively, and in the amount of \$7,574,000 and \$6,133,000 for the nine months ended September 30, 2021 and 2020, respectively. Included in medical equipment above is equipment acquired under finance lease obligations whose cost and accumulated depreciation at September 30, 2021 total \$1,098,000 and \$222,000, respectively. At December 31, 2020, cost and accumulated depreciation on equipment acquired under finance lease obligations was \$6,900,000 and \$885,000, respectively.

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#### 4. Current Liabilities

The Company's short-term accrued liabilities are included within current liabilities and consist of the following:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Accrued trade payables	\$ 2,265	\$ 1,252
Accrued commissions payable	388	278
Accrued bonuses payable	2,912	5,190
Accrued vacation and payroll	2,027	844
Current portion of phantom share liability	1,002	4,485
Accrued other liabilities	689	546
<b>Total accrued liabilities</b>	<b>\$ 9,283</b>	<b>\$ 12,595</b>

#### 5. Debt and Lease Liabilities

##### Senior Credit Facility

On February 20, 2018, the Company entered a Commercial Business Loan Agreement that provides for Term Loans and Line of Credit with Hancock Whitney Bank.

##### *Line of Credit*

The Company maintains a line of credit in the amount of \$10.0 million that expires May 1, 2023 under the Commercial Business Loan Agreement. Any amounts advanced on this line will be subject to an interest rate equal to the WSJ prime rate plus a margin of 0.50%, with a 3.50% interest rate floor and will be secured by substantially all of the Company's assets. There were no borrowings against this line of credit at September 30, 2021 or December 31, 2020.

##### *Commercial Term Notes*

On May 30, 2019, the Company entered into a term note (the "Building Term Note") under the Commercial Business Loan Agreement in the principal amount of \$4.8 million. The proceeds of the Building Term Note were used to purchase the Company's corporate headquarters. Beginning July 1, 2019, the Company began making monthly payments towards the outstanding balance. The Building Term Note matures on May 30, 2026 and is secured by substantially all of the assets of the borrower, including the real property acquired with the proceeds of the Building Term Note. The Building Term Note bears interest at a variable rate equal to the one month ICE LIBOR index plus a margin of 2.45% per annum. The Company is required to maintain a loan to value ratio of 85% with respect to the appraised value of the real property. In connection with the Building Term Note, the Company entered into an interest rate swap transaction (the "Interest Rate Swap Transaction") with Hancock Whitney Bank effectively fixing the interest rate for the Building Term Note at 4.68%.

On September 19, 2019, the Company entered into an additional loan agreement providing for a term note (the "Term Note") under the Commercial Business Loan Agreement in the principal amount of \$5.0 million. The proceeds of the Term Note were utilized for general corporate purposes. Beginning October 19, 2019, the Company started making monthly principal payments of \$139,000 towards the outstanding balance. The Term Note matures on September 19, 2022 and is secured by substantially all of the assets of the borrower. The Term Note bears interest at the rate of 4.60% per annum.

The Company incurred immaterial financing costs related to the above term notes. These deferred financing costs are amortized over the term of the loans using the effective interest method.

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The recorded balances associated with these term notes, which have terms greater than twelve months, are as follows:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Notes payable	\$ 6,253	\$ 7,632
Less:		
Current portion of notes payable	(1,906)	(1,836)
<b>Net long-term notes payable</b>	<b>\$ 4,347</b>	<b>\$ 5,796</b>

Under the Commercial Business Loan Agreement, the Company is subject to several restrictive covenants that, among other things, impose operating and financial restrictions on the Company. Financial covenants include a Total Debt to Adjusted EBITDA, a Loan-to-Value Ratio and a Fixed Charged Coverage Ratio, as defined in the Credit Agreement. The Credit Agreement also contains certain customary events of default, including, among other things, failure to make payments when due thereunder and failure to observe or perform certain covenants. The Company was in compliance with all covenants under the Commercial Business Term Loan Agreement in effect at September 30, 2021.

**Leases**

The Company has recognized finance lease liabilities for medical equipment and operating leases for land and buildings that have terms greater than twelve months, as follows:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Lease liabilities	\$ 1,315	\$ 3,503
Less:		
Current portion of lease liabilities	(481)	(2,741)
<b>Net long-term lease liabilities</b>	<b>\$ 834</b>	<b>\$ 762</b>

*Finance lease liabilities*

The Company has various finance leases for equipment with an implied interest rate at fixed rates up to 9.61%, secured by equipment, due between 2021 and 2024. The Company's weighted average interest rate was 3.74% and 3.17% for all finance lease liabilities outstanding as of September 30, 2021 and 2020, respectively. At September 30, 2021 and 2020, the weighted average lease term was approximately 1.05 years and 0.73 years, respectively. Interest expense related to these finance lease obligations for the three and nine months ended September 30, 2021 amounted to \$4,000 and \$35,000, respectively. Interest expense related to these finance lease obligations for the three and nine months ended September 30, 2020 amount to \$34,000 and \$128,000, respectively.

*Operating lease liabilities*

The Company has recognized operating lease liabilities that relate primarily to the lease of land and buildings. These leases contain renewal options that we have not included as part of the Company's assessment of the lease term as it is not reasonably certain that we will exercise these options. These lease liabilities are recorded at present value based on a discount rate of 5.50%, which was based on the Company's incremental borrowing rate at the time of assessment. At September 30, 2021, the weighted average lease term was approximately 3.39 years. Operating rental expenses were \$194,000 and \$570,000 for the three and nine months ended September 30, 2021, respectively, and \$191,000 and \$575,000 for the three and nine months ended September 30, 2020, respectively. The related assets for operating lease liabilities have been included with property and equipment on the Condensed Consolidated Balance Sheets.

Included within these operating lease liabilities are real property leases for real estate from a related party. On August 1, 2015, the Company entered ten-year triple net lease agreements for office space with an entity that is affiliated with the Company's CEO, Casey Hoyt, and President, Michael Moore. Rental payments under these related party lease agreements are \$20,000 per month, plus taxes, utilities and maintenance. Total rental payments for the use of these properties were \$81,000 and \$194,000 for the three and nine months ended September 30, 2021, respectively, and \$58,000 and \$180,000 for the three and nine months ended September 30, 2020, respectively. The expense for these related party rents has been included within selling, general and administrative expenses.

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**6. Fair Value Measurement**

Under ASC Topic 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). ASC Topic 820 establishes a hierarchy for inputs to valuation techniques used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. There are three levels to the hierarchy based on the reliability of inputs, as follows:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets and liabilities in markets that are not active.

Level 3 - Unobservable inputs for the asset or liability. The degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The Company measures certain assets and liabilities at fair value on a recurring basis. There were no transfers between fair value measurement levels during any presented period.

The following tables summarize the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2021 and December 31, 2020:

(In thousands)	<b>At September 30, 2021</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Recurring Fair Value Measurements:</b>				
Money market mutual funds	\$ 21,452	\$ —	\$ —	\$ 21,452
Interest rate swap	—	(270)	—	(270)
<b>Total</b>	<b>\$ 21,452</b>	<b>\$ (270)</b>	<b>\$ —</b>	<b>\$ 21,182</b>

(In thousands)	<b>At December 31, 2020</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Recurring Fair Value Measurements:</b>				
Money market mutual funds	\$ 25,662	\$ —	\$ —	\$ 25,662
Interest rate swap	—	(433)	—	(433)
<b>Total</b>	<b>\$ 25,662</b>	<b>\$ (433)</b>	<b>\$ —</b>	<b>\$ 25,229</b>

**Derivative instruments and hedging activities**

The Company recognizes its interest rate swaps as either assets or liabilities in the accompanying Condensed Consolidated Balance Sheets at fair value. The valuation of these derivative instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. As of September 30, 2021, the Company holds one interest rate swap contract which matures on May 30, 2026 and has a notional amount of \$4.5 million. This contract is designated as a cash flow hedge. In the first nine months of 2021, ineffective portions of the hedge were immaterial. The fair value was \$(0.3) million (determined based on Level 2 inputs) and is included in accrued liabilities, as a component of long-term liabilities as of September 30, 2021.

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**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

We measure certain assets and liabilities at fair value on a nonrecurring basis. These assets and liabilities include equity method investments and other equity investments. Equity method investments are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the investments may exceed the fair value. The Company's other equity investments are holdings in a privately-held company without a readily determinable market value. The Company remeasures equity securities without readily determinable fair value at fair value when an orderly transaction is identified for an identical or similar investment of the same issuer in accordance with Topic 820. ASU 2019-04 states that the measurement alternative is a nonrecurring fair value measurement. Accordingly, other equity investments without readily determinable fair value are classified within Level 3 in the fair value hierarchy because the Company estimates the value using a combination of observable and unobservable inputs, including valuation ascribed to the issuing company in subsequent financing rounds, volatility in the results of operations of the issuers and rights and obligations of the holdings we own.

The Company had no material adjustments of assets and liabilities measured at fair value on a nonrecurring basis during any of the periods presented. There were no transfers between fair value measurement levels during any presented period.

## 7. Shareholders' Equity

### *Authorized share capital*

The Company's authorized share capital consists of an unlimited number of common shares.

### *Issued and outstanding share capital*

The Company has only one class of stock outstanding, common shares. The authorized stock consists of an unlimited number of common shares with no stated par value, of which 39,630,446 and 39,185,182 shares were issued and outstanding as of September 30, 2021 and December 31, 2020, respectively.

For the nine months ended September 30, 2021, the Company repurchased and canceled 181,320 common shares at a cost of \$1.4 million due to tax withholding for RSUs vesting. The Company's retained earnings were reduced by the amount paid for the shares repurchased for cancellation.

### *Stock-based compensation*

Effective June 11, 2020 (the "Effective Date"), the Company's shareholders approved the Company's 2020 Long Term Incentive Plan (the "Omnibus Plan"). Upon approval of the Omnibus Plan, no future awards are available to be made under the Company's previous RSU and Option Plans (collectively, the "Former Plan"), and the common shares that were not settled or awarded under the Former Plan as of the Effective Date are available for awards under the Omnibus Plan. The maximum number of common shares that are available for awards under the Omnibus Plan and under any other security-based compensation arrangements adopted by the Company, including the Former Plan, may not exceed 7,758,211 shares (equal to 20% of the issued and outstanding common shares of the Company on the Effective Date). The maximum amount of the foregoing common shares that may be awarded under the Omnibus Plan as "incentive stock options" is 2,600,000 common shares. As of September 30, 2021, the Company had outstanding options of 3,772,000 and RSUs of 219,000 associated with common shares under the Omnibus Plan.

