

**Form 8937**  
(December 2011)  
Department of the Treasury  
Internal Revenue Service

## **Report of Organizational Actions Affecting Basis of Securities**

OMB No. 1545-2224

## Part I Reporting Issuer

<b>1 Issuer's name</b>  <u>THE ENSIGN GROUP, INC.</u>		<b>2 Issuer's employer identification number (EIN)</b>  33-0861263	
<b>3 Name of contact for additional information</b>  <u>CHAD A. KEETCH</u>	<b>4 Telephone No. of contact</b>  <u>(949) 487-9500</u>	<b>5 Email address of contact</b>  <u>IR@ENSIGNGROUP.NET</u>	
<b>6 Number and street (or P.O. box if mail is not delivered to street address) of contact</b>  <u>27101 PUERTA REAL, SUITE 450</u>		<b>7 City, town, or post office, state, and Zip code of contact</b>  <u>MISSION VIEJO, CA 92691</u>	
<b>8 Date of action</b>  <u>11:59 PM (PDT) ON MAY 31, 2014</u>	<b>9 Classification and description</b>  <u>SEE STATEMENT</u>		
<b>10 CUSIP number</b>  <u>SEE STATEMENT</u>	<b>11 Serial number(s)</b>  <u>SEE STATEMENT</u>	<b>12 Ticker symbol</b>  <u>SEE STATEMENT</u>	<b>13 Account number(s)</b>

**Part II** **Organizational Action** Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ► SEE STATEMENT

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ► SEE STATEMENT

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ► SEE STATEMENT

## Part II      **Organizational Action (continued)**

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ► SEE STATEMENT

18 Can any resulting loss be recognized? ► SEE STATEMENT

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ► SEE STATEMENT

<b>Sign <input type="checkbox"/> Here</b>	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.					
Signature ►			Date ► <u>6/13/14</u>			
Print your name ► CHAD A. KEETCH		Title ► EXECUTIVE VICE PRESIDENT				
<b>Paid Preparer Use Only</b>	Print/Type preparer's name		Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	<u>TIMOTHY A. HALVERSON, CPA</u>			<u>6/13/14</u>		P01046995
	Firm's name ►	<u>HALVERSON &amp; COMPANY, INC.</u>		Firm's EIN ►	<u>20-3895187</u>	
Firm's address ►		<u>761 GARDEN VIEW COURT, SUITE 201, ENCINITAS, CA 92024</u>		Phone no.	<u>(760) 942-2608</u>	

**Send Form 8937 (including accompanying statements) to: Department of the Treasury, Internal Revenue Service, Ogden, UT 84201-0054**

The Ensign Group, Inc.  
A Statement Attached to and Made Part of  
Form 8937, Report of Organizational Actions  
Affecting Basis of Securities

FEIN: 33-0861263

If you did not receive shares of CareTrust REIT, Inc. ("CareTrust") common stock on June 2, 2014, none of the information on this form or its statements applies to you. The information contained herein has been prepared by The Ensign Group, Inc. ("Ensign") for general information purposes and pursuant to the requirements of Section 6045B of the Internal Revenue Code of 1986, as amended. Stockholders are encouraged to read the preliminary information statement included as Exhibit 99.1 to CareTrust's Registration Statement on Form 10 (File No. 001-36181) filed with the U.S. Securities and Exchange Commission and accessible at [www.sec.gov](http://www.sec.gov), which more fully describes this transaction. In particular, stockholders are urged to read the Section entitled "Material U.S. Federal Income Tax Consequences of the Spin-Off" beginning on page 46 of that document.

**Part I, Items 9, 10, and 12, Information on securities involved in the organizational action**

Issuer's Name	The Ensign Group, Inc.	CareTrust REIT, Inc.
Classification and Description	Common Stock	Common Stock
CUSIP Number	29358P101	14174T107
Ticker Symbol	ENSG (NASDAQ)	CTRE (NASDAQ)

**Part II, Item 14, Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action**

At 11:59 PM Pacific Daylight Time on May 31, 2014, Ensign separated its healthcare business and its real estate business into two separate and independent publicly traded companies through the distribution of shares of common stock of CareTrust to Ensign stockholders (the "Spin-Off"). Ensign carried out the Spin-Off by distributing all of the outstanding shares of CareTrust common stock to Ensign stockholders on a prorata basis. As a result, Ensign stockholders received one share of CareTrust common stock for each share of Ensign common stock held at the close of business on May 22, 2014, the record date for the Spin-Off. Ensign distributed the shares of CareTrust common stock on June 2, 2014 and shares of Ensign and CareTrust began trading on a "regular-way" market on June 3, 2014.

