As filed with the Securities and Exchange Commission on August 19, 2019

File No. 001-38900

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 2
to
FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES
PURSUANT TO SECTION 12(b) OR 12(g) OF
THE SECURITIES EXCHANGE ACT OF 1934

THE PENNANT GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	**83-3349931**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
1675 East Riverside Drive **Suite 150** **Eagle, Idaho**	**83616**
(Address of Principal Executive Offices)	**(Zip Code)**

(208) 506-6100
(Registrant's telephone number, including area code)

Securities to be registered pursuant to Section 12(b) of the Act:

Title of each class to be so registered	Name of each exchange on which each class is to be registered
Common stock, $0.001 par value per share	**The NASDAQ Global Select Market**

Securities to be registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

INFORMATION REQUIRED IN REGISTRATION STATEMENT
CROSS-REFERENCE SHEET BETWEEN INFORMATION STATEMENT AND ITEMS OF FORM 10

Item 1. Business

The information required by this item is contained under the sections "Summary," "Risk Factors," "Special Note About Forward-Looking Statements," "Unaudited Pro Forma Combined Financial Statements," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Our Business," "Management," "Executive and Director Compensation," "Certain Relationships and Related Party Transactions" and "Index to Financial Statements" of the information statement filed as Exhibit 99.1 to this Form 10 (the "information statement"). Those sections are incorporated herein by reference.

Item 1A. Risk Factors

The information required by this item is contained under the sections "Risk Factors" and "Special Note About Forward-Looking Statements" of the information statement. Those sections are incorporated herein by reference.

Item 2. Financial Information

The information required by this item is contained under the sections "Summary—Summary Historical and Unaudited Pro Forma Combined Financial Data," "Capitalization," "Selected Historical Combined Financial Data," "Unaudited Pro Forma Combined Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the information statement. Those sections are incorporated herein by reference.

Item 3. Properties

The information required by this item is contained under the section "Our Business—Properties" of the information statement. That section is incorporated herein by reference.

Item 4. Security Ownership of Certain Beneficial Owners and Management

The information required by this item is contained under the section "Security Ownership of Certain Beneficial Owners and Management" of the information statement. That section is incorporated herein by reference.

Item 5. Directors and Executive Officers

The information required by this item is contained under the section "Management" of the information statement. That section is incorporated herein by reference.

Item 6. Executive Compensation

The information required by this item is contained under the sections "Security Ownership of Certain Beneficial Owners and Management," "Management" and "Executive and Director Compensation" of the information statement. Those sections are incorporated herein by reference.

Item 7. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is contained under the sections "Management," "Executive and Director Compensation" and "Certain Relationships and Related Party Transactions" of the information statement. Those sections are incorporated herein by reference.

Item 8. Legal Proceedings

The information required by this item is contained under the section "Our Business—Legal Proceedings" of the information statement. That section is incorporated herein by reference.

Item 9. Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters

The information required by this item is contained under the sections "Risk Factors," "The Spin-Off," "Trading Market," "Dividend Policy," "Executive and Director Compensation" and "Description of Capital Stock" of the information statement. Those sections are incorporated herein by reference.

Item 10. Recent Sales of Unregistered Securities

Not applicable.

Item 11. Description of Registrant's Securities to be Registered

The information required by this item is contained under the sections "Risk Factors—Risks Related to Ownership of Our Common Stock," "Dividend Policy" and "Description of Capital Stock" of the information statement. Those sections are incorporated herein by reference.

Item 12. Indemnification of Directors and Officers

The information required by this item is contained under the sections "Certain Relationships and Related Party Transactions—Indemnification Agreements" and "Description of Capital Stock—Limitations on Liability of Directors and Indemnification of Directors and Officers" of the information statement. Those sections are incorporated herein by reference.

Item 13. Financial Statements and Supplementary Data

The information required by this item is contained under the sections "Selected Historical Combined Financial Data," "Unaudited Pro Forma Combined Financial Statements," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Index to Financial Statements" and the financial statements referenced therein of the information statement. Those sections are incorporated herein by reference.

Item 14. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 15. Financial Statements and Exhibits

(a) Financial Statements

The information required by this item is contained under the sections "Unaudited Pro Forma Combined Financial Statements" and "Index to Financial Statements" beginning on page F-1 of the information statement and the financial statements referenced therein. Those sections are incorporated herein by reference.