The following table summarizes stock-based compensation expense for the three and nine months ended September 30, 2021 and 2020 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Stock-based compensation - options	\$ 1,051	\$ 945	\$ 3,127	\$ 2,769
Stock-based compensation - restricted stock units	251	289	718	812
<b>Total</b>	<b>\$ 1,302</b>	<b>\$ 1,234</b>	<b>\$ 3,845</b>	<b>\$ 3,581</b>

**VIEMED HEALTHCARE, INC.**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(Tabular dollar amounts expressed in thousands of U.S. Dollars, except per share amounts)*  
*(Unaudited)*

**September 30, 2021 and 2020**

At September 30, 2021, there was approximately \$3,495,000 of total unrecognized pre-tax stock option expense under our equity compensation plans, which is expected to be recognized over a weighted-average period of 2.00 years. As of September 30, 2021, there was approximately \$852,000 of total unrecognized pre-tax compensation expense related to outstanding time-based restricted stock units that is expected to be recognized over a weighted-average period of 0.90 years.

**Options**

The following table summarizes stock option activity for the nine months ended September 30, 2021:

	Number of options (000's)	Weighted average exercise price <sup>(1)</sup>	Weighted average remaining contractual life	Aggregate intrinsic value <sup>(2)</sup>
<b>Balance December 31, 2020</b>	<b>3,057</b>	<b>\$ 4.37</b>	<b>7.9 years</b>	<b>\$ 10,362</b>
Issued	829	8.60		
Exercised	(28)	3.87		
Expired / Forfeited	(86)	8.32		
<b>Balance September 30, 2021</b>	<b>3,772</b>	<b>\$ 5.21</b>	<b>7.7 years</b>	<b>\$ 4,343</b>

<sup>(1)</sup>For presentation purposes, stock options issued with a CAD exercise price have been translated to USD based on the prevailing exchange rate on the date of grant.

<sup>(2)</sup>The aggregate intrinsic value of options outstanding represents the difference between the exercise price of the option and the closing stock price of our common stock on the last trading day of the period.

The aggregate intrinsic value of options outstanding was \$4,343,000 and options exercisable were \$3,798,000 at September 30, 2021. For the nine months ended September 30, 2021, 27,597 shares of common stock were issued pursuant to the exercise of stock options.

At September 30, 2021, the Company had 1,882,000 exercisable stock options outstanding with a weighted average exercise price of \$3.65 and a weighted average remaining contractual life of 6.8 years. At December 31, 2020, the Company had 971,000 exercisable stock options outstanding with a weighted average exercise price of \$3.09 and a weighted average remaining contractual life of 6.9 years.

The Company accounts for its stock-based compensation in accordance with ASC 718 — Compensation—Stock Compensation, which establishes accounting for share-based awards exchanged for employee services and requires companies to expense the estimated fair value of these awards over the requisite employee service period. Stock-based compensation cost for stock options are determined at the grant date using the Black-Scholes option pricing model. The assumptions used to determine the grant date fair value of the stock options granted during the nine months ended September 30, 2021 were as follows:

Exercise price	\$8.57 - \$9.77
Risk-free interest rate	0.60% - 1.39%
Expected volatility	64.55% - 67.57%
Expected term	5.65 - 5.76 years
Expected dividend yield	Nil
Fair value on date of grant	\$5.05 - \$5.57

**Restricted stock units**

The Company also grants RSUs to directors, officers, and employees. The Company accounts for RSUs using fair value as of the date of issuance. The fair value of the RSUs has been charged to the Condensed Consolidated Statements of Income and Comprehensive Income and credited to additional paid-in capital over the vesting period, based on the stock price on the date of grant. RSUs vest generally over a one or three-year period. The Company accounts for forfeitures on RSUs under ASU 2016-09 and recognizes forfeitures in the period in which they occur.

**VIEMED HEALTHCARE, INC.**  
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The following table summarizes RSU activity for the nine months ended September 30, 2021:

	Number of RSUs (000's)	Weighted average grant price <sup>(1)</sup>	Weighted average remaining contractual life	Aggregate intrinsic value <sup>(2)</sup>
<b>Balance December 31, 2020</b>	<b>684</b>	<b>\$ 3.04</b>	<b>0.22 years</b>	<b>\$ 5,308</b>
Issued	145	7.34		
Vested	(600)	2.66		
Expired / Forfeited	(10)	6.80		
<b>Balance September 30, 2021</b>	<b>219</b>	<b>\$ 6.72</b>	<b>0.90 years</b>	<b>\$ 1,217</b>

<sup>(1)</sup>All future equity grants will be awarded in USD, therefore, RSUs issued with a CAD grant price have been translated to USD based on the prevailing exchange rate on the date of grant for presentation purposes.

<sup>(2)</sup>The aggregate intrinsic value of time-based RSUs outstanding was based on our closing stock price on the last trading day of the period.

During the three months ended September 30, 2021, the Company issued 81,394 RSUs with a vesting term of one year and a fair value of \$6.38 per share. During the nine months ended September 30, 2021, the Company issued 144,700 RSUs with a vesting term of one to three years and a fair value of \$7.34 per share.

**Phantom share units**

The Company has a phantom share unit plan, which it uses for grants to directors, officers, and employees. Phantom share units granted under the plan are non-assignable and are settled in cash at vesting based on the fair value of the Company's common stock on the vesting date. Phantom share units vest annually over a three-year period. The cash-settled phantom share units are accounted for as liability awards and are re-measured at fair value each reporting period until they become vested with accrued liability and related expense being recognized over the requisite service period.

The following table summarizes phantom share unit activity for the nine months ended September 30, 2021:

	Number of phantom share units (000's)	Value of share equivalents <sup>(1)</sup>
<b>Balance December 31, 2020</b>	<b>985</b>	<b>\$ 7,642</b>
Issued	394	3,766
Vested	(656)	(6,282)
Expired / Forfeited	(109)	(601)
<b>Balance September 30, 2021</b>	<b>614</b>	<b>\$ 3,407</b>

<sup>(1)</sup>The value of outstanding share equivalents at the beginning of the period is based on the market price of the Company's stock at that time, the value of issued share equivalents is based on the market price of the Company's stock at issuance, the value of vested share equivalents is based on the cash paid at the time of vesting, the values of expired/forfeited share equivalents and outstanding share equivalents at the end of the period and are based on the market price of the Company's stock at the end of the period. The market price of the Company's stock was \$5.55 on September 30, 2021.

The change in fair value of the phantom share units has been charged to the Condensed Consolidated Statements of Income and Comprehensive Income and recorded as a liability included in accrued liabilities and long-term accrued liabilities. The total liability associated with phantom share units at September 30, 2021 is \$1,462,000, with \$1,002,000 of this amount included in current accrued liabilities and the remaining portion of \$460,000 included in long-term accrued liabilities.

**VIEMED HEALTHCARE, INC.**  
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The impact associated with the fair value re-measurement of phantom share units is recorded in selling, general and administrative expenses within the unaudited Condensed Consolidated Statements of Income and Comprehensive Income. The following table summarizes expense associated with the phantom share units for the three and nine months ended September 30, 2021 and 2020 (in thousands):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Selling, general and administrative	\$ 41	\$ 459	\$ 2,400	\$ 4,070

The Company paid cash settlements of \$6,282,000 and \$4,201,000 during the nine months ended September 30, 2021 and 2020, respectively, pertaining to vestings of cash-settled phantom share units.

## **8. Commitments and Contingencies**

The Company accrues estimates for resolution of any legal and other contingencies when losses are probable and reasonably estimable in accordance with ASC 450, Contingencies (“ASC 450”). No less than quarterly, we review the status of each significant matter underlying a legal proceeding or claim and assess our potential financial exposure. We accrue a liability for an estimated loss if the potential loss from any legal proceeding or claim is considered probable and the amount can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether the amount of an exposure is reasonably estimable, and accruals are based only on the information available to our management at the time the judgment is made, which may prove to be incomplete or inaccurate or unanticipated events and circumstances may occur that might cause us to change those estimates and assumptions. Furthermore, the outcome of legal proceedings is inherently uncertain, and we may incur substantial defense costs and expenses defending any of these matters.

### ***Legal Proceedings***

As previously disclosed, the Company (through its subsidiary Sleep Management LLC) submitted a purchase order (the “Purchase Order”) in March 2020 to Vyair Medical, Inc. d/b/a CareFusion Respiratory Technologies (“Vyair”) for respiratory equipment. The Company ultimately prepaid \$1.4 million towards the delivery of such respiratory equipment. Vyair was unable or unwilling to deliver the vast majority of the respiratory equipment referenced in the Purchase Order, and also refused to refund the prepayment amount (less the amounts paid for equipment actually received). On July 29, 2020, the Company (through its subsidiary Sleep Management LLC) filed a lawsuit against Vyair in the United States District Court for the Western District of Louisiana (the “Court”). This lawsuit was dismissed on December 8, 2020 in connection with the commencement of the lawsuit filed by the Company (through its subsidiary Sleep Management) on November 5, 2020, against Vyair in the 15th Judicial District Court for the Parish of Lafayette, Louisiana (the “State Court”) seeking damages for breach of contract and seeking a declaratory judgment that the Company is not required to pay any further funds to Vyair. On December 28, 2020, Vyair filed its Answer, Affirmative Defenses, and Reconventional Demand (“Reconventional Demand”) with the State Court alleging breach of contract and seeking damages of \$4.7 million, purportedly for the improper cancellation of the Purchase Order. The Company filed its Answer to the Reconventional Demand on February 12, 2021 and the parties are currently engaged in discovery.

We continue to believe that we have valid legal and equitable grounds to recover our outstanding prepayment as a result of Vyair’s failure to deliver the vast majority of the respiratory equipment referenced in the Purchase Order. We have determined that a loss related to the Reconventional Demand is not probable, and thus have not accrued a liability related to this claim. Although a loss may be reasonably possible, we do not have sufficient information to determine the amount or range of reasonably possible loss with respect to the Reconventional Demand given that the dispute is in the early stages of the legal process. As of September 30, 2021, outstanding funds in the amount of \$0.9 million related to undelivered respiratory equipment are included within other long-term assets.

### ***Governmental and Regulatory Matters***

From time to time we are involved in various external governmental investigations, audits and reviews. Reviews, audits and investigations of this sort can lead to government actions, which can result in the assessment of recoupment of reimbursement, civil or criminal fines or penalties, or other sanctions, including restrictions or changes in the way we conduct business, loss of licensure or exclusion from participation in government healthcare programs.

