

The Ensign Group, Inc.

Reconciliation of GAAP to Non-GAAP Financial Measures Three and Nine Months Ended September 30, 2013 (Financial Table Follows)

Non-GAAP Financial Measures

EBITDA, EBITDAR, Adjusted EBITDA and Adjusted EBITDAR are supplemental non-GAAP financial measures. Regulation G, Conditions for Use of Non-GAAP Financial Measures, and other provisions of the Securities Exchange Act of 1934, as amended, define and prescribe the conditions for use of certain non-GAAP financial information. We calculate EBITDA as net income, adjusted for net losses attributable to noncontrolling interest, before (a) interest expense, net, (b) provision for income taxes, and (c) depreciation and amortization. We calculate EBITDAR by adjusting EBITDA to exclude facility rent—cost of services. These non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with GAAP. These non-GAAP financial measures should not be relied upon to the exclusion of GAAP financial measures. These non-GAAP financial measures reflect an additional way of viewing aspects of our operations that, when viewed with our GAAP results and the accompanying reconciliations to corresponding GAAP financial measures, provide a more complete understanding of factors and trends affecting our business.

We believe EBITDA, Adjusted EBITDA, EBITDAR and Adjusted EBITDAR are useful to investors and other external users of our financial statements in evaluating our operating performance because:

- they are widely used by investors and analysts in our industry as a supplemental measure to evaluate the overall operating performance of companies in our industry without regard to items such as interest expense, net and depreciation and amortization, which can vary substantially from company to company depending on the book value of assets, capital structure and the method by which assets were acquired; and
- they help investors evaluate and compare the results of our operations from period to period by removing the impact of our capital structure and asset base from our operating results.

We use EBITDA, Adjusted EBITDA, EBITDAR and Adjusted EBITDAR:

- as measurements of our operating performance to assist us in comparing our operating performance on a consistent basis;
- to allocate resources to enhance the financial performance of our business;
- to evaluate the effectiveness of our operational strategies; and
- to compare our operating performance to that of our competitors.

We typically use EBITDA, Adjusted EBITDA, EBITDAR and Adjusted EBITDAR to compare the operating performance of each operation. EBITDA and EBITDAR are useful in this regard because they do not include such costs as net interest expense, income taxes, depreciation and amortization expense, and, with respect to EBITDAR, facility rent — cost of services, which may vary from period-to-period depending upon various factors, including the method used to finance facilities, the amount of debt that we have incurred, whether a facility is owned or leased, the date of acquisition of a facility or business, and the tax law of the state in which a business unit operates. As a result, we believe that the use of EBITDA and EBITDAR provide a meaningful and consistent comparison of our business between periods by eliminating certain items required by GAAP.

We also establish compensation programs and bonuses for our leaders that are partially based upon the achievement of Adjusted EBITDAR targets.

Despite the importance of these measures in analyzing our underlying business, designing incentive compensation and for our goal setting, EBITDA, Adjusted EBITDA, EBITDAR and Adjusted EBITDAR are non-GAAP financial measures that have no standardized meaning defined by GAAP. Therefore, our EBITDA, Adjusted EBITDA, EBITDAR and Adjusted EBITDAR measures have limitations as analytical tools, and they should not be considered in isolation, or as a substitute for analysis of our results as reported in accordance with GAAP. Some of these limitations are:

- they do not reflect our current or future cash requirements for capital expenditures or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the net interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- they do not reflect any income tax payments we may be required to make;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and EBITDAR do not reflect any cash requirements for such replacements; and
- other companies in our industry may calculate these measures differently than we do, which may limit their usefulness as comparative measures.

We compensate for these limitations by using them only to supplement net income on a basis prepared in accordance with GAAP in order to provide a more complete understanding of the factors and trends affecting our business.

(2) Adjusted EBITDA is EBITDA adjusted for non-core business items, which for the reported periods includes, to the extent applicable:

- Charge related to the U.S. Government inquiry;
- Legal costs incurred in connection with the U.S. Government inquiry;
- Settlement of a class action lawsuit;
- Losses incurred by our newly opened urgent care centers;
- Losses incurred by one newly constructed skilled nursing facility;
- Acquisition-related costs; and
- Costs incurred to recognize income tax credits.

Adjusted EBITDAR is EBITDAR adjusted for the above noted non-core business items.

Management strongly encourages investors to review our consolidated financial statements in their entirety and to not rely on any single financial measure. Because these non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names. For information about our financial results as reported in accordance with GAAP, see our consolidated financial statements and related notes included in our Quarterly Report on Form 10-Q.

The table below reconciles net income to EBITDA, Adjusted EBITDA, EBITDAR and Adjusted EBITDAR for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Consolidated Statements of Income Data:				
Net income	\$ 10,612	\$ 13,036	\$ 10,505	\$ 38,143
Net (income) loss attributable to noncontrolling interests	(148)	258	179	511
Loss (income) from discontinued operations	30	(80)	1,804	105
Interest expense, net	3,040	3,023	9,078	8,959
Provision for income taxes	6,607	7,528	11,440	23,114
Depreciation and amortization	8,795	7,147	25,198	21,071
EBITDA	\$ 28,936	\$ 30,912	\$ 58,204	\$ 91,903
Facility rent—cost of services	3,404	3,359	10,056	10,034
EBITDAR	\$ 32,340	\$ 34,271	\$ 68,260	\$ 101,937
EBITDA	\$ 28,936	\$ 30,912	\$ 58,204	\$ 91,903
Adjustments to EBITDA:				
Charge related to the U.S. Government inquiry(a)	—	—	33,000	—
Expenses related to the Spin-Off(b)	1,648	—	1,857	—
Legal costs(c)	98	593	1,111	1,441
Settlement of class action lawsuit(d)	915	—	1,524	2,596
Urgent care center losses(e)	105	152	1,447	172
Losses at skilled nursing facility not at full operation(f)	—	—	1,256	—
Acquisition related costs(g)	38	110	264	230
Costs incurred to recognize income tax credits(h)	19	197	103	439
Rent related to non-core business items above(i)	180	236	687	588
Adjusted EBITDA	\$ 31,939	\$ 32,200	\$ 99,453	\$ 97,369
Facility rent—cost of services	3,404	3,359	10,056	10,034
Less: rent related to non-core business items above(i)	(180)	(236)	(687)	(588)
Adjusted EBITDAR	\$ 35,163	\$ 35,323	\$ 108,822	\$ 106,815

- (a) Liability related to our efforts to achieve a global, company-wide, resolution of any claims connected to the U.S. Department of Justice (DOJ) investigation.
- (b) 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).
- (c) 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.
- (d) Settlement of a class action lawsuit regarding minimum staffing requirements in the state of California.
- (e) Losses incurred at newly opened urgent care centers, excluding rent, depreciation, interest and income taxes.
- (f) Losses incurred through the second quarter of 2013 at one newly constructed skilled nursing facility which began operations during the first quarter of 2013, excluding rent, depreciation, interest and income taxes. This facility began running at full capacity during the third quarter of 2013, and therefore, results for the third quarter were not included in the three or nine month periods above.
- (g) Costs incurred to acquire an operation, which are not capitalizable.
- (h) Costs incurred to recognize income tax credits which contributed to a decrease in effective tax rate.
- (i) Rent related to newly opened urgent care centers and one newly constructed skilled nursing facility which began operations during the first quarter of 2013, not included in items (e) and (f) above.