(b) Exhibits

The following documents are filed as exhibits hereto:

Exhibit No.	Description
2.1	Form of Master Separation Agreement by and between The Ensign Group, Inc. and The Pennant Group, Inc.
3.1	Form of Amended and Restated Certificate of Incorporation of The Pennant Group, Inc.
3.2	Form of Amended and Restated Bylaws of The Pennant Group, Inc.
10.1	Form of Transition Services Agreement by and between The Ensign Group, Inc. and The Pennant Group, Inc.
10.2	Form of Tax Matters Agreement by and between The Ensign Group, Inc. and The Pennant Group, Inc.
10.3	Form of Employee Matters Agreement by and between The Ensign Group, Inc. and The Pennant Group, Inc.
10.4	Form of Lease Agreement by and among subsidiaries of The Ensign Group, Inc. and subsidiaries of The Pennant Group, Inc.
10.5	Form of The Pennant Group, Inc. 2019 Omnibus Incentive Plan
10.6	Form of Options Granted Under The Pennant Group, Inc. 2019 Omnibus Incentive Plan
10.7	Form of RSUs Granted Under The Pennant Group, Inc. 2019 Omnibus Incentive Plan
10.8	Form of RS Granted Under The Pennant Group, Inc. 2019 Omnibus Incentive Plan
10.9	Form of The Pennant Group, Inc. 2019 Long Term Incentive Plan
10.10	Form of LTIP RS Granted Under The Pennant Group, Inc. 2019 Long Term Incentive Plan
10.11	Form of Indemnification Agreement to be entered into between The Pennant Group, Inc. and each of its directors and executive officers
10.12	Form of Credit Agreement by and among The Pennant Group, Inc., as borrower, SunTrust Bank, as administrative agent, and the lenders from time to time party thereto
21.1	Subsidiaries of The Pennant Group, Inc.
99.1	Preliminary Information Statement, dated August 19, 2019

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

THE PENNANT GROUP, INC.

BY: /s/ Daniel H Walker

Name: Daniel H Walker
Title: Chairman, Chief Executive Officer and President

Date: August 19, 2019

Exhibit 2.1

MASTER SEPARATION AGREEMENT

by and between

THE ENSIGN GROUP, INC.

and

THE PENNANT GROUP, INC.

dated as of

[____], 2019

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Exhibit A – Pennant Subsidiaries

Schedules

Schedule 2.2(a)	Certain Pennant Assets
Schedule 2.3(a)	Certain Pennant Liabilities

MASTER SEPARATION AGREEMENT

This MASTER SEPARATION AGREEMENT (this "Agreement") is entered into as of [_____], 2019, by and between THE ENSIGN GROUP, INC., a Delaware corporation ("Ensign") and THE PENNANT GROUP, INC., a Delaware corporation and a direct, wholly-owned subsidiary of Ensign ("Pennant"). Ensign and Pennant are sometimes referred to herein individually as a "Party," and collectively as the "Parties." Capitalized terms used but not otherwise defined herein shall have the respective meanings set forth in Section 1.1.

RECITALS

WHEREAS, the board of directors of Ensign has determined that it is advisable and in the best interests of Ensign and its stockholders to reorganize the assets and liabilities of Ensign into two companies: (i) Ensign which, following consummation of the transactions contemplated herein, will own and conduct the Ensign Business; and (ii) Pennant which, following consummation of the transactions contemplated herein, will own and conduct the Pennant Business;

WHEREAS, in furtherance thereof, the board of directors of Ensign and the board of directors of Pennant have approved the transfer by Ensign and its Subsidiaries of the Pennant Assets to Pennant and its Subsidiaries in actual or constructive exchange for (i) the assumption or incurrence, as applicable, by Pennant and certain of its Subsidiaries of the Pennant Liabilities, (ii) the issuance by Pennant to Ensign of shares of Pennant Common Stock and (iii) the transfer by Pennant, directly or indirectly, to Ensign of the Pennant Cash Payment, all as more fully described in this Agreement and the Ancillary Agreements (the "Reorganization");

WHEREAS, the board of directors of Ensign has also determined that it is advisable and in the best interests of Ensign and its stockholders to effect a distribution (the "Distribution") to the holders of the outstanding shares of Ensign Common Stock, on a pro rata basis, of all of the outstanding shares of Pennant Common Stock held by Ensign so that, following the Distribution, Ensign and Pennant will be two independent, publicly traded companies;