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**VIEMED HEALTHCARE, INC.**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**September 30, 2021 and 2020**

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In May of 2021, a final report and recommendation ("Report") was issued by the U.S. Department of Health and Human Services Office of the Inspector General ("OIG") regarding an audit by OIG of claims relating to one hundred (100) of the Company's non-invasive ventilation at home ("NIVH") patients. The OIG asserted that most of the sampled Medicare claims submitted for the monthly rental of non-invasive ventilators did not comply with Medicare requirements. The Company firmly believes that the Report ignores each patient's diagnosis and supporting documentation of that diagnosis from treating and prescribing physicians and applies clinical guidelines that are contrary to CMS's accepted standard of care. In late June of 2021, the Company received initial request letters from DME Medicare Administrative Contractors ("MACs") referencing the Report and requesting repayment of purported overpayments. The Company responded to each initial request by submitting a rebuttal and by filing a redetermination appeal as prescribed by the initial request letters and by statute. In September 2021, the MACs informed the Company of unfavorable decisions with respect to the redetermination appeals. The Company intends to continue to defend itself vigorously through the remaining appeals processes which include, in successive order, Reconsideration appeals, Administrative Law Judge appeals, Medicare Appeals Council review, and ultimately through Federal Court, if necessary. The Reconsideration appeals are required to be submitted in writing to the designated Quality Independent Contractor ("QIC") within 180 days of receiving the redetermination appeals letter. The QIC has 60 days to render a reconsideration decision. The timing of additional appeals beyond reconsideration are subject to workload constraints of the reviewing body. Based on initial discussions with CMS, a review of the current facts and circumstances as we understand them, and the nature of the requests, we have determined that a loss is not probable but may be reasonably possible. Accordingly, no related accrual has been recorded. The value of the population of associated claims within the 4-year reopening period prescribed by statute, including any potential interest, is approximately \$9 million. Management estimates that a possible loss, if any, will not exceed this amount. It is possible that the ultimate resolution of this matter, if unfavorable, could materially and adversely affect the Company's consolidated financial position, consolidated results of operations, or consolidated cash flows.

## **9. Income Taxes**

For the nine months ended September 30, 2021, the Company recorded income tax expense of \$2.4 million, which includes a discrete tax benefit of \$0.8 million for excess tax benefits associated with stock-based compensation arrangements. Excluding the impact of the discrete tax benefit, the effective rate for the nine months ended September 30, 2021 is 43.4%. The effective rate differs from the amount computed by applying the statutory federal and state income tax rates to ordinary income before the provision for income taxes due to permanent non-deductible differences. Our effective tax rate is based on forecasted annual results which may fluctuate significantly through the rest of the year, in particular due to the uncertainty in our annual forecasts resulting from the unpredictable impact of the COVID-19 pandemic on our operating results. During the nine months ended September 30, 2020, the Company released a valuation allowance associated with deferred tax assets, resulting in a \$5.3 million benefit during that period.

At September 30, 2021 and 2020, the Company had no amounts recorded for uncertain tax positions and does not expect any material changes in uncertain tax benefits during the next 12 months. The Company recognizes interest and penalties related to income tax matters in income tax expense. The Company is subject to U.S. federal income tax as well as income tax in various states. The Company is generally not subject to examination by taxing authorities for years prior to 2016.

The Company recognizes deferred tax assets to the extent that the Company believes that these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations.

## **10. Earnings Per Share**

Income per common share is calculated using earnings for the year divided by the weighted average number of shares outstanding during the year. Using the treasury stock method, diluted income per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares by assuming the proceeds received from the exercise of stock options and the vesting of RSUs are used to purchase common shares at the prevailing market rate.

**VIEMED HEALTHCARE, INC.**  
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*(Tabular dollar amounts expressed in thousands of U.S. Dollars, except per share amounts)*  
*(Unaudited)*

**September 30, 2021 and 2020**

The following reflects the earnings and share data used in the basic and diluted earnings per share computations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Numerator - basic and diluted:</b>				
Net income attributable to shareholders	\$ 1,789	\$ 2,804	\$ 5,039	\$ 26,459
<b>Denominator:</b>				
Basic weighted-average number of common shares	39,607,540	39,107,640	39,442,088	38,603,267
Diluted weighted-average number of shares	40,659,353	41,155,668	40,716,747	40,377,608
Basic earnings per share	\$ 0.05	\$ 0.07	\$ 0.13	\$ 0.69
Diluted earnings per share	\$ 0.04	\$ 0.07	\$ 0.12	\$ 0.66
<b>Denominator calculation from basic to diluted:</b>				
Basic weighted-average number of common shares	39,607,540	39,107,640	39,442,088	38,603,267
Stock options and other dilutive securities	1,051,813	2,048,028	1,274,659	1,774,341
Diluted weighted-average number of shares	40,659,353	41,155,668	40,716,747	40,377,608

Anti-dilutive shares excluded from the calculation consisted of dilutive employee stock options and RSUs that were de minimis in all periods presented.

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**VIEMED HEALTHCARE, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

*(Tabular amounts expressed in thousands of US Dollars, except per share amounts)*

**September 30, 2021 and 2020**

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with, and is qualified entirely by, our condensed consolidated financial statements (including Notes to the Condensed Consolidated Financial Statements) and the other consolidated financial information under Item 1 of this Quarterly Report on Form 10-Q. Some of the information in this discussion and analysis includes forward-looking statements that involve risk and uncertainties. Actual results and timing of events could differ from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.*

*On March 11, 2020, the World Health Organization declared the outbreak of the novel coronavirus ("COVID-19") a pandemic. We are closely monitoring the impact of the COVID-19 pandemic on our business. The suspension of Medicare sequestration through December 31, 2021 (resulting in a 2% increase in Medicare payments to all providers) and regulatory guidance from CMS expanding telemedicine and reducing documentation requirements during the emergency period are expected to result in increased revenues for certain products and services. However, based on the duration and severity of the impacts of the COVID-19 pandemic, including but not limited to any negative economic conditions arising from the pandemic, our ability to assess potential patients in hospitals and set up and treat patients in the home, and the impacts of government actions and administrative regulations on the healthcare industry and broader economy, including through existing and any future stimulus efforts, we are uncertain of the ultimate impact COVID-19 could have on our business, financial condition and results of operations.*

### **Forward-Looking Statements**

Certain statements and information in this Quarterly Report on Form 10-Q may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 or "forward-looking information" as such term is defined in applicable Canadian securities legislation (collectively, "forward-looking statements"). Any statements other than statements of historical information, including those that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties that could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. These forward-looking statements are made as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise, except as required by applicable law.

Forward-looking statements relate to future events or future performance and reflect the expectations or beliefs of management regarding future events, and include, but are not limited to, statements with respect to: operating results; profitability; financial condition and resources; anticipated needs for working capital; liquidity; capital resources; capital expenditures; milestones; licensing milestones; information with respect to future growth and growth strategies; anticipated trends in our industry; our future financing plans; timelines; currency fluctuations; government regulation; unanticipated expenses; commercial or governmental disputes or claims; limitations on insurance coverage or other reimbursement; and availability of cash flow to fund capital requirements.

Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "potential", "scheduled", "estimates", "forecasts", "intends", "anticipates", "believes", "projects", or the negatives thereof or variations of such words and phrases or statements that certain actions, events or results "will", "should", "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology.

Forward-looking statements are based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made, but which may prove to be incorrect. We believe that the assumptions and expectations reflected in such forward-looking statements are reasonable. We cannot assure you, however, that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

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**VIEMED HEALTHCARE, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

*(Tabular amounts expressed in thousands of US Dollars, except per share amounts)*

**September 30, 2021 and 2020**

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By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, including those identified under "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q and the other documents we file with the SEC, including under "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2020, and with the securities regulatory authorities in certain provinces of Canada, which contribute to the possibility that the predicted outcomes may not occur or may be delayed. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to: the general business, market and economic conditions in the regions in which we operate; the impact of the COVID-19 pandemic and of the actions taken by governmental authorities, individuals and companies in response to the pandemic on our business, financial condition and results of operations, including on our patient base, revenues, employees, and equipment and supplies; significant capital requirements and operating risks that we may be subject to; our ability to implement business strategies and pursue business opportunities; volatility in the market price of our common shares; our novel business model; the risk that the clinical application of treatments that demonstrate positive results in a study may not be positively replicated or that such test results may not be predictive of actual treatment results or may not result in the adoption of such treatments by providers; the state of the capital markets; the availability of funds and resources to pursue operations; reductions in reimbursement rates and audits of reimbursement claims by various governmental and private payor entities; dependence on few payors; possible new drug discoveries; dependence on key suppliers and the recall of certain Royal Philips BiPAP and CPAP devices and ventilators that we distribute and sell; granting of permits and licenses in a highly regulated business; competition; low profit market segments; disruptions in or attacks (including cyber-attacks) on our information technology, internet, network access or other voice or data communications systems or services; the evolution of various types of fraud or other criminal behavior to which we are exposed; the failure of third parties to comply with their obligations; difficulty integrating newly acquired businesses; the impact of new and changes to, or application of, current laws and regulations; the overall difficult litigation and regulatory environment; increased competition; changes in foreign currency rates; increased funding costs and market volatility due to market illiquidity and competition for funding; critical accounting estimates and changes to accounting standards, policies, and methods used by us; our status as an emerging growth company and a smaller reporting company; and the occurrence of natural and unnatural catastrophic events or health epidemics or concerns, such as the COVID-19 pandemic, and claims resulting from such events or concerns, as well as other general economic, market and business conditions; and other factors beyond our control.

### **General Matters**

In this Quarterly Report on Form 10-Q, unless the context otherwise requires, the terms the "Company," "we," "us" and "our" refer to Viemed Healthcare, Inc. and its wholly-owned subsidiaries.

We were incorporated on December 14, 2016 pursuant to the *Business Corporations Act* (British Columbia). As of June 30, 2020, we determined that we no longer qualify as a "foreign private issuer," as defined in Rule 3b-4 of the Exchange Act, for the purposes of the informational requirements of the Exchange Act. As a result, effective January 1, 2021, we became subject to the proxy solicitation rules under Section 14 of the Exchange Act and Regulation FD, and our officers, directors, and principal shareholders became subject to the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. We will continue to file annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K with the SEC.

We are an "emerging growth company," as defined in the JOBS Act and a "smaller reporting company" under Rule 12b-2 of the Exchange Act, and as such, we have elected to comply with certain reduced U.S. public company reporting requirements.

Unless otherwise noted herein, all references to "\$" or "USD" are to the currency of the United States and references to "CAD\$" or "Canadian dollars" are to the currency of Canada.

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# VIEMED HEALTHCARE, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

*(Tabular amounts expressed in thousands of US Dollars, except per share amounts)*

September 30, 2021 and 2020

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## **Overview**

We provide an array of home medical equipment, services and supplies, specializing in post-acute respiratory care services in the United States. Our primary objective is to focus on the organic growth of the business and thereby solidify our position as one of the United States' largest providers of in-home therapy for patients suffering from respiratory diseases. Our respiratory care programs are designed specifically for payors to have the ability to treat patients in the home for less total cost and with a superior quality of care. Our services include respiratory disease management (through the rental of various DME devices), in-home sleep testing and sleep apnea treatment, oxygen therapy, and the sale of associated supplies. We hold an approximate 10% equity interest in VeruStat, Inc, a company focusing on remote patient monitoring ("RPM"). The investment is part of an ongoing initiative to enable our salesforce to offer a new revenue source to its physician network around the country. RPM platforms allow physicians to bill for safely monitoring patients inside of the home that are struggling with chronic diseases. The VeruStat RPM solution can be placed in the home in conjunction with Viemed's existing patient engagement platform ("PEP"). During the three months ended September 30, 2021, we formed Viemed Healthcare Staffing LLC, a healthcare staffing division. The underlying recruiting platform is expected to support internal resource fulfillment as well as external, contractual placement of allied health and nursing professionals.