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**Part II, Item 15, Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis**

This discussion is limited to holders of shares of Ensign common stock that are U.S. Holders, as defined immediately below. For purposes of this summary, a U.S. Holder is a beneficial owner of Ensign common stock that is, for U.S. Federal income tax purposes:

- an individual who is a citizen or a resident of the U.S.;
- a corporation, or other entity taxable as a corporation for U.S. Federal income tax purposes, created or organized under the laws of the U.S. or any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. Federal income taxation regardless of its source; or
- a trust, if (1) a court within the U.S. is able to exercise primary jurisdiction over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or (2) in the case of a trust that was treated as a domestic trust under the law in effect before 1997, a valid election is in place under applicable Treasury Regulations.

Under U.S. Federal income tax principles, the receipt by Ensign stockholders of cash in lieu of a fractional share of Ensign is treated as if the fractional share had been distributed to the Ensign stockholder in the distribution and then been disposed of by such stockholder for the amount of such cash. The aggregate tax basis of the shares of Ensign common stock, including any fractional share deemed received, and the shares of CareTrust common stock in the hands of each Ensign stockholder immediately after the Spin-Off is the same as the aggregate tax basis of the shares of Ensign common stock held by such holder immediately before the Spin-Off, allocated between the shares of Ensign common stock, including any fractional share deemed received, and the shares of CareTrust common stock in proportion to their relative fair market values immediately following the Spin-Off.

Please see the discussion for Item 16 below for various possible approaches for determining fair market value. Based on one possible approach, the average of the high and low prices of Ensign common stock and CareTrust common stock on June 3, 2014, 56.615% of an Ensign stockholder's tax basis in shares of Ensign common stock immediately before the Spin-Off would be allocated to the shares of Ensign common stock held immediately after the Spin-Off (including any fractional share of Ensign common stock deemed received) and 43.385% would be allocated to the CareTrust common shares received as a result of the Spin-Off. Stockholders that acquired Ensign common stock at different times or different prices need to calculate their tax basis in

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each block of stock and then allocate a portion of that tax basis to the specific CareTrust common stock received with respect to such shares.

**Part II, Item 16, Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates**

Fair market value generally is the price at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of the facts. U.S. Federal income tax law does not specifically prescribe how a stockholder should determine the fair market values of the Ensign common stock and the CareTrust common stock for purposes of allocating the stockholder's tax basis. Possible approaches to determining the relative fair market values include, without limitation, using: (i) the average of the high and low trading prices of the stocks on the first day of regular trading of both stocks; (ii) the opening trading prices on the first day of regular trading of both stocks; or (iii) the closing trading prices on the first day of regular trading of both stocks.

The example below of a possible approach to allocating tax basis between the shares of Ensign and CareTrust common stock uses the average of the high and low trading prices of Ensign common stock and CareTrust common stock on the NASDAQ stock exchange on June 3, 2014, the first day the shares traded on a "regular way" market, to determine the relative fair market value of each share of stock.

	<u>High Price</u>	<u>Low Price</u>	<u>Average Price</u>	<u>Relative Value</u>
Ensign	\$29.840	\$26.020	\$27.930	56.615%
CareTrust	\$22.345	\$20.460	\$21.403	43.385%
Total			\$49.333	100.000%

Based on the assumptions below, an Ensign stockholder would allocate tax basis in the Ensign shares owned immediately prior to the Spin-Off between the shares of Ensign common stock and CareTrust common stock owned after the Spin-Off as follows:

Assumptions:

Shares of Ensign common stock owned prior to the Spin-Off	100
Stockholder's tax basis in those 100 Ensign shares	\$3,500.00
Shares of CareTrust common stock received in the Spin-Off	100

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Tax basis allocation between the shares owned after the Spin-Off:

	<u>Shares Owned</u>	<u>Relative Value</u>	<u>Allocated Tax Basis</u>
Ensign	100	56.615%	\$1,981.52 (\$3,500.00 x 56.615%)
CareTrust	100	43.385%	\$1,518.48 (\$3,500.00 x 43.385%)
Total	200	100.000%	\$3,500.00

**Part II, Item 17, List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based**

For U.S. Federal income tax purposes, the Spin-Off is a tax free reorganization under Section 368(a)(1)(D). Tax basis in Ensign common stock owned prior to the Spin-Off is allocated between Ensign common stock and CareTrust common stock under Sections 358(a)(1), 358(b) and 358(c). Pursuant to Section 355(a), no gain or loss will be recognized by Ensign stockholders as a result of the distribution.

