# THE ENSIGN GROUP, INC.
## GAAP and ADJUSTED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
## (In thousands, except per share data)

| | *Three Months Ended September 30, 2013* | | | *Nine Months Ended September 30, 2013* | | |
|---|---|---|---|---|---|---|
| | *As Reported* | *Non-GAAP Adj.* | *As Adjusted* | *As Reported* | *Non-GAAP Adj.* | *As Adjusted* |
| Revenue | $ 229,261 | (1,265) [8] | $ 227,996 | $ 667,548 | (4,164) [8] [9] | $ 663,384 |
| Expense: | | | | | | |
| Cost of services (exclusive of facility rent, general and administrative and depreciation and amortization expense shown separately below) | 186,172 | (2,341) [1] [2] [3] [9] | 183,831 | 538,146 | (8,757) [1] [2] [3] [9] [10] | 529,389 |
| U.S. Government inquiry settlement | - | - | - | 33,000 | (33,000) [4] | - |
| Facility rent—cost of services | 3,404 | (180) [6] | 3,224 | 10,056 | (688) [5][6] | 9,368 |
| General and administrative expense | 10,601 | (1,746) [7] [8] | 8,855 | 28,321 | (2,968) [7] [8] | 25,353 |
| Depreciation and amortization | 8,795 | (364) [11] | 8,431 | 25,198 | (1,176) [11] [12] | 24,022 |
| Total expenses | 208,972 | (4,631) | 204,341 | 634,721 | (46,589) | 588,132 |
| Income from operations | 20,289 | 3,366 | 23,655 | 32,827 | 42,425 | 75,252 |
| Other income (expense): | | | | | | |
| Interest expense | (3,181) | | (3,181) | (9,441) | | (9,441) |
| Interest income | 141 | | 141 | 363 | | 363 |
| Other expense, net | (3,040) | | (3,040) | (9,078) | | (9,078) |
| Income before provision for income taxes | 17,249 | 3,366 | 20,615 | 23,749 | 42,425 | 66,174 |
| Tax Effect on Non-GAAP Adjustments | | 1,296 [13] | | | 16,334 [13] | |
| Tax True-up for Effective Tax Rate | | 34 [14] | | | (2,297) [14] | |
| Provision for income taxes | 6,607 | 1,330 | 7,937 | 11,440 | 14,037 | 25,477 |
| Income from continuing operations | 10,642 | 2,036 | 12,678 | 12,309 | 28,388 | 40,697 |
| Loss from discontinued operations, net of income tax benefit | (30) | | (30) | (1,804) | | (1,804) |
| Net income (loss) | 10,612 | 2,036 | 12,648 | 10,505 | 28,388 | 38,893 |
| Less: net loss attributable to noncontrolling interests | 148 | | 148 | (179) | | (179) |
| Net income attributable to The Ensign Group, Inc. | $ 10,464 | 2,036 | $ 12,500 | $ 10,684 | 28,388 | $ 39,072 |
| Attributable to The Ensign Group, Inc. | | | | | | |
| Net income attributable to The Ensign Group, Inc. | 10,464 | 2,036 | 12,500 | 10,684 | 28,388 | 39,072 |
| Loss from discontinued operations, net of income tax benefit | (30) | | (30) | (1,804) | | (1,804) |
| Income from continuing operations attributable to The Ensign Group, Inc. | $ 10,494 | 2,036 | $ 12,530 | $ 12,488 | 28,388 | $ 40,876 |
| Net income (loss) per share: | | | | | | |
| Basic: | | | | | | |
| Net income attributable to The Ensign Group, Inc. | $ 0.48 | | $ 0.57 | $ 0.49 | | $ 1.79 |
| Loss from discontinued operations, net of income tax benefit | — | | — | (0.08) | | (0.08) |
| Income from continuing operations attributable to The Ensign Group, Inc. | $ 0.48 | | $ 0.57 | $ 0.57 | | $ 1.87 |
| Diluted: | | | | | | |
| Net income attributable to The Ensign Group, Inc. | $ 0.47 | | $ 0.56 | $ 0.48 | | $ 1.75 |
| Loss from discontinued operations, net of income tax benefit | — | | — | (0.08) | | (0.08) |
| Income from continuing operations attributable to The Ensign Group, Inc. | $ 0.47 | | $ 0.56 | $ 0.56 | | $ 1.83 |
| Weighted average common shares outstanding: | | | | | | |
| Basic | 21,941 | | 21,941 | 21,857 | | 21,857 |
| Diluted | 22,409 | | 22,409 | 22,316 | | 22,316 |

(1) Represents acquisition-related costs of $38 and $264 for the three and nine months ended September 30, 2013.