We derive the majority of our revenue through the rental of non-invasive and invasive ventilators which represented 76.5% and 80.2% of our traditional revenue, excluding COVID-19 response sales and services, for the three months ended September 30, 2021 and 2020, respectively, and 77.9% and 82.9% for the nine months ended September 30, 2021 and 2020, respectively. We combine the benefits of home ventilation support with licensed Respiratory Therapists ("RTs") to drive improved patient outcomes and reduce costly hospital readmissions.

We expect to grow through expansion of existing service areas as well as in new regions through a cost efficient launch that reduces location expenses. Our licensed RTs currently serve patients in 46 states. We expect to continue to employ more RTs in order to assure our high service model is accomplished in the home. As of September 30, 2021, we employed 280 licensed RTs, representing approximately 47% of our company-wide employee count. By focusing overhead costs on personnel that service the patient rather than physical location costs, we anticipate that we will efficiently scale our business in regions that are currently not being effectively serviced.

The continued trend of servicing patients in the home rather than in hospitals is aligned with our business objective and we anticipate that this trend will continue to offer growth opportunities for us. We expect to continue to be a solution to the rising health costs in the United States by offering more cost effective, home based solutions while increasing the quality of life for patients fighting serious respiratory diseases.

## **Trends Affecting our Business**

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Various policies and initiatives have been implemented to reduce the transmission of COVID-19, including travel bans and restrictions, the postponement of non-essential medical surgeries, the limiting of access to medical facilities in certain areas, the promotion of social distancing and the adoption of remote working policies. Local, state and national governments continue to emphasize the importance of essential medical personnel and we remain open to meet the needs of our communities. Employee and patient safety is our first priority, and as a result, we put preparedness plans in place for our employees, especially our clinical personnel, and modified our clinical protocols to limit unnecessary patient encounters in order to ensure the safety of our employees as well as the safety of our patients.

These measures have not had a material adverse impact on our consolidated operating results for the three months ended September 30, 2021, but we have experienced curtailment of revenue growth in certain of our product categories due to the disruption in our access to physician and facility referral sources. This curtailment was slightly offset by revenue related to COVID-19 response sales and services. We cannot assure you that future governmental policies and initiatives will not significantly disrupt our operations or adversely affect our ability to provide services to our patients in the future. In addition, our current ability to assess potential patients in hospitals varies by hospital and city, but overall our business of setting up new patients in the home is continuing although at lower levels than in recent periods.

**VIEMED HEALTHCARE, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

*(Tabular amounts expressed in thousands of US Dollars, except per share amounts)*

**September 30, 2021 and 2020**

The Coronavirus Aid, Relief, and Economic Security ("CARES") Act, which was signed into law on March 27, 2020, provides a substantial stimulus and assistance package intended to address the impact of the COVID-19 pandemic, including tax relief and government loans, grants and investments. The legislation provides for \$175 billion in relief funds to hospitals and other healthcare providers on the front lines of the coronavirus response to support healthcare-related expenses or lost revenue attributable to COVID-19 and to ensure uninsured Americans can get testing and treatment for COVID-19. As a result, we received a payment from the Provider Relief Fund of \$3.5 million in April 2020. Payments from the Provider Relief Fund are intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic. The Department of Health and Human Services ("HHS") has stated that Provider Relief Fund payments are not loans and will not need to be repaid. However, as a condition to the receipt of funds, the Company and any other providers must agree to a detailed set of terms and conditions. CMS has indicated that the terms and conditions may be subject to ongoing changes and reporting. To the extent that reporting requirements and terms and conditions are modified, it may affect our ability to comply and may require the return of funds. In accordance with the terms of acceptance for the grant, we believe we have utilized these funds to prevent, prepare for, and respond to the COVID-19 pandemic.

The CARES Act also provides for a temporary suspension of the 2% payment sequestration adjustment currently applied to all Medicare fee-for-service claims. On Wednesday, April 14, 2021, the President signed H.R. 1868 into law, which further extended the suspension of Medicare sequestration until December 31, 2021.

We are continuing to monitor any effects or requirements that may result from the CARES Act as many of the provisions in the CARES Act are temporary and may require us to modify our operations and compliance procedures. CMS and other federal agencies have and are likely to issue rules and regulations to implement the CARES Act. The impact of these rules and regulations are unknown and may affect us. To the extent these provisions will expire as stated in the CARES Act, we may experience adverse effects.

In 2019, CMS announced the inclusion of noninvasive ventilator products on the list of products subject to the competitive bidding program for Round 2021, which covers the period of January 1, 2021 through December 31, 2023. Rental revenue from ventilator products represents a significant portion of our revenues (approximately 77.9% of total traditional revenue, excluding COVID-19 response sales and services, for the nine months ended September 30, 2021). On March 9, 2020, CMS announced that due to the COVID-19 pandemic, the United States President's exercise of the Defense Production Act, public concern regarding access to ventilators, and the non-invasive ventilators product category being new to the competitive bidding program, non-invasive ventilators were removed as a product category from Round 2021. On October 27, 2020, CMS announced that it had removed 13 of the 15 remaining product categories from Round 2021, including oxygen and PAP devices, because the payment amounts did not achieve expected savings. The next competitive bidding round is anticipated to begin no sooner than January 1, 2024. As a result of these announcements, we retain the ability to continue to furnish non-invasive ventilators and oxygen and PAP devices for all of our Medicare accredited areas, however, we are uncertain if non-invasive ventilators, oxygen, and PAP devices will be included in future competitive bidding programs.

The below table highlights summary financial and operational metrics for the last eight quarters.

*(Tabular amounts expressed in thousands of U.S. Dollars, except vent patients)*

<b>For the quarter ended</b>	<b>September 30, 2021</b>	<b>June 30, 2021</b>	<b>March 31, 2021</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>	<b>June 30, 2020</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>
<b>Financial Information:</b>								
Revenue	\$ 29,285	\$ 27,399	\$ 28,416	\$ 31,202	\$ 33,447	\$ 42,854	\$ 23,806	\$ 21,448
Gross Profit	18,381	17,625	17,742	19,178	19,453	25,927	15,553	14,243
Gross Profit %	63 %	64 %	62 %	61 %	58 %	61 %	65 %	66 %
Net Income	1,789	1,566	1,684	5,071	2,804	19,412	4,243	2,388
Cash (As of)	26,867	31,151	31,097	30,981	32,396	29,707	8,409	13,355
Total Assets (As of)	115,486	111,014	113,001	112,560	113,969	112,178	86,801	82,596
Adjusted EBITDA <sup>(1)</sup>	7,419	6,847	5,468	9,458	7,720	16,287	7,869	5,569
<b>Operational Information:</b>								
Vent Patients <sup>(2)</sup>	8,200	8,103	7,733	7,892	7,788	7,705	7,965	7,759

<sup>(1)</sup> Refer to "Non-GAAP Financial Measures" section below for definition of Adjusted EBITDA.

<sup>(2)</sup> Vent Patients represents the number of active ventilator patients on recurring billing service at the end of each calendar quarter.

**VIEMED HEALTHCARE, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

*(Tabular amounts expressed in thousands of US Dollars, except per share amounts)*

**September 30, 2021 and 2020**

**Results of Operations**

**Comparison of the Three Months Ended September 30, 2021 and 2020:**

The following table summarizes our results of operations for the three months ended September 30, 2021 and 2020:

	Three Months Ended September 30,					
	2021	% of Total Revenue	2020	% of Total Revenue	\$ Change	% Change
<b>Revenue</b>	<b>\$ 29,285</b>	<b>100.0 %</b>	<b>\$ 33,447</b>	<b>100.0 %</b>	<b>\$ (4,162)</b>	<b>(12.4)%</b>
Cost of revenue	10,904	37.2 %	13,994	41.8 %	(3,090)	(22.1)%
<b>Gross profit</b>	<b>18,381</b>	<b>62.8 %</b>	<b>19,453</b>	<b>58.2 %</b>	<b>(1,072)</b>	<b>(5.5)%</b>
Selling, general and administrative	13,260	45.3 %	13,550	40.5 %	(290)	(2.1)%
Research and development	576	2.0 %	243	0.7 %	333	137.0 %
Stock-based compensation	1,302	4.4 %	1,234	3.7 %	68	5.5 %
Depreciation	211	0.7 %	202	0.6 %	9	4.5 %
Loss on disposal of property and equipment	145	0.5 %	203	0.6 %	(58)	(28.6)%
Other expense (income)	(32)	(0.1)%	(19)	(0.1)%	(13)	68.4 %
<b>Income from operations</b>	<b>2,919</b>	<b>10.0 %</b>	<b>4,040</b>	<b>12.1 %</b>	<b>(1,121)</b>	<b>(27.7)%</b>
<b>Non-operating income and expenses</b>						
Income from equity method investments	(331)	(1.1)%	(21)	(0.1)%	(310)	1476.2 %
Interest expense, net	75	0.3 %	116	0.3 %	(41)	(35.3)%
<b>Net income before taxes</b>	<b>3,175</b>	<b>10.8 %</b>	<b>3,945</b>	<b>11.8 %</b>	<b>(770)</b>	<b>(19.5)%</b>
Provision for income taxes	1,386	4.7 %	1,141	3.4 %	245	21.5 %
<b>Net income</b>	<b>\$ 1,789</b>	<b>6.1 %</b>	<b>\$ 2,804</b>	<b>8.4 %</b>	<b>\$ (1,015)</b>	<b>(36.2)%</b>

*Revenue*

The following table summarizes our revenue for the three months ended September 30, 2021 and 2020:

	Three Months Ended September 30,					
	2021	% of Total Revenue	2020	% of Total Revenue	\$ Change	% Change
<b>Net revenue from rentals</b>						
Ventilator rentals, non-invasive and invasive	\$ 21,305	72.8 %	\$ 19,962	59.6 %	\$ 1,343	6.7 %
Other durable medical equipment rentals	3,598	12.3 %	2,649	7.9 %	949	35.8 %
<b>Net revenue from sales and services</b>						
Equipment and supply sales	2,415	8.2 %	1,890	5.7 %	525	27.8 %
COVID-19 response sales and services	1,452	4.9 %	8,553	25.6 %	(7,101)	(83.0)%
Service revenues	515	1.8 %	393	1.2 %	122	31.0 %
<b>Total net revenue</b>	<b>\$ 29,285</b>	<b>100.0 %</b>	<b>\$ 33,447</b>	<b>100.0 %</b>	<b>\$ (4,162)</b>	<b>(12.4)%</b>

For the three months ended September 30, 2021, net revenue totaled \$29.3 million, a decrease of \$4.2 million (or 12.4%) from the comparable period in 2020. Excluding COVID-19 response sales and services revenue, net revenue increased \$2.9 million (or 11.8%) from the comparable period in 2020. The non-COVID-19 related net revenue growth was driven by an increase in ventilator rental revenue of \$1.3 million (or 6.7%) and rental revenue from other DME of \$0.9 million (or 35.8%) primarily associated with oxygen and PAP rentals. Non-COVID-19 related equipment sales and services combined increased by \$0.6 million (or 28.3%) from the comparable three month period in 2020, primarily as a result of increasing demand for PAPs and respiratory supplies for our PAP patients.