WHEREAS, the Reorganization and the Distribution will, among other items, (i) amplify the results of Ensign's unique operating model in the home health, hospice and senior living industries; (ii) create additional opportunities for key leaders within Pennant and Ensign; (iii) create an enhanced ability to continue both Pennant's and Ensign's growth strategy; (iv) create an increased ability to raise funds through capital market offerings; (v) improve opportunities for partnership outside of Ensign; (vi) highlight Pennant's uniquely diversified payor mix; (vii) provide for equity compensation awards more closely tied to value created by Pennant's leaders and employees; and (viii) improved investor understanding about the Pennant Business and Ensign Business;

WHEREAS, Pennant has been incorporated for these purposes and has not engaged in activities except in preparation for the Reorganization and the Distribution;

WHEREAS, this Agreement is intended to be, and is hereby adopted as, a "plan of reorganization" within the meaning of Treas. Reg. 1.368-2(g); and

WHEREAS, it is appropriate and desirable to set forth the principal corporate transactions required to effect the Reorganization and the Distribution and to set forth certain other agreements that will, following the Distribution, govern certain matters relating to the Reorganization and the Distribution and the relationship between Ensign and/or its Subsidiaries, on the one hand, and, Pennant and/or its Subsidiaries, on the other hand.

NOW, THEREFORE, in consideration of the foregoing and the covenants and agreements set forth below and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, the Parties hereby agree as follows:

ARTICLE I
DEFINITIONS

Section 1.1 Definitions. As used in this Agreement, the following terms shall have the meanings set forth in this Section 1.1:

"AAA" and "AAA Rules" have the respective meanings set forth in Section 10.2(b).

"Action" means any demand, claim, action, suit, countersuit, arbitration, litigation, inquiry, proceeding or investigation by or before any Governmental Authority or any arbitration or mediation tribunal or authority.

"Affiliate" means, with respect to any specified Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the specified Person. For this purpose, "control" of a Person means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through ownership of voting securities, by contract or otherwise.

"Agreement" has the meaning set forth in the preamble to this Agreement and includes all Exhibits and Schedules attached hereto or delivered pursuant hereto.

"Ancillary Agreements" has the meaning set forth in Section 3.5.

"Appointed Representative" has the meaning set forth in Section 10.1.

"Appropriate Member of the Ensign Group" has the meaning set forth in Section 9.3.

"Appropriate Member of the Pennant Group" has the meaning set forth in Section 9.2.

"Asset" means all rights, properties or other assets, whether real, personal or mixed, tangible or intangible, of any kind, nature and description, whether accrued, contingent or otherwise, and wherever situated and whether or not carried or reflected, or required to be carried or reflected, on the books of any Person.

"Business Day" means a day other than a Saturday, a Sunday or a day on which banking institutions located in the State of California are authorized or obligated by applicable Law or executive order to close.

"California Courts" has the meaning set forth in Section 10.2(b)(iv).

"Code" means the Internal Revenue Code of 1986, as amended.

"Confidential Information" means any and all information:

(a) that is required to be maintained in confidence by any Law or under any Contract;

(b) concerning market studies, business plans, computer hardware, computer software (including all versions, source and object codes and all related files and data), software and database technologies, systems, structures and architectures, and other similar technical or business information;

(c) concerning any business and its affairs, which includes earnings reports and forecasts, macro-economic reports and forecasts, business and strategic plans, general market evaluations and surveys, litigation presentations and risk assessments, financing and credit-related information, financial projections, tax returns and accountants' materials, business plans, strategic plans, Contracts, however documented, and other similar financial or business information;

(d) constituting communications by or to attorneys (including attorney-client privileged communications), memos and other materials prepared by attorneys or under their direction (including attorney work product), communications and materials otherwise related to or made or prepared in connection with or in preparation for any dispute or legal proceeding; or

(e) constituting notes, analyses, compilations, studies, summaries and other material that contain or are based, in whole or in part, upon any information included in the foregoing clauses (a) through (d).

"Consent" means any consent, waiver or approval from, or notification requirement to, any Person other than a member of either Group.

"Contract" means any written, oral, implied or other contract, agreement, covenant, lease, license, guaranty, indemnity, representation, warranty, assignment, sales order, purchase order, power of attorney, instrument or other commitment, assurance, undertaking or arrangement that is binding on any Person or entity or any part of its property under applicable Law.

"Contribution Agreements" means the (i) Distribution and Contribution Agreement to be entered into by Bridgestone Living LLC, Pinnacle Senior Living LLC and Ensign, (ii) the Contribution Agreement to be entered into by Turnberry Health Holdings LLC and Ensign prior to the Effective Time and (iii) the Contribution and Exchange Agreement to be entered into by Ensign and Pennant prior to the Effective Time.

