

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

	<i>Three Months Ended September 30, 2014</i>			<i>Nine Months Ended September 30, 2014</i>		
	<i>As Reported</i>	<i>Non-GAAP Adj.</i>	<i>As Adjusted</i>	<i>As Reported</i>	<i>Non-GAAP Adj.</i>	<i>As Adjusted</i>
Revenue	\$ 260,841	\$ (3,617) ⁽⁴⁾⁽⁵⁾	\$ 257,224	\$ 750,537	\$ (10,094) ⁽⁴⁾⁽⁵⁾	\$ 740,443
Expense:						
Cost of services (exclusive of facility rent, general and administrative and depreciation and amortization expense shown separately below)	209,737	(4,256) ⁽¹⁾⁽⁴⁾⁽⁵⁾	205,481	601,532	(11,686) ⁽¹⁾⁽⁴⁾⁽⁵⁾	589,846
Facility rent—cost of services	18,176	(410) ⁽⁶⁾	17,766	30,008	(1,539) ⁽⁶⁾	28,469
General and administrative expense	12,956	(31) ⁽²⁾⁽³⁾⁽⁴⁾	12,925	44,370	(9,035) ⁽²⁾⁽³⁾⁽⁴⁾	35,335
Depreciation and amortization	4,677	(380) ⁽⁷⁾	4,297	21,343	(895) ⁽⁷⁾	20,448
Total expenses	<u>245,546</u>	<u>(5,077)</u>	<u>240,469</u>	<u>697,253</u>	<u>(23,155)</u>	<u>674,098</u>
Income from operations	15,295	1,460	16,755	53,284	13,061	66,345
Other income (expense):						
Interest expense	(407)	46	(361)	(12,490)	6,471	(6,019)
Interest income	142	-	142	435	-	435
Other expense, net	(265)	46	(219)	(12,055)	6,471	(5,584)
Income before provision for income taxes	15,030	1,506	16,536	41,229	19,532	60,761
Tax Effect on Non-GAAP Adjustments		581 ⁽⁸⁾			7,520 ⁽⁸⁾	
Tax True-up for Effective Tax Rate		(872) ⁽⁹⁾			(2,410) ⁽⁹⁾	
Provision for income taxes	6,659	(291)	6,368	18,284	5,110	23,394
Net income	<u>8,371</u>	<u>1,797</u>	<u>10,168</u>	<u>22,945</u>	<u>14,422</u>	<u>37,367</u>
Less: net (loss) income attributable to noncontrolling interests	(535)	523	(12)	(1,494)	1,563	69
Net income attributable to The Ensign Group, Inc.	<u>\$ 8,906</u>	<u>1,274</u>	<u>\$ 10,180</u>	<u>\$ 24,439</u>	<u>12,859</u>	<u>\$ 37,298</u>
Attributable to The Ensign Group, Inc.						
Net income attributable to The Ensign Group, Inc.	8,906	1,274	10,180	24,439	12,859	37,298
Loss from discontinued operations, net of income tax benefit	-	-	-	-	-	-
Income from continuing operations attributable to The Ensign Group, Inc.	<u>\$ 8,906</u>	<u>\$ 1,274</u>	<u>\$ 10,180</u>	<u>\$ 24,439</u>	<u>\$ 12,859</u>	<u>\$ 37,298</u>
Net income per share:						
Basic:						
Net income attributable to The Ensign Group, Inc.	\$ 0.40		\$ 0.45	\$ 1.10		\$ 1.67
Loss from discontinued operations, net of income tax benefit	—		—	—		—
Income from continuing operations attributable to The Ensign Group, Inc.	<u>\$ 0.40</u>		<u>\$ 0.45</u>	<u>\$ 1.10</u>		<u>\$ 1.67</u>
Diluted:						
Net income attributable to The Ensign Group, Inc.	\$ 0.38		\$ 0.44	\$ 1.06		\$ 1.62
Loss from discontinued operations, net of income tax benefit	—		—	—		—
Income from continuing operations attributable to The Ensign Group, Inc.	<u>\$ 0.38</u>		<u>\$ 0.44</u>	<u>\$ 1.06</u>		<u>\$ 1.62</u>
Weighted average common shares outstanding:						
Basic	22,415		22,415	22,282		22,282
Diluted	<u>23,186</u>		<u>23,186</u>	<u>23,014</u>		<u>23,014</u>

(1) Represents acquisition-related costs of \$85 and \$219 for the three and nine months ended September 30, 2014, respectively.

(2) Represents costs of \$31 and \$93 for the three and nine months ended September 30, 2014, respectively, incurred to recognize income tax credits.

(3) Represents costs of \$8,871 for the nine months ended September 30, 2014, incurred related to the Company's spin-off of real estate assets to CareTrust REIT (CTRE) (the Spin-Off). As the Spin-Off was completed in the second quarter of 2014, there was no costs associated with the Spin-Off for the three months ended September 30, 2014.

(4) Represents revenues and expenses incurred at the three independent living operations transferred to CTRE on June 1, 2014 in connection with the Spin-Off, excluding rent expense recognized in note (6) below.

(5) Represents revenues and expenses incurred at newly opened urgent care centers, excluding rent expense recognized in note (6) below and depreciation expense recognized in note (7) below.

(6) Represents straight-line rent amortization for newly opened urgent care centers and the three independent living operations transferred to CTRE included in Note (4).

(7) 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.

(8) Represents the tax impact of non-GAAP adjustments noted in (1) – (7) at the Company's year to date effective tax rate of 38.5% for the three and nine months ended September 30, 2014.

(9) 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, 2014.

THE ENSIGN GROUP, INC.
GAAP and ADJUSTED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
Including Adjustments for Discontinued Operations
(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
Charges related to U.S. Government inquiries	-	-	-	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 income (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 (loss) income 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 estimated 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 the ongoing 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.