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**VIEMED HEALTHCARE, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

*(Tabular amounts expressed in thousands of US Dollars, except per share amounts)*

**September 30, 2021 and 2020**

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During the three months ended September 30, 2021, net revenue for COVID-19 response sales and services totaled \$1.5 million, compared to \$8.6 million during the comparable three month period in 2020 during the height of the pandemic. Current period COVID-19 response sales and services consist primarily of contact and vaccination tracing services. While we expect further COVID-19 response related revenue during the remainder of 2021, the impact of such revenue remains uncertain and dependent on the length and intensity of the COVID-19 pandemic and the availability of such equipment, supplies, and services from other suppliers.

As we continue to expand geographically and further penetrate existing territories, we expect growth in our active ventilator patient base and ventilator rental revenue, as well as in our other growing respiratory offerings, though in the short term we anticipate growth to occur at a slightly slower rate than historically realized.

*Cost of revenue and gross profit*

For the three months ended September 30, 2021, cost of revenue totaled \$10.9 million, a decrease of \$3.1 million (or 22.1%) from the comparable period in 2020. For the three months ended September 30, 2021, COVID-19 response sales and services accounted for \$0.9 million (or 7.9%) of these costs, compared to \$5.6 million (or 39.8%) of these costs from the comparable period in 2020. Gross profit percentage increased from 58.2% in the three months ended September 30, 2020 to 62.8% in the three months ended September 30, 2021. The increase in overall gross profit percentage is due to declines in lower margin COVID-19 response sales and services as well as fluctuations in product and service mix. We expect our gross profit percentage for our normal operations (non-COVID-19 related) to remain relatively consistent with the current quarter through the end of 2021.

*Selling, general and administrative expense*

For the three months ended September 30, 2021, selling, general and administrative expenses totaled \$13.3 million, a decrease of \$0.3 million (or 2.1%) from the comparable prior period. Excluding COVID-19 related revenues, selling, general and administrative expenses as a percentage of revenue decreased to 47.6% for the three months ended September 30, 2021 compared to 52.4% for the three months ended September 30, 2020.

The decrease in overall selling, general and administrative expense as compared to the prior period is primarily attributable to a decrease in employee related expenses associated with variable and incentive based compensation. Phantom stock compensation expense also decreased by \$0.4 million related to the impact from remeasurement of our phantom stock plan. As we continue to grow into new markets and increase our employee count, we expect selling, general and administrative expenses will grow proportionally as a percentage of revenue through the end of 2021.

*Research and development*

For the three months ended September 30, 2021, research and development expense totaled \$0.6 million, an increase of \$0.3 million (or 137.0%) from the comparable period in 2020. As we continue to invest in research and development related projects to support our technology initiatives, we expect that associated costs will continue to increase in 2021 relative to 2020 costs.

*Stock-based compensation*

For the three months ended September 30, 2021, stock-based compensation totaled \$1.3 million, an increase of \$0.1 million (or 5.5%) from the comparable period in 2020. We expect that as we continue to increase our employee count and utilize stock-based awards as an aspect of employee compensation, stock-based compensation expense will increase accordingly. Stock-based compensation as a percentage of revenue has historically remained near or below 5%.

*Interest expense, net*

For the three months ended September 30, 2021, net interest expense totaled \$0.1 million, remaining consistent with the comparable period in 2020. We expect net interest expense to remain relatively consistent with the current quarter through the end of 2021.

*Provision for income taxes*

For the three months ended September 30, 2021, the provision for income taxes was a \$1.4 million expense, compared to a \$1.1 million expense during the 2020 period, an increase of \$0.2 million (or 21.5%). Excluding the benefit of discrete items, our annual estimated effective tax rate for 2021 is 43.4%.

**VIEMED HEALTHCARE, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

*(Tabular amounts expressed in thousands of US Dollars, except per share amounts)*

**September 30, 2021 and 2020**

*Net income*

For the three months ended September 30, 2021, net income was \$1.8 million, a decrease of \$1.0 million (or 36.2%) from the comparable period in 2020. Net income as a percentage of net revenue decreased from 8.4% for the three months ended September 30, 2020 to 6.1% for the three months ended September 30, 2021, primarily due to the decrease in COVID-19 related activities and the increase in the provision for income taxes, as described above.

**Comparison of the Nine Months Ended September 30, 2021 and 2020:**

The following table summarizes our results of operations for the nine months ended September 30, 2021 and 2020:

	Nine Months Ended September 30,					
	2021	% of Total Revenue	2020	% of Total Revenue	\$ Change	% Change
<b>Revenue</b>	<b>\$ 85,100</b>	<b>100.0 %</b>	<b>\$ 100,107</b>	<b>100.0 %</b>	<b>\$ (15,007)</b>	<b>(15.0)%</b>
Cost of revenue	31,352	36.8 %	39,174	39.1 %	(7,822)	(20.0)%
<b>Gross profit</b>	<b>53,748</b>	<b>63.2 %</b>	<b>60,933</b>	<b>60.9 %</b>	<b>(7,185)</b>	<b>(11.8)%</b>
Selling, general and administrative	40,653	47.8 %	40,555	40.5 %	98	0.2 %
Research and development	1,498	1.8 %	688	0.7 %	810	117.7 %
Stock-based compensation	3,845	4.5 %	3,581	3.6 %	264	7.4 %
Depreciation	618	0.7 %	612	0.6 %	6	1.0 %
Loss (gain) on disposal of property and equipment	304	0.4 %	(2,424)	(2.4)%	2,728	NM
Other expense (income)	(85)	(0.1)%	(3,593)	(3.6)%	3,508	(97.6)%
<b>Income from operations</b>	<b>6,915</b>	<b>8.1 %</b>	<b>21,514</b>	<b>21.5 %</b>	<b>(14,599)</b>	<b>(67.9)%</b>
<b>Non-operating income and expenses</b>						
Income from equity method investments	(782)	(0.9)%	(36)	— %	(746)	NM
Interest expense, net	249	0.3 %	409	0.4 %	(160)	(39.1)%
<b>Net income before taxes</b>	<b>7,448</b>	<b>8.8 %</b>	<b>21,141</b>	<b>21.1 %</b>	<b>(13,693)</b>	<b>(64.8)%</b>
Provision (benefit) for income taxes	2,409	2.8 %	(5,318)	(5.3)%	7,727	NM
<b>Net income</b>	<b>\$ 5,039</b>	<b>5.9 %</b>	<b>\$ 26,459</b>	<b>26.4 %</b>	<b>\$ (21,420)</b>	<b>(81.0)%</b>

**VIEMED HEALTHCARE, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*(Tabular amounts expressed in thousands of US Dollars, except per share amounts)*  
**September 30, 2021 and 2020**

*Revenue*

The following table summarizes our revenue for the nine months ended September 30, 2021 and 2020:

	Nine Months Ended September 30,					
	2021	% of Total Revenue	2020	% of Total Revenue	\$ Change	% Change
<b>Net revenue from rentals</b>						
Ventilator rentals, non-invasive and invasive	\$ 61,962	72.8 %	\$ 58,672	58.6 %	\$ 3,290	5.6 %
Other durable medical equipment rentals	9,833	11.5 %	7,184	7.2 %	2,649	36.9 %
<b>Net revenue from sales and services</b>						
Equipment and supply sales	6,258	7.4 %	3,962	3.9 %	2,296	58.0 %
COVID-19 response sales and services	5,542	6.5 %	29,306	29.3 %	(23,764)	(81.1)%
Service revenues	1,505	1.8 %	983	1.0 %	522	53.1 %
<b>Total net revenue</b>	<b>\$ 85,100</b>	<b>100.0 %</b>	<b>\$ 100,107</b>	<b>100.0 %</b>	<b>\$ (15,007)</b>	<b>(15.0)%</b>

For the nine months ended September 30, 2021, revenue totaled \$85.1 million, a decrease of \$15.0 million (or 15.0%) from the comparable period in 2020. Non-COVID-19 related net revenue increased \$8.8 million (or 12.4%) from the comparable period in 2020. Ventilator rental revenue increased \$3.3 million (or 5.6%) due to our growth in active ventilator patient base. In addition to the ventilator rental revenue growth, rental revenue from other DME grew \$2.6 million (or 36.9%) primarily from oxygen therapy and PAPs. In the short term, we anticipate our growth to occur at a slower rate than in historical periods as a result of the pandemic.

Non-COVID-19 related equipment sales and services combined increased by \$2.8 million (or 57.0%) from the comparable period in 2020, primarily as a result of increasing demand for home sleep studies, PAPs, and associated supplies for our PAP patients.

*Cost of revenue and gross profit*

For the nine months ended September 30, 2021, cost of revenue totaled \$31.4 million, a decrease of \$7.8 million (or 20.0%) from the comparable period in 2020. For the nine months ended September 30, 2021, COVID-19 response sales and services accounted for \$3.5 million (or 11.1%) of these costs, compared to \$15.3 million (or 39.1%) of these costs from the comparable period in 2020. Gross profit percentage increased from 60.9% in the nine months ended September 30, 2020 to 63.2% in the nine months ended September 30, 2021. The increase in overall gross profit percentage is due to declines in lower margin COVID-19 response sales and services as well as fluctuations in product and service mix. We expect our gross profit percentage for our normal operations (non-COVID-19 related) to remain relatively consistent with the current quarter through the end of 2021.

*Selling, general and administrative expense*

For the nine months ended September 30, 2021, selling, general and administrative expenses totaled \$40.7 million, an increase of \$0.1 million (or 0.2%) from the comparable period in 2020. Excluding COVID-19 related revenues, selling, general and administrative expenses as a percentage of net revenue decreased to 51.1% for the nine months ended September 30, 2021, compared to 56.6% for the nine months ended September 30, 2020. The decrease in selling, general and administrative expense as a percentage of non-COVID-19 related revenues as compared to the prior year period is attributable to lower variable and incentive based employee compensation partially offset by higher employee related expenses to accommodate the overall growth of the Company, as our full time employee count increased to 597 at September 30, 2021, compared to 499 at September 30, 2020, an increase of 19.6%. We expect selling, general and administrative expenses will grow proportionally as a percentage of revenue through the end of 2021.

*Research and development*

For the nine months ended September 30, 2021, research and development expense totaled \$1.5 million, an increase of \$0.8 million (or 117.7%) from the comparable period in 2020. As we continue to invest in research and development related projects to support our technology initiatives, we expect that associated costs will continue to increase in 2021 relative to 2020 costs.

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**VIEMED HEALTHCARE, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

*(Tabular amounts expressed in thousands of US Dollars, except per share amounts)*

**September 30, 2021 and 2020**

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*Loss on disposal of property and equipment*

For the nine months ended September 30, 2021, we recorded a loss on disposal of property and equipment of \$0.3 million, compared to a gain of \$2.4 million during the comparable period in 2020. As a result of our efforts for the COVID-19 response as described above, certain of our previously placed in service property and equipment was sold during the nine month period ended September 30, 2020. As a result, we recorded a net gain on disposal for related equipment during the prior comparable period. We expect disposals of equipment to generally remain consistent with historical trends, excluding COVID-19 related disposals, through the remainder of the year.