(2) Represents costs of $19 and $103 for the three and nine months ended September 30, 2013, incurred to recognize income tax credits.

(3) Represents additional costs incurred related to a class action lawsuit settlement of $915 and $1,524 for the three and nine months ended September 30, 2013.

(4) Represents the Company's U.S. Department of Justice (DOJ) inquiry settlement reserve recorded in the first quarter of 2013.

(5) Represents straight-line rent amortization for the first six months of 2013 for one newly constructed facility which began operations during the first quarter of 2013. This facility began operating at full capacity during the third quarter and therefore, third quarter results were not included in the three or nine month periods above.

(6) Represents straight-line rent amortization for newly opened urgent care centers.

(7) Represents legal costs incurred in connection with theongoing investigation into the billing and reimbursement processes of some of our subsidiaries being conducted by the DOJ.

(8) Represents expenses incurred in connection with the Company's proposed spin-off of its real estate assets to a newly formed publicly traded real estate investment trust (REIT).

(9) Represents revenues and expenses incurred at newly opened urgent care centers, less rent expense recognized in note (6) above and depreciation expense recognized in note (11) below

(10) Represents revenues and expenses for the first six months of 2013 incurred at one newly constructed facility which began operations during the first quarter of 2013, less rent expense recognized in note (5) above and depreciation expense recognized in Note (12) below. This facility began operating at full capacity during the third quarter and therefore, third quarter results were not included in the three or nine month periods above.

(11) Represents depreciation expense at newly opened urgent care centers and amortization costs related to patient base intangible assets at skilled nursing and assisted living facilities acquired. Patient base intangible assets are amortized over a period of four to eight months, depending on the classification of the patients and the level of occupancy in a new acquisition on the acquisition date.

(12) Represents depreciation expense for the first six months of 2013 at one newly constructed facility which began operations during the first quarter of 2013. This facility began operating at full capacity during the third quarter and therefore, third quarter results were not included in the three or nine month periods above.

(13) Represents the tax impact of non-GAAP adjustments noted in (1) – (12) at the Company’s year to date effective tax rate of 38.5% for the three and nine months ended September 30, 2013.

(14) Represents an adjustment to the provision for income taxes to our current year to date effective rate to 38.5% for the three and nine months ended September 30, 2013.

**THE ENSIGN GROUP, INC.**
**GAAP and ADJUSTED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**
**Adjusted to Reflect Discontinued Operations**
**(In thousands, except per share data)**