"Deferred Asset," "Deferred Liability" and "Deferred Asset or Liability" have the respective meanings set forth in Section 2.1(b)(ii).

"Dispute" has the meaning set forth in Section 10.2.

"Dispute Notice" has the meaning set forth in Section 10.2(a).

"Distribution" has the meaning set forth in the recitals to this Agreement.

"Distribution Agent" means Broadridge Corporate Issuer Solutions, Inc.

"Distribution Date" means the date on which the Distribution occurs, such date to be determined by, or under the authority of, the board of directors of Ensign, in its sole and absolute discretion.

"Effective Time" means 12:01 a.m. (Eastern time) on [_____], 2019, or such other time agreed to by the Parties from time to time.

"Employee Matters Agreement" means the Employee Matters Agreement, substantially in the form of Exhibit 10.3 to the Registration Statement, to be entered into by Ensign and Pennant prior to the Effective Time.

"Ensign" has the meaning set forth in the preamble to this Agreement.

"Ensign Assets" has the meaning set forth in Section 2.2(b).

"Ensign Business" means any business now or formerly conducted by Ensign and its present and former Affiliates, other than the Pennant Business, including the skilled nursing, senior living and other ancillary operations of the post-acute businesses conducted by the Ensign Group.

"Ensign Common Stock" means the common stock, par value $0.001 per share, of Ensign.

"Ensign D&O Policies" has the meaning set forth in Section 7.1.

"Ensign Group" means collectively, Ensign and the Subsidiaries of Ensign other than Pennant and the Pennant Subsidiaries.

"Ensign Guarantee" means any Guarantee issued, entered into or otherwise put in place by any member of the Ensign Group to support or facilitate, or otherwise in respect of, (a) the obligations of any member of the Pennant Group or any of the Pennant Business or (b) Contracts, commitments, Liabilities or permits of any member of the Pennant Group or any of the Pennant Business.

"Ensign Indemnitees" means each member of the Ensign Group and its Affiliates (other than Pennant and the Pennant Subsidiaries) and each of their respective current or former stockholders, directors, officers, agents and employees (in each case, in such Person's respective capacity as such) and their respective heirs, executors, administrators, successors and assigns.

"Ensign Leases" means the lease or sublease agreements, as applicable, each in substantially the form of Exhibit 10.4 of the Registration Statement, to be entered into prior to the Effective Time, by and between a member of the Pennant Group and a member of the Ensign Group to amend and restate the individual "triple-net" lease agreements of [__] senior living properties.

"Ensign Liabilities" has the meaning set forth in Section 2.3(b).

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Governmental Approval" means any notice, report or other filing to be given to or made with, or any release, consent, substitution, approval, amendment, registration, permit or authorization from, any Governmental Authority.

"Governmental Authority" means any U.S. federal, state, local or non-U.S. court, government, department, commission, board, bureau, agency, official or other regulatory, administrative or governmental authority.

"Group" means the Ensign Group and/or the Pennant Group, as the context requires.

"Guarantee" means any guarantee (including guarantees of performance or payment under Contracts, commitments, Liabilities and permits), letter of credit or other credit or credit support arrangement or similar assurance, including surety bonds, bid bonds, advance payment bonds, performance bonds, payment bonds, retention and/or warranty bonds or other bonds or similar instruments.

"Indebtedness" of any specified Person means (a) all obligations of such specified Person for borrowed money or arising out of any extension of credit to or for the account of such specified Person (including reimbursement or payment obligations with respect to surety bonds, letters of credit, bankers' acceptances and similar instruments), (b) all obligations of such specified Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such specified Person upon which interest charges are customarily paid, (d) all obligations of such specified Person under conditional sale or other title retention agreements relating to Assets purchased by such specified Person, (e) all obligations of such specified Person issued or assumed as the deferred purchase price of property or services including all earn-out obligations, (f) all Liabilities secured by (or for which any Person to which any such Liability is owed has an existing right, contingent or otherwise, to be secured by) any mortgage, lien, pledge or other encumbrance on property owned or acquired by such specified Person (or upon any revenues, income or profits of such specified Person therefrom), whether or not the obligations secured thereby have been assumed by the specified Person or otherwise become Liabilities of the specified Person, (g) all obligations of such specified Person that are or are required by GAAP to be treated as a capital lease, (h) all securities or other similar instruments convertible or exchangeable into any of the foregoing, (i) any Liability of others of a type described in any of the preceding clauses (a) through (h) in respect of which the specified Person has incurred, assumed or acquired a Liability by means of a Guarantee, and (j) any prepayment penalties, premiums, consent or other fees or breakage costs that would be payable in order to fully discharge and terminate all obligations under clauses (a) through (i) above.

