

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

	Three Months Ended June 30, 2014			Six Months Ended June 30, 2014		
	As Reported	Non-GAAP Adj.	As Adjusted	As Reported	Non-GAAP Adj.	As Adjusted
Revenue	\$ 250,043	\$ (3,515) ⁽⁴⁾⁽⁵⁾	\$ 246,528	\$ 489,696	\$ (6,478) ⁽⁴⁾⁽⁵⁾	\$ 483,218
Expense:						
Cost of services (exclusive of facility rent, general and administrative and depreciation and amortization expense shown separately below)	202,057	(4,061) ⁽¹⁾⁽⁴⁾⁽⁵⁾	197,996	391,795	(7,429) ⁽¹⁾⁽⁴⁾⁽⁵⁾	384,366
Facility rent—cost of services	8,283	(525) ⁽⁶⁾	7,758	11,832	(1,129) ⁽⁶⁾	10,703
General and administrative expense	18,257	(7,333) ⁽²⁾⁽³⁾⁽⁴⁾	10,924	31,414	(9,003) ⁽²⁾⁽³⁾⁽⁴⁾	22,411
Depreciation and amortization	7,804	(332) ⁽⁷⁾	7,472	16,666	(515) ⁽⁷⁾	16,151
Total expenses	236,401	(12,251)	224,150	451,707	(18,076)	433,631
Income from operations	13,642	8,737	22,379	37,989	11,598	49,587
Other income (expense):						
Interest expense	(8,720)	6,363	(2,357)	(12,083)	6,425	(5,658)
Interest income	134	-	134	293	-	293
Other expense, net	(8,586)	6,363	(2,223)	(11,790)	6,425	(5,365)
Income before provision for income taxes	5,056	15,100	20,156	26,199	18,023	44,222
Tax Effect on Non-GAAP Adjustments		5,814 ⁽⁸⁾			6,940 ⁽⁸⁾	
Tax True-up for Effective Tax Rate		(1,577) ⁽⁹⁾			(1,539) ⁽⁹⁾	
Provision for income taxes	3,523	4,237	7,760	11,625	5,401	17,026
Net income	1,533	10,863	12,396	14,574	12,622	27,196
Less: net (loss) income attributable to noncontrolling interests	(474)	513	39	(959)	1,040	80
Net income attributable to The Ensign Group, Inc.	\$ 2,007	\$ 10,350	\$ 12,357	\$ 15,533	\$ 11,583	\$ 27,116
Attributable to The Ensign Group, Inc.						
Net income attributable to The Ensign Group, Inc.	2,007	10,350	12,357	15,533	11,583	27,116
Loss from discontinued operations, net of income tax benefit	-	-	-	-	-	-
Income from continuing operations attributable to The Ensign Group, Inc.	\$ 2,007	\$ 10,350	\$ 12,357	\$ 15,533	\$ 11,583	\$ 27,116
Net income per share:						
Basic:						
Net income attributable to The Ensign Group, Inc.	\$ 0.09		\$ 0.56	\$ 0.70		\$ 1.22
Loss from discontinued operations, net of income tax benefit	—		—	—		—
Income from continuing operations attributable to The Ensign Group, Inc.	\$ 0.09		\$ 0.56	\$ 0.70		\$ 1.22
Diluted:						
Net income attributable to The Ensign Group, Inc.	\$ 0.09		\$ 0.54	\$ 0.68		\$ 1.18
Loss from discontinued operations, net of income tax benefit	—		—	—		—
Income from continuing operations attributable to The Ensign Group, Inc.	\$ 0.09		\$ 0.54	\$ 0.68		\$ 1.18
Weighted average common shares outstanding:						
Basic	22,259		22,259	22,214		22,214
Diluted	22,960		22,960	22,915		22,915

(1) Represents acquisition-related costs of \$90 and \$134 for the three and six months ended June 30, 2014, respectively.

(2) Represents costs of \$29 and \$62 for the three and six months ended June 30, 2014, respectively, incurred to recognize income tax credits.

(3) Represents costs of \$7,281 and \$8,871 for the three and six months ended June 30, 2014, incurred related to the Company's spin-off of real estate assets to CareTrust REIT (CTRE) (the Spin-Off).

