

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

	<i>Three Months Ended December 31, 2014</i>			<i>Year Ended December 31, 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	\$ 276,869	\$ (4,409) ⁽⁴⁾⁽⁵⁾	\$ 272,460	\$ 1,027,406	\$ (14,505) ⁽⁴⁾⁽⁵⁾	\$ 1,012,901
Expense:						
Cost of services (exclusive of facility rent, general and administrative and depreciation and amortization expense shown separately below)	221,137	(5,060) ⁽¹⁾⁽⁴⁾⁽⁵⁾	216,077	822,669	(16,966) ⁽¹⁾⁽⁴⁾⁽⁵⁾	805,703
Facility rent—cost of services	18,480	(402) ⁽⁶⁾	18,078	48,488	(1,941) ⁽⁶⁾	46,547
General and administrative expense	12,525	(200) ⁽²⁾⁽³⁾⁽⁴⁾	12,325	56,895	(9,234) ⁽²⁾⁽³⁾⁽⁴⁾	47,661
Depreciation and amortization	5,087	(371) ⁽⁷⁾	4,716	26,430	(1,265) ⁽⁷⁾	25,165
Total expenses	257,229	(6,033)	251,196	954,482	(29,406)	925,076
Income from operations	19,640	1,624	21,264	72,924	14,901	87,825
Other income (expense):						
Interest expense	(486)	46	(440)	(12,976)	6,517	(6,459)
Interest income	159	-	159	594	-	594
Other expense, net	(327)	46	(281)	(12,382)	6,517	(5,865)
Income before provision for income taxes	19,313	1,670	20,983	60,542	21,418	81,960
Tax Effect on Non-GAAP Adjustments		643 ⁽⁸⁾			8,246 ⁽⁸⁾	
Tax True-up for Effective Tax Rate		(1,082) ⁽⁹⁾			(3,492) ⁽⁹⁾	
Provision for income taxes	8,517	(439)	8,078	26,801	4,754	31,555
Net income	10,796	2,109	12,905	33,741	16,664	50,405
Less: net (loss) income attributable to noncontrolling interests	(715)	807	92	(2,209)	2,370	161
Net income attributable to The Ensign Group, Inc.	\$ 11,511	\$ 1,302	\$ 12,813	\$ 35,950	\$ 14,294	\$ 50,244
Attributable to The Ensign Group, Inc.						
Net income attributable to The Ensign Group, Inc.	11,511	1,302	12,813	35,950	14,294	50,244
Loss from discontinued operations, net of income tax benefit	-	-	-	-	-	-
Income from continuing operations attributable to The Ensign Group, Inc.	\$ 11,511	\$ 1,302	\$ 12,813	\$ 35,950	\$ 14,294	\$ 50,244
Net income per share:						
Basic:						
Net income attributable to The Ensign Group, Inc.	\$ 0.51		\$ 0.57	\$ 1.61		\$ 2.25
Loss from discontinued operations, net of income tax benefit	—		—	—		—
Income from continuing operations attributable to The Ensign Group, Inc.	\$ 0.51		\$ 0.57	\$ 1.61		\$ 2.25
Diluted:						
Net income attributable to The Ensign Group, Inc.	\$ 0.49		\$ 0.55	\$ 1.56		\$ 2.18
Loss from discontinued operations, net of income tax benefit	—		—	—		—
Income from continuing operations attributable to The Ensign Group, Inc.	\$ 0.49		\$ 0.55	\$ 1.56		\$ 2.18
Weighted average common shares outstanding:						
Basic	22,519		22,519	22,341		22,341
Diluted	23,378		23,378	23,095		23,095

(1) Represents acquisition-related costs of \$453 and \$672 for the three months and year ended December 31, 2014, respectively.

(2) Represents costs of \$45 and \$138 for the three months and year ended December 31, 2014, respectively, incurred to recognize income tax credits.

(3) Represents costs of \$9,026 and \$155 for the three months and year ended December 31, 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 months and year ended December 31, 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 months and year ended December 31, 2014.