"Indemnifiable Loss" has the meaning set forth in Section 9.5.

"Indemnifying Party" has the meaning set forth in Section 9.4(a).

"Indemnitee" means any Ensign Indemnitee or any Pennant Indemnitee.

"Indemnity Payment" has the meaning set forth in Section 9.5.

"Information Statement" means the information statement, a preliminary version of which is filed as Exhibit 99.1 to the Registration Statement, and any related documentation to be provided to holders of Ensign Common Stock in connection with the Distribution, including any amendments or supplements thereto.

"Insurance Policy" means any insurance policies and insurance Contracts, including, without limitation, general liability, property and casualty, workers' compensation, automobile, directors and officers liability, errors and omissions, employee dishonesty and fiduciary liability policies, whether, in each case, in the nature of primary, excess, umbrella or self-insurance coverage, together with all rights, benefits and privileges thereunder.

"Insurance Proceeds" means those monies (in each case, net of any out-of-pocket costs or expenses incurred in the collection thereof):

(a) received by an insured Person from any insurer, insurance underwriter, mutual protection and indemnity club or other risk collective, excluding any proceeds received directly or indirectly (such as through reinsurance arrangements) from any captive insurance Subsidiary of the insured Person; or

(b) paid on behalf of an insured Person by any insurer, insurance underwriter, mutual protection and indemnity club or other risk collective, excluding any such payment made directly or indirectly (such as through reinsurance arrangements) from any captive insurance Subsidiary of the insured Person, on behalf of the insured.

"Intercompany Account" means any receivable, payable or loan between any member of the Ensign Group, on the one hand, and any member of the Pennant Group, on the other hand, that exists prior to the Effective Time and is reflected in the records of the relevant members of the Ensign Group and the Pennant Group, except for any such receivable, payable or loan that arises pursuant to this Agreement or any Ancillary Agreement.

"Intercompany Agreement" means any Contract between or among any member of the Ensign Group, on the one hand, and any member of the Pennant Group, on the other hand, entered into prior to the Effective Time, but excluding any Contract to which a Person other than any member of the Ensign Group or the Pennant Group is also a party.

"IRS" means the United States Internal Revenue Service.

"IRS Ruling" has the meaning set forth in the recitals to this Agreement.

"Law" means any law, statute, ordinance, code, rule, regulation, order, writ, proclamation, judgment, injunction or decree of any Governmental Authority.

"Liabilities" means any and all Indebtedness, liabilities and obligations, whether accrued, fixed or contingent, mature or inchoate, known or unknown, whether or not reflected on a balance sheet, including those arising under any Law, Action or any judgment of any Governmental Authority or any award of any arbitrator of any kind, and those arising under any Contract.

"Losses" means any and all damages, losses, deficiencies, Liabilities, obligations, penalties, judgments, settlements, claims, payments, interest costs, Taxes, fines and expenses (including the costs and expenses of any and all Actions and demands, assessments, judgments, settlements and compromises relating thereto and attorneys', accountants', consultants' and other professionals' fees and expenses incurred in the investigation or defense thereof or the enforcement of rights hereunder).

"Merger Agreement" means the Agreement and Plan of Merger to be entered into by Pennant, [Cornerstone Merger Sub Inc.] and Cornerstone Healthcare, Inc. prior to the Effective Time.

"NASDAQ" means the The NASDAQ Global Select Market.

"NASDAQ Listing Application" has the meaning set forth in Section 3.2(a).

"Party" or "Parties" has the meaning set forth in the preamble to this Agreement.

"Pennant" has the meaning set forth in the preamble to this Agreement.

"Pennant Assets" has the meaning set forth in Section 2.2(a).

"Pennant Business" means all business and operations conducted by any member of the Pennant Group, as described in the Information Statement, including (i) the home health and hospice agencies business conducted by the Pennant Group, (ii) the senior living service businesses conducted by the Pennant Group, and (iii) any other business directly conducted by any member of the Pennant Group as of or prior to the date of this Agreement.

"Pennant Cash Payment" has the meaning set forth in Section 2.1(a)(iii).

"Pennant Common Stock" means the common stock, par value $0.01 per share, of Pennant.