*Other expense (income)*

During nine months ended September 30, 2020, we recorded income from the receipt of Provider Relief Fund payments of \$3.5 million in April 2020. Payments from the Provider Relief Fund are intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic as described in detail above. There was no receipt of payments from the Provider Relief Fund during the nine months ended September 30, 2021.

*Stock-based compensation*

For the nine months ended September 30, 2021, stock-based compensation totaled \$3.8 million, an increase of \$0.3 million (or 7.4%) from the comparable period in 2020. We expect that as we continue to increase our employee count and utilize stock-based awards as an aspect of employee compensation, stock-based compensation expense will increase accordingly. Stock-based compensation as a percentage of revenue has historically remained under 5%.

*Interest expense, net*

For the nine months ended September 30, 2021, net interest expense totaled \$0.2 million, a decrease of \$0.2 million (or 39.1%) from the comparable period in 2020, as a result of declines in index rates associated with loans. We expect net interest expense to remain materially consistent through the end of 2021.

*Provision (benefit) for income taxes*

For the nine months ended September 30, 2021, the provision for income taxes was a \$2.4 million expense, compared to a \$5.3 million benefit during the 2020 period. During the nine month period ended September 30, 2020, the Company determined it was more likely than not that deferred tax assets would be realized and made an adjustment to the deferred tax asset valuation allowance, which resulted in a net benefit for the period. Excluding the benefit of discrete items, our annual estimated effective tax rate for 2021 is 43.4%.

*Net income*

For the nine months ended September 30, 2021, net income was \$5.0 million, a decrease of \$21.4 million (or 81.0%) from the comparable period in 2020. Net income as a percentage of revenue decreased from 26.4% for the nine months ended September 30, 2020 to 5.9% for the nine months ended September 30, 2021, driven by a decrease in COVID-19 related sales and the comparative benefit from income taxes in the prior period, as described above.

**Non-GAAP Financial Measures**

The Company uses Adjusted EBITDA, which is a financial measure that is not prepared in accordance with generally accepted accounting principles in the United States ("GAAP") to analyze its financial results and believes that it is useful to investors, as a supplement to U.S. GAAP measures. Management believes Adjusted EBITDA provides helpful information with respect to the Company's operating performance as viewed by management, including a view of the Company's business that is not dependent on the impact of the Company's capitalization structure and items that are not part of the Company's day-to-day operations. Management uses Adjusted EBITDA (i) to compare the Company's operating performance on a consistent basis, (ii) to calculate incentive compensation for the Company's employees, (iii) for planning purposes, including the preparation of the Company's internal annual operating budget, and (iv) to evaluate the performance and effectiveness of the Company's operational strategies. Accordingly, management believes that Adjusted EBITDA provides useful information in understanding and evaluating the Company's operating performance in the same manner as management.

**VIEMED HEALTHCARE, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

*(Tabular amounts expressed in thousands of US Dollars, except per share amounts)*

**September 30, 2021 and 2020**

In calculating Adjusted EBITDA, certain items (mostly non-cash) are excluded from net income including interest, taxes and depreciation of property and equipment. Set forth below are descriptions of the financial items that have been excluded from net income to calculate Adjusted EBITDA and the material limitations associated with using this non-GAAP financial measure as compared to net income.

- Depreciation may be useful for investors to consider because it generally represents the wear and tear on the property and equipment used in our operations. However, we do not believe these charges necessarily reflect the current and ongoing cash charges related to our operating costs.
- The amount of interest expense we incur or interest income we generate may be useful for investors to consider and may result in current cash inflows or outflows. However, we do not consider the amount of interest expense or interest income to be a representative component of the day-to-day operating performance of our business.
- Stock-based compensation may be useful for investors to consider because it is an estimate of the non-cash component of compensation received by the Company's directors, officers, employees and consultants. However, stock-based compensation is being excluded from our operating expenses because the decisions which gave rise to these expenses were not made to increase revenue in a particular period, but were made for the Company's long-term benefit over multiple periods. While strategic decisions, such as those to issue stock-based awards are made to further our long-term strategic objectives and do impact our earnings under GAAP, these items affect multiple periods and management is not able to change or affect these items within any period.
- Income tax expense may be useful for investors to consider because it generally represents the taxes which may be payable for the period and the change in deferred income taxes and may reduce or increase the amount of funds otherwise available for use. However, we do not consider the amount of income tax expense to be a representative component of the day-to-day operating performance of our business.

The following table is a reconciliation of Net income, the most directly comparable GAAP measure, to Adjusted EBITDA, on a historical basis for the periods indicated:

For the quarter ended	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
<b>Net Income</b>	\$ 1,789	\$ 1,566	\$ 1,684	\$ 5,071	\$ 2,804	\$ 19,412	\$ 4,243	\$ 2,388
Add back:								
Depreciation	2,867	2,716	2,609	2,835	2,425	2,190	2,130	2,003
Interest expense	75	83	91	100	116	135	158	212
Stock-based compensation	1,302	1,236	1,307	1,301	1,234	1,196	1,151	908
Income tax expense (benefit)	1,386	1,246	(223)	151	1,141	(6,646)	187	58
<b>Adjusted EBITDA</b>	<b>\$ 7,419</b>	<b>\$ 6,847</b>	<b>\$ 5,468</b>	<b>\$ 9,458</b>	<b>\$ 7,720</b>	<b>\$ 16,287</b>	<b>\$ 7,869</b>	<b>\$ 5,569</b>

**Use of Non-GAAP Financial Measures**

Adjusted EBITDA should be considered in addition to, not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. It is not a measurement of our financial performance under GAAP and should not be considered as an alternative to revenue or net income, as applicable, or any other performance measures derived in accordance with GAAP or as an alternative to cash flows from operating activities as a measure of the Company's liquidity, and may not be comparable to other similarly titled measures of other businesses. Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of our operating results as reported under GAAP. Adjusted EBITDA does not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of ongoing operations; and other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

**VIEMED HEALTHCARE, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

*(Tabular amounts expressed in thousands of US Dollars, except per share amounts)*

**September 30, 2021 and 2020**

**Liquidity and Capital Resources**

Cash and cash equivalents at September 30, 2021 was \$26.9 million, compared to \$31.0 million at December 31, 2020. Based on our current plan of operations, we believe this amount, when combined with expected cash flows from operations and amounts available under our line of credit will be sufficient to fund our growth strategy and to meet our anticipated operating expenses, capital expenditures, and debt service obligations for at least the next 12 months from the date of this filing. The Company utilizes short term leases with a major supplier that could be extended over a longer term if there was a need for additional liquidity. Additionally, the Company maintains a \$10.0 million line of credit with Hancock Whitney Bank which was fully undrawn as of September 30, 2021.

**Cash Flows**

The following table summarizes our cash flows for the periods indicated:

	<b>Nine Months Ended September 30,</b>	
	<b>2021</b>	<b>2020</b>
<b>Net Cash provided by (used in):</b>		
Operating activities	\$ 13,839	\$ 29,319
Investing activities	(13,183)	(3,047)
Financing activities	(4,770)	(7,231)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>\$ (4,114)</b>	<b>\$ 19,041</b>

*Net Cash Provided by Operating Activities*

Net cash provided by operating activities during the nine months ended September 30, 2021 was \$13.8 million, resulting from net income of \$5.0 million and non-cash net income changes of \$19.1 million, which was partially offset by a decrease in cash resulting from a change in operating assets and liabilities of \$10.5 million. The non-cash net income changes primarily consisted of \$5.3 million in change of allowance for doubtful accounts, \$8.2 million of depreciation, \$0.3 million of loss on disposal of property and equipment, \$3.8 million of stock-based compensation, \$0.8 million income from equity investments and \$2.4 million of deferred income tax expense. The primary changes in operating assets and liabilities relate to an increase in accounts receivable of \$5.6 million, an increase in prepaid expenses and other assets of \$2.3 million, an increase in accounts payable of \$2.6 million, a net increase in income taxes receivable/(payable) of \$1.8 million, and a decrease in accrued liabilities of \$3.7 million.

Net cash provided by operating activities during the nine months ended September 30, 2020 was \$29.3 million, resulting from net income of \$26.5 million, non-cash net income adjustments of \$7.3 million, and an increase in net operating liabilities of \$5.7 million, which was partially offset by an increase in net operating assets of \$10.2 million. The non-cash net income adjustments primarily consisted of \$7.0 million in change of allowance for doubtful accounts, \$6.7 million of depreciation, \$2.4 million of gains on disposal of property and equipment, change in deferred tax asset of \$7.6 million and \$3.6 million of stock-based compensation. The uses of cash related to changes in operating assets primarily consisted of an increase in accounts receivable of \$7.0 million and an increase in inventory of \$1.4 million. The changes in operating liabilities primarily consisted of an increase in accounts payable of \$2.7 million and an increase in accrued liabilities of \$2.4 million. The increase in our operating assets was primarily driven by accounts receivable related to COVID-19 response sales and services occurring during the period. Included in our operating cash flows for the period is the receipt of \$3.5 million in Provider Relief Funds.

*Net Cash Used in Investing Activities*

Net cash used in investing activities during the nine months ended September 30, 2021 was \$13.2 million, consisting of \$13.1 million of purchases of property and equipment and \$0.6 million in equity investments, partially offset by \$0.5 million of sales proceeds from the disposal of property and equipment. Purchases of property and equipment were primarily related to medical equipment rented to our patients. Combining cash purchases of property and equipment and equipment financed through finance leases, our total capital expenditures for the nine months ended September 30, 2021 were \$13.1 million. This represents a \$1.9 million, or 17.1%, increase year over year.

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**VIEMED HEALTHCARE, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

*(Tabular amounts expressed in thousands of US Dollars, except per share amounts)*

**September 30, 2021 and 2020**

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Net cash used in investing activities during the nine months ended September 30, 2020 was \$3.0 million, consisting of \$8.2 million of purchases of property and equipment, partially offset by \$5.2 million of COVID-19 response sales proceeds from the disposal of property and equipment. Purchases of property and equipment were primarily related to medical equipment rented to our patients. Combining cash purchases of property and equipment of \$8.2 million and equipment financed through finance leases of \$3.0 million, our total capital expenditures for the nine months ended September 30, 2020 were \$11.2 million.

*Net Cash Used in Financing Activities*

Net cash used in financing activities during the nine months ended September 30, 2021 was \$4.8 million, consisting of \$1.3 million in principal payments on the Term Note (as defined below), \$2.1 million in repayments of finance lease liabilities, and \$1.4 million for shares redeemed and canceled for tax withholding in connection with RSUs vested in the period.

Net cash used in financing activities during the nine months ended September 30, 2020 was \$7.2 million, consisting of \$1.2 million in principal payments on the Term Note and \$7.7 million in repayments of finance lease liabilities, partially offset by \$1.8 million of proceeds from the exercise of stock options.