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

	<i>Three Months Ended December 31, 2013</i>			<i>Year Ended December 31, 2013</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	\$ 237,008	(1,524) ⁽⁹⁾⁽¹⁰⁾	\$ 235,484	\$ 904,556	(5,688) ⁽⁹⁾⁽¹⁰⁾	\$ 898,868
Expense:						
Cost of services (exclusive of facility rent, general and administrative and depreciation and amortization expense shown separately below)	187,843	(2,478) ⁽¹⁾⁽²⁾⁽⁹⁾⁽¹⁰⁾	185,365	725,989	(11,235) ⁽¹⁾⁽²⁾⁽⁹⁾⁽¹⁰⁾	714,754
Charges related to U.S. Government inquiries	-	-	-	33,000	(33,000) ⁽⁴⁾	-
Facility rent—cost of services	3,557	(321) ⁽⁵⁾⁽⁶⁾	3,236	13,613	(1,009) ⁽⁵⁾⁽⁶⁾	12,604
General and administrative expense	11,782	(2,180) ⁽³⁾⁽⁷⁾⁽⁸⁾	9,602	40,103	(5,148) ⁽³⁾⁽⁷⁾⁽⁸⁾	34,955
Depreciation and amortization	8,711	(210) ⁽¹¹⁾⁽¹²⁾	8,501	33,909	(1,386) ⁽¹¹⁾⁽¹²⁾	32,523
Total expenses	211,893	(5,189)	206,704	846,614	(51,778)	794,836
Income from operations	25,115	3,665	28,780	57,942	46,090	104,032
Other income (expense):						
Interest expense	(3,346)	-	(3,346)	(12,787)	-	(12,787)
Interest income	143	-	143	506	-	506
Other expense, net	(3,203)	-	(3,203)	(12,281)	-	(12,281)
Income before provision for income taxes	21,912	3,665	25,577	45,661	46,090	91,751
Tax Effect on Non-GAAP Adjustments	-	1,411 ⁽¹³⁾	-	-	17,745 ⁽¹³⁾	-
Tax True-up for Effective Tax Rate	-	(127) ⁽¹⁴⁾	-	-	(2,422) ⁽¹⁴⁾	-
Provision for income taxes	8,563	1,284	9,847	20,003	15,323	35,326
Income from continuing operations	13,349	2,381	15,730	25,658	30,767	56,425
Loss from discontinued operations, net of income tax benefit	-	-	-	(1,804)	-	(1,804)
Net income (loss)	13,349	2,381	15,730	23,854	30,767	54,621
Less: net income (loss) attributable to noncontrolling interests	(7)	-	(7)	(186)	-	(186)
Net income attributable to The Ensign Group, Inc.	\$ 13,356	2,381	\$ 15,737	\$ 24,040	30,767	\$ 54,807
Attributable to The Ensign Group, Inc.						
Net income attributable to The Ensign Group, Inc.	13,356	2,381	15,737	24,040	30,767	54,807
Loss from discontinued operations, net of income tax benefit	-	-	-	(1,804)	-	(1,804)
Income from continuing operations attributable to The Ensign Group, Inc.	\$ 13,356	2,381	\$ 15,737	\$ 25,844	30,767	\$ 56,611
Net (loss) income per share						
Basic:						
Net income attributable to The Ensign Group, Inc.	0.61	-	0.71	1.10	-	2.50
Loss from discontinued operations, net of income tax benefit	-	-	-	(0.08)	-	(0.08)
Income from continuing operations attributable to The Ensign Group, Inc.	\$ 0.61	-	\$ 0.71	\$ 1.18	-	\$ 2.58
Diluted:						
Net income attributable to The Ensign Group, Inc.	0.59	-	0.70	1.07	-	2.45
Loss from discontinued operations, net of income tax benefit	-	-	-	(0.08)	-	(0.08)
Income from continuing operations attributable to The Ensign Group, Inc.	\$ 0.59	-	\$ 0.70	\$ 1.16	-	\$ 2.53
Weighted average common shares outstanding:						
Basic	22,028	-	22,028	21,900	-	21,900
Diluted	22,507	-	22,507	22,364	-	22,364

(1) Represents acquisition-related costs of \$10 and \$288 for the three and year ended December 31, 2013.

(2) Represents costs of \$42 and \$145 for the three and year ended December 31, 2013, incurred to recognize income tax credits.

(3) Represents additional costs incurred related to a class action lawsuit settlement of \$0 and \$1,524 for the three and year ended December 31, 2013.

(4) Charges related to our efforts to achieve a global, company-wide, resolution of any claims connected to the U.S. Department of Justice (DOJ) investigation.

(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 and fourth quarter results were not included in the three or year ended 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 incurred for the first six months of 2013 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 and fourth quarter results were not included in the three or year ended 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 in the first quarter of 2013. This facility began operating at full capacity during the third quarter and therefore, third and fourth quarter results were not included in the three or year end 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 year ended December 31, 2013.

(14) Represents an adjustment to the provision for income taxes to our current year to date effective rate to 40.9% and 37.9% for the three and year ended December 31, 2013.