"Pennant Contracts" means any contract, agreement, arrangement, commitment or understanding listed or described in Schedule 2.2(a) (or any applicable licenses, leases, addenda and similar arrangements thereunder as described in Schedule 2.2(a)) and any other contract, agreement, arrangement, commitment or understanding, whether or not in writing, that relates primarily to the Pennant Business.

"Pennant Credit Facility" means the revolving credit facility to be entered into by Pennant prior to the Effective Time.

"Pennant Group" means collectively, Pennant and the Pennant Subsidiaries.

"Pennant Indemnitees" means each member of the Pennant Group and their Affiliates and each of their respective current or former stockholders, directors, officers, agents and employees (in each case, in such Person's respective capacity as such) and their respective heirs, executors, administrators, successors and assigns.

"Pennant Liabilities" has the meaning set forth in Section 2.3(a).

"Pennant Subsidiaries" means the Subsidiaries of Pennant as of the date of this Agreement, the entities listed on Exhibit A hereto, any Subsidiary of any such entities and any direct or indirect Subsidiary of Pennant formed after the date of this Agreement and prior to the Distribution Date.

"Person" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, a union, an unincorporated organization or a governmental entity or any department, agency or political subdivision thereof.

"Record Date" means the close of business on the date determined by the board of directors of Ensign as the record date for determining holders of Ensign Common Stock entitled to receive shares of Pennant Common Stock in the Distribution.

"Record Holders" has the meaning set forth in Section 4.1(a)(i).

"Registration Statement" means the registration statement on Form 10 of Pennant with respect to the registration under the Exchange Act of the Pennant Common Stock to be distributed in the Distribution, including any amendments or supplements thereto.

"Reorganization" has the meaning set forth in the recitals to this Agreement.

"SEC" means the United States Securities and Exchange Commission.

"Security Interest" means any mortgage, security interest, pledge, lien, charge, claim, option, indenture, right to acquire, right of first refusal, deed of trust, licenses to third parties, leases to third parties, security agreements, voting or other restriction, covenant, condition, encroachment, restriction on transfer, restriction or limitation on use of real or personal property or any other encumbrance of any nature whatsoever, imperfections in or failure of title or defect of title.

"Subsidiary" means, with respect to any specified Person, any corporation, partnership, limited liability company, joint venture or other organization, whether incorporated or unincorporated, of which at least a majority of the securities or interests having by the terms thereof ordinary voting power to elect at least a majority of the board of directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such specified Person or by any one or more of its subsidiaries, or by such specified Person and one or more of its Subsidiaries.

"Tax Matters Agreement" means the Tax Matters Agreement, substantially in the form of Exhibit 10.2 to the Registration Statement, to be entered into by Ensign and Pennant prior to the Effective Time.

"Taxes" means all taxes, charges, fees, duties, levies, imposts or other assessments imposed by any federal, state, local or foreign Taxing Authority, including, but not limited to, income, gross receipts, excise, property, sales, use, license, capital stock, transfer, franchise, payroll, withholding, social security, value added and other taxes, and any interest, penalties or additions attributable thereto.

"Taxing Authority" means any Governmental Authority or any subdivision, agency, commission or authority thereof or any quasi-governmental or private body having jurisdiction over the assessment, determination, collection or imposition of any Tax (including the IRS).

"Third-Party Claim" has the meaning set forth in Section 9.4(b).

"Transactions" means the Reorganization, the Distribution and any other transactions contemplated by this Agreement or any Ancillary Agreement.

"Transition Services Agreement" means the Transition Services Agreement, substantially in the form of Exhibit 10.1 to the Registration Statement, to be entered into by Ensign and Pennant prior to the Effective Time.

Section 1.2 Interpretation. In this Agreement and the Ancillary Agreements, unless the context clearly indicates otherwise:

(a) words used in the singular include the plural and words used in the plural include the singular;

(b) the words "include," "includes" and "including" shall be deemed to be followed by the words "without limitation";

(c) the word "or" shall have the inclusive meaning represented by the phrase "and/or";

(d) relative to the determination of any period of time, "from" means "from and including," "to" means "to but excluding" and "through" means "through and including";

(e) accounting terms used herein shall have the meanings historically ascribed to them by Ensign and its Subsidiaries in their internal accounting and financial policies and procedures in effect immediately prior to the date of this Agreement;

(f) reference to any agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof and by this Agreement;