**Line of Credit**

The Company maintains a line of credit in the amount of \$10.0 million that expires May 1, 2023 under the Commercial Business Loan Agreement. Any amounts advanced on this line will be subject to an interest rate equal to the WSJ prime rate plus a margin of 0.50%, with a 3.50% interest rate floor and will be secured by substantially all of the Company's assets. There were no borrowings against this line of credit at September 30, 2021 or December 31, 2020. While we currently have no immediate plans to draw on this line of credit, the line of credit allows flexibility in funding our future operations subject to compliance with the covenants described above.

Under the Commercial Business Loan Agreement, the Company is subject to several restrictive covenants that, among other things, impose operating and financial restrictions on the Company. Financial covenants include a Total Debt to Adjusted EBITDA, a Loan-to-Value Ratio and a Fixed Charged Coverage Ratio, as defined in the Credit Agreement. The Credit Agreement also contains certain customary events of default, including, among other things, failure to make payments when due thereunder and failure to observe or perform certain covenants. The Company was in compliance with all covenants under the Commercial Business Term Loan Agreement in effect at September 30, 2021.

**Commercial Term Notes**

On May 30, 2019, the Company entered into an amendment to the loan agreement providing for a term note (the "Building Term Note") in favor of Hancock Whitney Bank in the principal amount of \$4.8 million. The proceeds of the Building Term Note were used to purchase a building to utilize as a new corporate headquarters for the Company. Beginning July 1, 2019, the Company makes monthly payments towards the outstanding balance. The Building Term Note matures on May 30, 2026 and is secured by substantially all of our assets, including the real property acquired with the proceeds of the Building Term Note. The Building Term Note bears interest at a variable rate equal to the one month ICE LIBOR index plus a margin of 2.45% per annum. The Company is required to maintain a loan to value ratio of 85% with respect to the appraised value of the real property. In connection with the Building Term Note, the Company entered into an interest rate swap transaction (the "Interest Rate Swap Transaction") with Hancock Whitney Bank effectively fixing the interest rate for the Building Term Note at 4.68%.

On September 19, 2019, the Company entered into a third amendment to the loan agreement providing for a term note (the "Term Note") in favor of Hancock Whitney Bank in the principal amount of \$5.0 million. The proceeds of the Term Note will be used for general corporate purposes. Beginning October 19, 2019, the Company makes monthly payments towards the outstanding balance. The Term Note matures on September 19, 2022 and is secured by substantially all of our assets. The Term Note bears interest at the rate of 4.60% per annum.

**Off balance sheet arrangements**

The Company has no material undisclosed off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its results of operations or financial condition.

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**VIEMED HEALTHCARE, INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
*(Tabular amounts expressed in thousands of US Dollars, except per share amounts)*  
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**Accounting and Disclosure Matters**

**Critical Accounting Principles and Estimates**

The preparation of financial statements in conformity with GAAP requires us to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. We evaluate our estimates on an ongoing basis, including those estimates related to allowance for doubtful accounts, inventory adjustments, impaired assets, income taxes, deferred tax valuation allowances and stock-based compensation costs.

We state these accounting policies in the notes to the consolidated financial statements and at relevant sections in the Management's Discussion and Analysis of Financial Condition and Results of Operations. The estimates are based on the information that is currently available to us and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could vary from those estimates under different assumptions or conditions.

We believe that the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements:

***Revenue recognition***

*Revenue Accounting under Topic 842*

We lease DME such as non-invasive and invasive ventilators, PAP machines, percussion vests, oxygen concentrator units and other small respiratory equipment to customers for a fixed monthly amount on a month-to-month basis. The customer generally has the right to cancel the lease at any time during the rental period. The Company considers these rentals to be operating leases.

Under FASB ASC Topic 842, "Leases", we recognize rental revenue on operating leases on a straight-line basis over the contractual lease term which varies based on the type of equipment rental. The lease term begins on the date products are delivered to patients, and revenues are recorded at amounts estimated to be received under reimbursement arrangements with third-party payors, including Medicare, private commercial payors, and Medicaid. Certain customer co-payments are included in revenue when considered probable of payment, which is generally when paid.

Due to the nature of the industry and the reimbursement environment in which we operate, certain estimates are required to record net revenue and accounts receivable at their net realizable values. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of many third-party billing arrangements and the uncertainty of reimbursement amounts for certain services from certain payors may result in adjustments to amounts originally recorded. Such adjustments are typically identified and recorded at the point of cash application or claim denial.

*Revenue Accounting under Topic 606*

We sell DME, replacement parts and supplies to customers and recognize revenue based on contractual payment rates as determined by the payors at the point in time when control of the good or service is transferred through delivery to the customer. The customer and, if applicable, the payors are generally charged at the time that the product is sold.

We also provide sleep study services to customers and recognize revenue when the sleep study results are complete, satisfying the performance obligation. In response to the COVID-19 pandemic, we began offering contact and vaccine tracing services, which revenues are recognized in the period in which the service has been provided. The transaction price on equipment sales, sleep studies and contact and vaccine tracing is the amount that we expect to receive in exchange for the goods and services provided. Due to the nature of the DME business, gross charges are retail charges and generally do not reflect what we are ultimately paid. As such, the transaction price is constrained for the difference between the gross charge and what is estimated to be collected from payors and from patients. The transaction price therefore is predominantly based on contractual payment rates as determined by the payors. We do not generally contract with uninsured customers. The payment terms and conditions of customer contracts vary by customer type and the products and services offered.

We determine our estimates of contractual allowances and discounts based upon contractual agreements, our policies and historical experience. While the rates are fixed for the product or service with the customer and the payors, such amounts typically include co-payments, co-insurance and deductibles, which vary in amounts, and are due from the patient. We include in the transaction price only the amount that we expect to be entitled, which is substantially all of the payor billings at contractual rates. The transaction price is initially constrained by the amount of customer co-payments, which are included in the transaction price when considered probable of payment and included in revenue if the product or service has already been provided to the customer.

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**VIEMED HEALTHCARE, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

*(Tabular amounts expressed in thousands of US Dollars, except per share amounts)*

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Due to the nature of the industry and the reimbursement environment in which we operate, certain estimates are required to record net revenue and accounts receivable at their net realizable values. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of many third-party billing arrangements and the uncertainty of reimbursement amounts for certain services from certain payors may result in adjustments to amounts originally recorded. Such adjustments are typically identified and recorded at the point of cash application or claim denial.

Returns and refunds are not accepted on equipment sales, sleep study services or contact and vaccine tracing services. We do not offer warranties to customers in excess of the manufacturer's warranty. Any taxes due upon sale of the products or services are not recognized as revenue. We do not have any partially or unfilled performance obligations related to contracts with customers and as such, we have no contract liabilities as of September 30, 2021.

***Allowance for doubtful accounts***

We estimate that a certain portion of receivables from customers may not be collected and maintain an allowance for doubtful accounts. We evaluate the net realizable value of accounts receivable as of the date of Consolidated Balance Sheets. Specifically, we consider historical realization data including current and historical cash collections, accounts receivable aging trends, other operating trends and relevant business conditions. Because of continuing changes in the healthcare industry and third-party reimbursement, it is possible that the estimates could change, which could have a material impact on the operations and cash flows. If circumstances related to certain customers change or actual results differ from expectations, our estimate of the recoverability of receivables could fluctuate from that provided for in our consolidated financial statements. A change in estimate could impact bad debt expense and accounts receivable. Our allowance for doubtful accounts was \$7.1 million and \$8.8 million as of September 30, 2021 and 2020, respectively, and based on our analysis, we believe the reserve is adequate for any exposure to credit losses.

***Stock-based compensation***

We account for our stock-based compensation in accordance with ASC 718—*Compensation—Stock Compensation*, which establishes accounting for share-based awards exchanged for employee services and requires companies to expense the estimated fair value of these awards over the requisite employee service period. Stock-based compensation cost for stock options are determined at the grant date using the Black-Scholes option pricing model. Stock-based compensation cost for RSUs are determined at the grant date based on the closing stock price. The expense of such stock-based compensation awards is recognized using the graded vesting attribution method over the vesting period.

For the Company's phantom share units settled in cash, the Company computes the fair value of the phantom share units using the closing price of the Company's stock at the end of each period and records a liability based on the percentage of requisite service.

***Interest rate swaps***

We utilize an interest rate swap contract to reduce our exposure to fluctuations in variable interest rates for future interest payments on Term Note.

For determining the fair value of our interest rate swap contract, we use significant other observable market data or assumptions (Level 2 inputs) that we believe market participants would use in pricing similar assets or liabilities, including assumptions about counterparty risk. Our fair value estimates reflect an income approach based on the terms of the interest rate swap contract and inputs corroborated by observable market data including interest rate curves. The Company presents a positive ending period fair value of the interest rate swap contract in other long-term assets, as a component of long-term assets, and a negative ending period fair value of the interest rate swap contract in accrued liabilities, as a component of long-term liabilities on the Condensed Consolidated Balance Sheets.

We recognize any differences between the variable interest rate payments and the fixed interest rate settlements from our swap counterparty as an adjustment to interest expense over the life of the swap. If determined to be effective cash flow hedges, we record the changes in the estimated fair value of the swaps to accumulated other comprehensive income or loss on our Condensed Consolidated Balance Sheets. To the extent our interest rate swaps are determined to be ineffective, we recognize the changes in the estimated fair value of our swaps in interest and other non-operating expenses, net on our Condensed Consolidated Statements of Income.

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**VIEMED HEALTHCARE, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

*(Tabular amounts expressed in thousands of US Dollars, except per share amounts)*

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***Income taxes***

We are subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. Our income tax provisions reflect management's interpretation of country and state tax laws. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and may remain uncertain for several years after their occurrence. We recognize assets and liabilities for taxation when it is probable that we will receive refunds or pay taxes to the relevant tax authority. Where the final determination of tax assets and liabilities is different from the amounts that were initially recorded, such differences will impact the current and deferred income taxes provision in the period in which such a determination is made. Changes in tax law or changes in the way tax law is interpreted may also impact our effective tax rate as well as our business and operations.

Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying value of assets and liabilities and their respective income tax bases. Deferred income tax assets or liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled. The calculation of current and deferred income taxes requires management to make estimates and assumptions and to exercise a certain amount of judgment concerning the carrying value of assets and liabilities. The current and deferred income tax assets and liabilities are also impacted by expectations about future operating results and the timing of reversal of temporary differences as well as possible audits of tax filings by regulatory agencies. Changes or differences in these estimates or assumptions may result in changes to the current and deferred tax assets and liabilities on the Condensed Consolidated Balance Sheets and a charge to or recovery of income tax expense.

**Recently Issued Accounting Pronouncements**

See Note 2 – Summary of Significant Account Policies of the Notes to Condensed Consolidated Financial Statements for a description of recently issued accounting pronouncements, including the expected dates of adoption and estimated effects on our results of operations, financial positions and cash flows.

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## VIEMED HEALTHCARE, INC.