| | *Three Months Ended September 30, 2012* | | | *Nine Months Ended September 30, 2012* | | |
|---|---|---|---|---|---|---|
| | *As Reported Including* | *Non-GAAP Adj.* | *As Adjusted* | *As Reported Including* | *Non-GAAP Adj.* | *As Adjusted* |
| Revenue | $ 206,691 | | $ 206,691 | $ 612,650 | | $ 612,650 |
| Expense: | | | | | | |
| Cost of services (exclusive of facility rent, general and administrative and depreciation and amortization expense shown separately below) | 164,579 | (553) (1)(2)(7) | 164,026 | 487,291 | (3,565) (1)(2)(3)(7) | 483,726 |
| Facility rent—cost of services | 3,359 | (236) (4)(7) | 3,123 | 10,034 | (588) (4)(7) | 9,446 |
| General and administrative expense | 8,099 | (593) (5)(7) | 7,506 | 23,933 | (1,441) (5)(7) | 22,492 |
| Depreciation and amortization | 7,147 | (144) (6)(7) | 7,003 | 21,071 | (450) (6)(7) | 20,621 |
| Total expenses | 183,184 | (1,526) | 181,658 | 542,329 | (6,044) | 536,285 |
| Income from operations | 23,507 | 1,526 | 25,033 | 70,321 | 6,044 | 76,365 |
| Other income (expense): | | | | | | |
| Interest expense | (3,092) | | (3,092) | (9,131) | | (9,131) |
| Interest income | 69 | | 69 | 172 | | 172 |
| Other expense, net | (3,023) | | (3,023) | (8,959) | | (8,959) |
| Income before provision for income taxes | 20,484 | 1,526 | 22,010 | 61,362 | 6,044 | 67,406 |
| Tax impact of non-GAAP adjustments | | 595 (8) | | | 2,357 (8) | |
| Tax true-up for effective tax rate | | 461 (9) | | | 817 (9) | |
| Provision for income taxes | 7,528 | 1,056 | 8,584 | 23,114 | 3,174 | 26,288 |
| Income from continuing operations | 12,956 | 470 | 13,426 | 38,248 | 2,870 | 41,118 |
| Income (loss) from discontinued operations, net of income tax | 80 | | 80 | (105) | | (105) |
| Net income | 13,036 | 470 | 13,506 | 38,143 | 2,870 | 41,013 |
| Less: net loss attributable to noncontrolling interests | (258) | 94 | (164) | (511) | 128 | (383) |
| Net income attributable to The Ensign Group, Inc. | $ 13,294 | 376 | $ 13,670 | $ 38,654 | 2,742 | $ 41,396 |
| Attributable to The Ensign Group, Inc. | | | | | | |
| Net income attributable to The Ensign Group, Inc. | 13,294 | 376 | 13,670 | 38,654 | 2,742 | 41,396 |
| Income (loss) from discontinued operations, net of income tax | 80 | | 80 | (105) | | (105) |
| Income from continuing operations attributable to The Ensign Group, Inc. | $ 13,214 | 376 | $ 13,590 | $ 38,759 | 2,742 | $ 41,501 |
| Net income per share | | | | | | |
| Basic: | | | | | | |
| Net income attributable to The Ensign Group, Inc. | 0.62 | | 0.64 | 1.81 | | 1.94 |
| Income (loss) from discontinued operations, net of income tax | 0.01 | | 0.01 | — | | — |
| Income from continuing operations attributable to The Ensign Group, Inc. | $ 0.61 | | $ 0.63 | $ 1.81 | | $ 1.94 |
| Diluted: | | | | | | |
| Net income attributable to The Ensign Group, Inc. | 0.60 | | 0.62 | 1.77 | | 1.89 |
| Income (loss) from discontinued operations, net of income tax benefit | — | | — | — | | (0.01) |
| Income from continuing operations attributable to The Ensign Group, Inc. | $ 0.60 | | $ 0.62 | $ 1.77 | | $ 1.90 |
| Weighted average common shares outstanding: | | | | | | |
| Basic | 21,488 | | 21,488 | 21,369 | | 21,369 |
| Diluted | 22,010 | | 22,010 | 21,899 | | 21,899 |

(1) Represents acquisition-related costs of $110 and $230 for the three and nine months ended September 30, 2012, respectively.

(2) Represents costs of $197 and $439 for the three and nine months ended September 30, 2012, respectively, incurred to recognized income tax credits which contributed to the decrease in the Company's effective tax rate.

(3) Represents the settlement of a class action lawsuit regarding minimum staffing requirements in the state of California of $2,596 during the three months ended June 30, 2012.

(4) Represents straight-line rent amortization for a facility which the Company has begun construction activities, but had not commenced operations of a skilled nursing facility as of September 30, 2012.

(5) Represents legal costs incurred in connection with the ongoing investigation into the billing and reimbursement processes of some of our subsidiaries being conducted by the Department of Justice (DOJ).

(6) Represents amortization costs related to patient base intangible assets acquired. Patient base intangible assets are amortized over a period of four to

eight months, depending on the classification of the patients and the level of occupancy in a new acquisition on the acquisition date.

(7) Represents costs incurred at urgent care centers which had not begun operations as of September 30, 2012.

(8) Represents the tax impact of non-GAAP adjustments noted in (1) - (7) at a normalized rate of 39.0%.

(9) In 2011 and 2010, the Company's effective tax rate was 38.3% and 39.3%, respectively. Therefore, this represents an adjustment to the provision for income taxes to normalize our current quarter effective rate to 39.0%.