(g) reference to any Law means such Law (including any and all rules and regulations promulgated thereunder) as amended, modified, codified or reenacted, in whole or in part, and in effect at the time of determining compliance or applicability;

(h) references to any Person include such Person's successors and assigns but, if applicable, only if such successors and assigns are permitted by this Agreement; a reference to such Person's "Affiliates" shall be deemed to mean such Person's Affiliates following the Distribution and any reference to a third party shall be deemed to mean a Person who is not a Party or an Affiliate of a Party;

(i) if there is any conflict between the provisions of the main body of this Agreement or an Ancillary Agreement and the Exhibits and Schedules hereto or thereto, the provisions of the main body of this Agreement or the Ancillary Agreement, as applicable, shall control unless explicitly stated otherwise in such Exhibit or Schedule;

(j) if there is any conflict between the provisions of this Agreement and any Ancillary Agreement, the provisions of such Ancillary Agreement shall control (but only with respect to the subject matter thereof) unless explicitly stated otherwise therein; and

(k) any portion of this Agreement or any Ancillary Agreement obligating a Party to take any action or refrain from taking any action, as the case may be, shall mean that such Party shall also be obligated to cause its relevant Subsidiaries to take such action or refrain from taking such action, as the case may be.

ARTICLE II
THE REORGANIZATION

Section 2.1 Transfers of Assets and Assumptions of Liabilities.

(a) Transfers Prior to Effective Time. Subject to Section 2.1(b), Ensign and Pennant agree to take all actions necessary so that, immediately prior to the Effective Time:

(i) Ensign shall, and shall cause its applicable Subsidiaries to, assign, transfer, convey and deliver to Pennant or certain Persons designated by Pennant who are or will become members of the Pennant Group, and Pennant or such Persons shall accept from Ensign and its applicable Subsidiaries, to the extent not already owned by the Pennant Group, all of Ensign's and such Subsidiaries' respective direct or indirect right, title and interest in and to all Pennant Assets;

(ii) Pennant and certain Persons designated by Pennant who are or will become members of the Pennant Group shall accept and assume, to the extent the Pennant Group is not already liable therefor, all the Pennant Liabilities in accordance with their respective terms, regardless of when or where such Pennant Liabilities arose or arise, or whether the facts on which they are based occurred prior to or subsequent to the Effective Time, regardless of where or against whom such Pennant Liabilities are asserted or determined (including any Pennant Liabilities arising out of claims made by Ensign's or Pennant's respective directors, officers, employees, agents, Subsidiaries or Affiliates against any member of the Ensign Group or the Pennant Group) or whether asserted or determined prior to the date hereof, and regardless of whether arising from or alleged to arise from negligence, recklessness, violation of Law, fraud or misrepresentation by any member of the Ensign Group or the Pennant Group, or any of their respective directors, officers, employees, agents, Subsidiaries or Affiliates;

(iii) Pennant shall transfer directly or indirectly, to the applicable member of the Ensign Group, a portion of the loan proceeds from the Pennant Credit Facility in an amount anticipated to equal approximately $11,000,000 (the "Pennant Cash Payment"); and

(iv) Pennant shall issue to Ensign shares of Pennant Common Stock, which shares shall be fully paid and non-assessable under the Laws of the State of Delaware, of a sufficient number to effectuate the Distribution.

(b) Deferred Transfers and Assumptions.

(i) Nothing in this Agreement or in any Ancillary Agreement will be deemed to require the transfer of any Assets or the assumption of any Liabilities that by their terms or by operation of Law cannot be transferred or assumed.

(ii) To the extent that any transfer of Assets or assumption of Liabilities contemplated by this Agreement or any Ancillary Agreement is not consummated prior to the Effective Time as a result of an absence or non-satisfaction of any required Consent, Governmental Approval and/or other condition (such Assets or Liabilities, a "Deferred Asset" or a "Deferred Liability," as applicable, and, collectively, a "Deferred Asset or Liability"), the Parties will use commercially reasonable efforts to effect such transfers or assumptions as promptly following the Effective Time as practicable. If and when the Consents, Governmental Approvals and/or other conditions, the absence or non-satisfaction of which gave rise to a Deferred Asset or Liability, are obtained or satisfied, the transfer or assumption of such Deferred Asset or Liability will be effected in accordance with and subject to the terms of this Agreement or the applicable Ancillary Agreement.

