

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

	<i>Three Months Ended March 31, 2014</i>		
	<i>As Reported</i>	<i>Non-GAAP Adj.</i>	<i>As Adjusted</i>
Revenue	\$ 239,653	(2,187) ⁽⁵⁾	\$ 237,466
Expense:			
Cost of services (exclusive of facility rent, general and administrative and depreciation and amortization expense shown separately below)	189,738	(2,730) ⁽¹⁾⁽⁵⁾	187,008
Facility rent—cost of services	3,549	(334) ⁽⁴⁾	3,215
General and administrative expense	13,157	(1,623) ⁽²⁾⁽³⁾	11,534
Depreciation and amortization	8,862	(183) ⁽⁶⁾	8,679
Total expenses	215,306	(4,870)	210,436
Income from operations	24,347	2,683	27,030
Other income (expense):			
Interest expense	(3,363)		(3,363)
Interest income	159		159
Other expense, net	(3,204)		(3,204)
Income before provision for income taxes	21,143	2,683	23,826
Tax Effect on Non-GAAP Adjustments		1,033 ⁽⁷⁾	
Tax True-up for Effective Tax Rate		38 ⁽⁸⁾	
Provision for income taxes	8,102	1,071	9,173
Net income	13,041	1,612	14,653
Less: net (loss) income attributable to noncontrolling interests	(485)	527	42
Net income attributable to The Ensign Group, Inc.	\$ 13,526	1,085	\$ 14,611
Attributable to The Ensign Group, Inc.			
Net income attributable to The Ensign Group, Inc.	13,526	1,085	14,611
Loss from discontinued operations, net of income tax benefit	-	-	-
Income from continuing operations attributable to The Ensign Group, Inc.	\$ 13,526	1,085	\$ 14,611
Net income per share:			
Basic:			
Net income attributable to The Ensign Group, Inc.	\$ 0.61		\$ 0.66
Loss from discontinued operations, net of income tax benefit	—		—
Income from continuing operations attributable to The Ensign Group, Inc.	\$ 0.61		\$ 0.66
Diluted:			
Net income attributable to The Ensign Group, Inc.	\$ 0.60		\$ 0.65
Loss from discontinued operations, net of income tax benefit	—		—
Income from continuing operations attributable to The Ensign Group, Inc.	\$ 0.60		\$ 0.65
Weighted average common shares outstanding:			
Basic	22,168		22,168
Diluted	22,582		22,582

(1) Represents acquisition-related costs of \$44 for the three months ended March 31, 2014.

(2) Represents costs of \$33 for the three months ended March 31, 2014, incurred to recognize income tax credits.

(3) 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).

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

(5) Represents revenues and expenses incurred at newly opened urgent care centers, less rent expense recognized in note (4) above and depreciation expense recognized in note (6) below.

(6) 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.

(7) Represents the tax impact of non-GAAP adjustments noted in (1) – (6) at the Company's year to date effective tax rate of 38.5% for the three months ended March 31, 2014.

(8) Represents an adjustment to the provision for income taxes to our current year to date effective rate to 38.5% for the three months ended March 31, 2014.

THE ENSIGN GROUP, INC.
GAAP and ADJUSTED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Including Adjustments for Discontinued Operations
(In thousands, except per share data)

	<i>Three Months Ended March 31, 2013</i>		
	<i>As Reported</i>	<i>Non-GAAP Adj.</i>	<i>As Adjusted</i>
Revenue	\$ 218,201	(773) ⁽⁶⁾⁽⁷⁾	\$ 217,428
Expense:			
Cost of services (exclusive of facility rent, general and administrative and depreciation and amortization expense shown separately below)	176,061	(3,281) ⁽¹⁾⁽²⁾⁽⁶⁾⁽⁷⁾	172,780
Charges related to U.S. Government inquiries	33,000	(33,000) ⁽³⁾	-
Facility rent—cost of services	3,314	(255) ⁽⁴⁾⁽⁶⁾	3,059
General and administrative expense	8,848	(807) ⁽⁵⁾	8,041
Depreciation and amortization	7,732	(265) ⁽⁶⁾⁽⁸⁾	7,467
Total expenses	228,955	(37,608)	191,347
(Loss) income from operations	(10,754)	36,835	26,081
Other income (expense):			
Interest expense	(3,115)		(3,115)
Interest income	93		93
Other expense, net	(3,022)		(3,022)
(Loss) income before provision for income taxes	(13,776)	36,835	23,059
Tax Effect on Non-GAAP Adjustments		14,181 ⁽⁹⁾	
Tax True-up for Effective Tax Rate		(2,290) ⁽¹⁰⁾	
(Benefit) provision for income taxes	(3,013)	11,891	8,878
(Loss) income from continuing operations	(10,763)	24,944	14,181
Loss from discontinued operations, net of income tax benefit	(1,748)		(1,748)
Net (loss) income	(12,511)	24,944	12,433
Less: net loss attributable to noncontrolling interests	(364)		(364)
Net (loss) income attributable to The Ensign Group, Inc.	\$ (12,147)	24,944	\$ 12,797
Attributable to The Ensign Group, Inc.			
Net (loss) income attributable to The Ensign Group, Inc.	(12,147)	24,944	12,797
Loss from discontinued operations, net of income tax benefit	(1,748)		(1,748)
(Loss) income from continuing operations attributable to The Ensign Group, Inc.	\$ (10,399)	24,944	\$ 14,545
Net (loss) income per share			
Basic:			
Net (loss) income attributable to The Ensign Group, Inc.	(0.56)		0.59
Loss from discontinued operations, net of income tax benefit	(0.08)		(0.08)
(Loss) income from continuing operations attributable to The Ensign Group, Inc.	\$ (0.48)		\$ 0.67
Diluted:			
Net (loss) income attributable to The Ensign Group, Inc.	(0.56)		0.58
Loss from discontinued operations, net of income tax benefit	(0.08)		(0.07)
(Loss) income from continuing operations attributable to The Ensign Group, Inc.	\$ (0.48)		\$ 0.65
Weighted average common shares outstanding:			
Basic	21,768		21,768
Diluted	21,768	442 ⁽¹¹⁾	22,210

(1) Represents acquisition-related costs of \$79 for the three months ended March 31, 2013.

(2) Represents costs of \$49 for the three months ended March 31, 2013, incurred to recognize income tax credits which contributed to the decrease in the Company's effective tax rate.

(3) Represents the Company's estimated U.S. Department of Justice (DOJ) inquiry settlement reserve.

(4) Represents straight-line rent amortization for newly opened urgent care centers and one newly constructed facility which began operations during the first quarter of 2013.

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

(6) Represents revenues and expenses incurred at newly opened urgent care centers, less rent expense recognized in note (4) above and depreciation expense recognized in Note (8) below.

(7) Represents revenues and expenses incurred at one newly constructed facility which began operations during the first quarter of 2013, less rent expense recognized in note (4) above.

(8) Represents depreciation expense at newly opened urgent care centers and amortization costs related to patient base intangible assets acquired 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.

(9) Represents the tax impact of non-GAAP adjustments noted in (1) - (8) above at the Company's effective tax rate of 38.5% for the three months ended March 31, 2013.

(10) Represents an adjustment to the provision for income taxes to our current year to date effective rate of 38.5% for the three months ended March 31, 2013.

(11) Represents options outstanding that were excluded from the calculation of diluted EPS, as their effect would have been anti-dilutive based on the application of the treasury stock method.