Under Sections 1001 and 1221, in general, the receipt by Ensign stockholders of cash in lieu of a fractional share of Ensign is treated as if the fractional share had been distributed to the Ensign stockholder in the distribution and then been disposed of by such stockholder (in a sale or exchange) for the amount of such cash.

Under Section 1223(1), a stockholder's holding period of CareTrust stock received in the Spin-Off includes the holding period of the Ensign stock with respect to which the Spin-Off of the CareTrust stock was made as long as the Ensign stock was a capital asset in the hands of the stockholder at the time of the Spin-Off.

Ensign has received a private letter ruling from the IRS, which provides substantially to the effect that, on the basis of certain facts presented and representations and assumptions set forth in the request submitted to the IRS for such ruling, the Spin-Off will qualify as tax-free under Sections 368(a)(1)(D) and 355 of the Code. The ruling also provides that the sum of the tax basis of all of the Ensign common stock and the tax basis of all of the CareTrust common stock owned after the Spin-Off will be the same as the tax basis of the Ensign common stock with respect to which the Spin-Off is made immediately before the Spin-Off, allocated in the manner described in Section 358(b)(2) of the Code and Treasury Regulation Section 1.358-2.

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**Part II, Item 18, Can any resulting loss be recognized?**

A holder of Ensign common stock who receives cash in lieu of a fractional share of CareTrust common stock in the Spin-Off can recognize capital loss measured by the difference between the tax basis of the fractional share deemed to be received, as determined above, and the amount of cash received. Otherwise, no loss will be recognized by Ensign stockholders upon their receipt of CareTrust stock.

**Part II, Item 19, Provide any other information necessary to implement the adjustment, such as the reportable tax year**

The Spin-Off was effective on May 31, 2014. For a shareholder with a calendar tax year, the reportable tax year is 2014.

Notice of additional statement required for significant distributee:

Certain Ensign stockholders (i.e. those stockholders who, immediately before the Spin-Off, owned 5% or more of Ensign common stock) who received CareTrust common stock in the distribution are required to include a statement related to the distribution in their U.S. Federal income tax return for the year in which the distribution occurs. Any stockholder in this position should consult their tax advisor regarding the statement that is required pursuant to Treasury Regulation Section 1.355-5(b).

**General Statements Regarding the Tax Consequences of This Transaction**

**STOCKHOLDERS ARE URGED TO CONSULT WITH THEIR TAX ADVISORS AS TO THE SPECIFIC U.S. FEDERAL, STATE AND LOCAL, AND NON-U.S. TAX CONSEQUENCES OF THE SPIN-OFF IN LIGHT OF THEIR PARTICULAR CIRCUMSTANCES AND THE EFFECT OF POSSIBLE CHANGES IN LAW THAT MIGHT AFFECT THE TAX CONSEQUENCES DESCRIBED ON THIS FORM AND ITS STATEMENTS.**

This form and its statements do not discuss all tax considerations that may be relevant to stockholders in light of their particular circumstances, nor do they address the consequences to stockholders subject to special treatment under the U.S. Federal income tax laws, such as:

- dealers or traders in securities or currencies;
- tax-exempt entities;

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- cooperatives;
- banks, trusts, financial institutions, or insurance companies;
- persons who acquired shares of Ensign common stock pursuant to the exercise of employee stock options or otherwise as compensation;
- stockholders who own, or are deemed to own, at least 10% or more, by voting power or value, of Ensign equity;
- holders owning Ensign common stock as part of a position in a straddle or as part of a hedging, conversion, constructive sale, synthetic security, integrated investment, or other risk reduction transaction for U.S. Federal income tax purposes;
- certain former citizens or former long-term residents of the U.S.;
- holders who are subject to the alternative minimum tax; or
- persons that own Ensign common stock through partnerships or other pass-through entities.

This form and its statements do not address the U.S. Federal income tax consequences to Ensign stockholders who do not hold shares of Ensign common stock as a capital asset. Moreover, this form and its statements do not address any state, local, or foreign tax consequences or any estate, gift or other non-income tax consequences of this organizational action.

If a partnership (or any other entity treated as a partnership for U.S. Federal income tax purposes) holds shares of Ensign common stock, the tax treatment of a partner in that partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership is urged to consult its tax advisor as to the tax consequences of the Spin-Off.

Please note that some brokerage houses may not use the information provided on this form and its statements, and this information is only provided as an example of one potential method for allocating tax basis between shares of Ensign and CareTrust common stock.

**To ensure compliance with the requirements imposed by the United States Treasury and the IRS, please be informed that any tax advice included in this communication is not intended or written to be used, and it cannot be used, for the purpose of avoiding any penalties that may be imposed on the user of this information by any governmental taxing authority or agency.**