(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 six months ended June 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 six months ended June 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 June 30, 2013			Six Months Ended June 30, 2013		
	As Reported	Non-GAAP Adj.	As Adjusted	As Reported	Non-GAAP Adj.	As Adjusted
Revenue	\$ 220,086	(2,126) ⁽⁷⁾⁽⁸⁾	\$ 217,960	\$ 438,287	(2,899) ⁽⁷⁾⁽⁸⁾	\$ 435,388
Expense:						
Cost of services (exclusive of facility rent, general and administrative and depreciation and amortization expense shown separately below)	175,913	(3,145) ⁽¹⁾⁽²⁾⁽³⁾	172,768	351,974	(6,426) ⁽¹⁾⁽²⁾⁽³⁾	345,548
Charges related to U.S. Government inquiries	-	-(4)	-	33,000	(33,000) ⁽⁴⁾	-
Facility rent—cost of services	3,338	(253) ⁽⁵⁾	3,085	6,652	(508) ⁽⁵⁾	6,144
General and administrative expense	8,872	(206) ⁽⁶⁾	8,666	17,720	(1,013) ⁽⁶⁾	16,707
Depreciation and amortization	8,671	(546) ⁽⁹⁾	8,125	16,403	(811) ⁽⁹⁾	15,592
Total expenses	196,794	(4,150)	192,644	425,749	(41,758)	383,991
Income from operations	23,292	2,024	25,316	12,538	38,859	51,397
Other income (expense):						
Interest expense	(3,145)		(3,145)	(6,260)		(6,260)
Interest income	129		129	222		222
Other expense, net	(3,016)		(3,016)	(6,038)		(6,038)
Income before provision for income taxes	20,276	2,024	22,300	6,500	38,859	45,359
Tax Effect on Non-GAAP Adjustments		780 ⁽¹⁰⁾			14,961 ⁽¹⁰⁾	
Tax True-up for Effective Tax Rate		(41) ⁽¹¹⁾			(2,331) ⁽¹¹⁾	
Provision for income taxes	7,846	739	8,585	4,833	12,630	17,463
Income from continuing operations	12,430	1,285	13,715	1,667	26,229	27,896
Loss from discontinued operations, net of income tax benefit	(26)		(26)	(1,774)		(1,774)
Net income (loss)	12,404	1,285	13,689	(107)	26,229	26,122
Less: net income (loss) attributable to noncontrolling interests	37		37	(327)		(327)
Net income attributable to The Ensign Group, Inc.	\$ 12,367	1,285	\$ 13,652	\$ 220	26,229	\$ 26,449
Attributable to The Ensign Group, Inc.						
Net income attributable to The Ensign Group, Inc.	12,367	1,285	13,652	220	26,229	26,449
Loss from discontinued operations, net of income tax benefit	(26)		(26)	(1,774)		(1,774)
Income from continuing operations attributable to The Ensign Group, Inc.	\$ 12,393	1,285	\$ 13,678	\$ 1,994	26,229	\$ 28,223
Net (loss) income per share						
Basic:						
Net income attributable to The Ensign Group, Inc.	0.57		0.62	0.01		1.21
Loss from discontinued operations, net of income tax benefit	-		(0.01)	(0.08)		(0.08)
Income from continuing operations attributable to The Ensign Group, Inc.	\$ 0.57		\$ 0.63	\$ 0.09		\$ 1.29
Diluted:						
Net income attributable to The Ensign Group, Inc.	0.55		0.61	0.01		1.19
Loss from discontinued operations, net of income tax benefit	-		-	(0.08)		(0.08)
Income from continuing operations attributable to The Ensign Group, Inc.	\$ 0.55		\$ 0.61	\$ 0.09		\$ 1.27
Weighted average common shares outstanding:						
Basic	21,859		21,859	21,814		21,814
Diluted	22,321		22,321	22,267		22,267

(1) Represents acquisition-related costs of \$147 and \$226 for the three and six months ended June 30, 2013.

(2) Represents costs of \$35 and \$84 for the three and six months ended June 30, 2013, incurred to recognize income tax credits.

(3) Represents additional costs incurred related to a class action lawsuit settlement of \$609 for both periods during the three and six months ended June 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 one newly constructed facility which began operations during the first quarter of 2013 and newly opened urgent care centers.

(6) 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.

(7) Represents revenues and expenses incurred at newly opened urgent care centers, excluding rent expense recognized in note (5) above and depreciation expense recognized in note (9) below.

(8) Represents revenues and expenses incurred at one newly constructed facility which began operations during the first quarter of 2013, excluding rent expense recognized in note (5) above and depreciation expense recognized in Note (9) below.

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.

(10) Represents the tax impact of non-GAAP adjustments noted in (1) – (9) at the Company's year to date effective tax rate of 38.5% for the three and six months ended June 30, 2013.

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