September 30, 2021 and 2020

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### Item 3. Quantitative and Qualitative Disclosures About Market Risk

This item is not applicable to smaller reporting companies.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company's management, including its Chief Executive Officer and Chief Financial Officer, completed an evaluation of the effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded:

- i. that the Company's disclosure controls and procedures are designed to ensure (a) that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and (b) that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure; and
- ii. that the Company's disclosure controls and procedures are effective.

Notwithstanding the foregoing, there can be no assurance that the Company's disclosures controls and procedures will detect or uncover all failures of persons within the Company and its consolidated subsidiaries to disclose material information otherwise required to be set forth in the Company's periodic reports. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures.

#### Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the three months ended September 30, 2021 that have materially affected, or that are reasonably likely to materially affect, the Company's internal control over financial reporting.

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# VIEMED HEALTHCARE, INC.

September 30, 2021 and 2020

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## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we may be subject to various ongoing or threatened legal actions and other proceedings, including those that arise in the ordinary course of business, which may include employment matters, breach of contract disputes, as well as governmental and regulatory matters. Please read Note 8—Commitments and Contingencies to our condensed consolidated financial statements for more information. Such matters are subject to many uncertainties and to outcomes that are not predictable with assurance and that may not be known for extended periods of time.

### Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on March 3, 2021, which could materially affect our business, financial condition or future results. Except as set forth below, there have been no material changes in our risk factors from those disclosed in that Annual Report.

***The recall of certain Royal Philips BiPAP and CPAP and mechanical ventilator devices that we distribute and sell could have a significant negative impact on our business, reputation, results of operations, financial condition and prospects.***

On June 14, 2021, Royal Philips (“Philips”), one of our largest suppliers of BiPAP (bi-level positive airway pressure) and CPAP (continuous positive airway pressure) and mechanical ventilator devices, initiated a voluntary recall notification with the U.S. Food and Drug Administration (“FDA”) for certain Philips BiPAP and CPAP and mechanical ventilator devices that we distribute and sell. Philips initiated this recall to address potential health risks related to the polyester-based polyurethane (“PE-PUR”) sound abatement foam component in these devices. In July 2021, the FDA identified the Philips recall as a Class I recall, the most serious type of recall. As of September 1, 2021, the FDA has authorized Philips to rework affected first-generation DreamStation CPAP devices, which consists of replacing the PE-PUR sound abatement foam with a new material. In an October 18, 2021 press release, Philips stated that a total of approximately 750,000 repair kits and replacement devices have been produced, of which more than 250,000 have reached customers.

To date, Philips has produced millions of BiPAP and CPAP and mechanical ventilator devices using the PE-PUR sound abatement foam. Despite a complaint rate of 0.03% in 2020, Philips determined based on testing that there are possible health risks to users of the devices related to this type of foam, including that the foam may degrade into particles that may be ingested or inhaled by the user, and that the foam may off-gas certain chemicals. According to Philips, the potential risks of particulate exposure include headache, irritation, inflammation, respiratory issues, and possible toxic and carcinogenic effects, and the potential health risks of chemical exposure due to off-gassing include headache, irritation, hypersensitivity, nausea/vomiting, and possible toxic and carcinogenic effects.

While Philips produces alternative CPAP and mechanical ventilator devices that are not impacted by the recall, these alternative CPAP and mechanical ventilator devices are being used to replace recalled CPAP and mechanical ventilator devices rather than be sold to suppliers for placement with newly diagnosed patients. Depending on the time it takes for the FDA and Philips to resolve the issue, potential delays and shortages of BiPAP and CPAP and mechanical ventilator devices may occur in our industry, which could have a significant negative impact on our business, reputation, results of operations, financial condition and prospects if we are unable to procure replacement products at a reasonable cost on a timely basis or at all.

Additionally, we do not currently know the full scope of potential risks that may arise as a result of the recall and replacement of BiPAP and CPAP and mechanical ventilator devices described above. Due to the volume of our patients currently using, or who in the past have used, the BiPAP and CPAP and mechanical ventilator devices affected by the recall described above as well as future users of any replacement devices, any litigation, class action or governmental enforcement actions (including, but not limited to, claims relating to product liability, negligence, patient harm including claims for personal injury or wrongful death, consumer protection, or fraud, overpayment or improper billing for services and products affected by the recall or replacement) that may involve us could have a significant negative impact on our business, reputation, results of operations, financial condition and prospects. At this time, several class action lawsuits have been filed against Philips in connection with the BiPAP and CPAP and mechanical ventilator devices affected by the recall. In addition, the reporting of product defects or voluntary recalls to the FDA or analogous regulatory bodies outside the United States could result in manufacturing audits, inspections and broader recalls or other disruptions to our and/or our suppliers’ businesses. The recall described above and future recalls, whether voluntary or required, could result in significant costs to us and significant adverse publicity, which could harm our ability to market our products in the future.

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# VIEMED HEALTHCARE, INC.

September 30, 2021 and 2020

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***Revenue we receive from third-party payors as well as Medicare and Medicaid is subject to potential retroactive reduction.***

Payments we receive from governmental healthcare programs, including Medicare and Medicaid, and private third-party payors can be retroactively adjusted after examination during the claims settlement process or as a result of post-payment audits and subsequent recoupment. Governmental healthcare programs and third-party payors may disallow, in whole or in part, our requests for reimbursement, or recoup amounts previously reimbursed, based on determinations by the payors or their third-party audit contractors that certain costs are not reimbursable because either adequate or additional documentation was not provided or because certain services were not covered or deemed to not be medically necessary. Significant adjustments, recoupments or repayments of our Medicare or Medicaid revenue, and the costs associated with complying with investigative audits by regulatory and governmental authorities, could materially and adversely affect our financial condition, results of operations and cash flows.

For example, in late June of 2021, we received initial request letters from DME Medicare Administrative Contractors referencing a previously disclosed U.S. Department of Health and Human Services Office of the Inspector General (“OIG”) report and recommendation regarding an audit by OIG of claims relating to one hundred of the Company’s non-invasive ventilation at home patients and requesting repayment of purported overpayments within the 4-year reopening period prescribed by statute. In September 2021, the MACs informed us of unfavorable decisions with respect to the redetermination appeals. See Note 8—Commitments and Contingencies to our condensed consolidated financial statements for more information. The ultimate resolution of this matter, if unfavorable, could materially and adversely affect our financial condition, results of operations, or cash flows.

Additionally, from time to time we become aware, either based on information provided by third parties and/or the results of internal audits, of payments from such payor sources that were either wholly or partially in excess of the amount that we should have been paid for the service provided. Overpayments may result from a variety of factors, including insufficient documentation supporting the services rendered or medical necessity of the services or other failures to document the satisfaction of the necessary conditions of payment. We are required by law in most instances to refund the full amount of the overpayment after becoming aware of it, and failure to do so within requisite time limits imposed by the law could lead to significant fines and penalties being imposed on us.

Furthermore, our initial billing of and payments for services that are unsupported by the requisite documentation and satisfaction of any other conditions of payment, regardless of our awareness of the failure at the time of the billing or payment, could expose us to significant fines and penalties. We could also be subject to exclusion from participation in the Medicare or Medicaid programs in some circumstances as well, in addition to any monetary or other fines, penalties or sanctions that we may incur under applicable federal and/or state law. Our repayment of any such amounts, as well as any fines, penalties or other sanctions that we may incur, could be significant and could have a material and adverse effect on our financial condition, results of operations and cash flows.

From time to time we are also involved in various external governmental investigations, audits and reviews. Reviews, audits and investigations of this sort can lead to government actions, which can result in the assessment of recoupment of reimbursement, civil or criminal fines or penalties, or other sanctions, including restrictions or changes in the way we conduct business, loss of licensure or exclusion from participation in government healthcare programs. Failure to comply with applicable laws, regulations and rules could have a material and adverse effect on our financial condition, results of operations and cash flows. Furthermore, becoming subject to these governmental investigations, audits and reviews can also require us to incur significant legal and document production expenses as we cooperate with the government authorities, regardless of whether the particular investigation, audit or review leads to identification of underlying noncompliance or wrongdoing.

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

### **Unregistered Sales of Equity Securities**

Not applicable.

### **Company Repurchases of Equity Securities**

The Company did not repurchase any equity securities during the quarter ended September 30, 2021.

### **Dividends**

We have not declared or paid any cash or stock dividends on our common shares since our inception and do not anticipate declaring or paying any cash or stock dividends in the foreseeable future. Our subsidiaries are restricted from making distributions or dividend payments to us by the Loan Agreement, subject to certain exceptions.

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**VIEMED HEALTHCARE, INC.**

**September 30, 2021 and 2020**

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**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

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# VIEMED HEALTHCARE, INC.

September 30, 2021 and 2020

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## Item 6. Exhibits

The exhibits filed as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index below.

<b>Exhibit Number</b>	<b>Exhibit Title</b>
#2.1	<a href="#"><u>Share Purchase Agreement dated as of January 11, 2017 between PHM Logistics Corporation and Viemed, Inc. Incorporated by reference to Exhibit 2.1 to the Company's Registration Statement on Form 10 filed on July 10, 2019.</u></a>
#2.2	<a href="#"><u>Asset Purchase Agreement dated as of January 11, 2017 between Patient Home Monitoring Corp. and Viemed Healthcare, Inc. Incorporated by reference to Exhibit 2.2 to the Company's Registration Statement on Form 10 filed on July 10, 2019.</u></a>
#2.3	<a href="#"><u>Arrangement Agreement dated as of January 11, 2017 between Patient Home Monitoring Corp. and Viemed Healthcare, Inc. Incorporated by reference to Exhibit 2.3 to the Company's Registration Statement on Form 10 filed on July 10, 2019.</u></a>
#2.4	<a href="#"><u>Arrangement Agreement Amendment dated as of October 31, 2017 between Patient Home Monitoring Corp. and Viemed Healthcare, Inc. Incorporated by reference to Exhibit 2.4 to the Company's Registration Statement on Form 10 filed on July 10, 2019.</u></a>
3.1	<a href="#"><u>Notice of Articles of Business Corporation Act of Viemed Healthcare, Inc. Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form 10 filed on July 10, 2019.</u></a>
3.2	<a href="#"><u>Amended and Restated Business Corporation Act Articles of Viemed Healthcare, Inc. Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 10, 2021.</u></a>
*10.1	<a href="#"><u>Form of Restricted Stock Unit Award</u></a>
*10.2	<a href="#"><u>Non-Employee Directors Deferred Compensation Plan</u></a>
*31.1	<a href="#"><u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
*31.2	<a href="#"><u>Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
**32.1	<a href="#"><u>Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.</u></a>
**32.2	<a href="#"><u>Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.</u></a>
*101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
*101.SCH	Inline XBRL Taxonomy Extension Schema Document.
*101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
*101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
*101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
*101.DEF	Inline XBRL Taxonomy Extension Definition Document.
*104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

\* Filed herewith.

\*\* Furnished in accordance with Item 601(b)(32)(ii) of Regulation S-K.

# Schedules and similar attachments have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company will furnish supplementally a copy of any omitted schedule or similar attachment to the Securities and Exchange Commission upon request.