(iii) From and after the Effective Time until such time as a Deferred Asset or Liability is transferred or assumed, as applicable, (A) the Party retaining such Deferred Asset will thereafter hold such Deferred Asset for the use and benefit of the Party entitled thereto (at the sole expense of the Party entitled thereto) and (B) the Party intended to assume such Deferred Liability will pay or reimburse the Party retaining such Deferred Liability for all amounts paid or incurred in connection with the retention of such Deferred Liability; it being agreed that the Party retaining such Deferred Asset or Liability will not be obligated, in connection with the foregoing clause (A) and clause (B), to expend any money unless the necessary funds are advanced or agreed in writing to be reimbursed by the Party entitled to such Deferred Asset or intended to assume such Deferred Liability. The Party retaining such Deferred Asset or Liability will use its commercially reasonable efforts to notify in writing the Party entitled to or intended to assume, as applicable, such Deferred Asset or Liability of the need for such expenditure and provide additional supporting details on such expenditure as reasonably requested by the Party entitled to or intended to assume, as applicable, such Deferred Asset or Liability. In addition, the Party retaining such Deferred Asset or Liability will, insofar as reasonably practicable and to the extent permitted by applicable Law, (A) treat such Deferred Asset or Liability in the ordinary course of business consistent with past practice, (B) promptly take such other actions as may be requested by the Party entitled to such Deferred Asset or by the Party intended to assume such Deferred Liability in order to place such Party in the same position as if the Deferred Asset or Liability had been transferred or assumed, as applicable, as contemplated hereby, and so that all the benefits and burdens relating to such Deferred Asset or Liability, including possession, use, risk of loss, potential for gain, and control over such Deferred Asset or Liability, are to inure from and after the Effective Time to such Party entitled to such Deferred Asset or intended to assume such Deferred Liability, and (C) hold itself out to third parties as agent or nominee on behalf of the Party entitled to such Deferred Asset or intended to assume such Deferred Liability.

(iv) In furtherance of the foregoing, the Parties agree that, as of the Effective Time, each Party will be deemed to have acquired beneficial ownership of all of the Assets, together with all rights and privileges incident thereto, and will be deemed to have assumed all of the Liabilities, and all duties, obligations and responsibilities incident thereto, that such Party is entitled to acquire or intended to assume pursuant to the terms of this Agreement or the applicable Ancillary Agreement.

(v) The Parties agree to treat, for all tax purposes, any Asset or Liability that is not transferred or assumed prior to the Effective Time and which is subject to the provisions of this Section 2.1(b), as (A) owned by the Party to which such Asset was intended to be transferred or by the Party which was intended to assume such Liability, as the case may be, from and after the Effective Time, (B) having not been owned by the Party retaining such Asset or Liability, as the case may be, at any time from and after the Effective Time, and (C) having been held by the Party retaining such Asset or Liability, as the case may be, only as agent or nominee on behalf of the other Party from and after the Effective Time until the date such Asset or Liability, as the case may be, is transferred to or assumed by such other Party. The Parties will not take any position inconsistent with the foregoing unless otherwise required by applicable Law (in which case, the Parties will provide indemnification for any Taxes attributable to the Asset or Liability during the period beginning at the Effective Time and ending on the date of the actual transfer).

(c) Misallocated Assets and Liabilities.

(i) In the event that, at any time from and after the Effective Time, either Party discovers that it or another member of its Group is the owner of, receives or otherwise comes to possess or benefit from any Asset (including the receipt of payments made pursuant to Contracts and proceeds from accounts receivable with respect to such Asset) that should have been allocated to a member of the other Group pursuant to this Agreement or any Ancillary Agreement (except in the case of any deliberate acquisition of Assets from a member of the other Group for value subsequent to the Effective Time), such Party shall promptly transfer, or cause to be transferred, such Asset to such member of the other Group, and such member of the other Group shall accept such Asset for no further consideration other than that set forth in this Agreement or such Ancillary Agreement, as applicable. Prior to any such transfer, such Asset shall be held in accordance with Section 2.1(b).

(ii) In the event that, at any time from and after the Effective Time, either Party discovers that it or another member of its Group is liable for any Liability that should have been allocated to a member of the other Group pursuant to this Agreement or any Ancillary Agreement (except in the case of any deliberate assumption of Liabilities from a member of the other Group for value subsequent to the Effective Time), such Party shall promptly transfer, or cause to be transferred, such Liability to such member of the other Group and such member of the other Group shall assume such Liability for no further consideration other than that set forth in this Agreement or such Ancillary Agreement, as applicable. Prior to any such assumption, such Liabilities shall be held in accordance with Section 2.1(b).

(d) Instruments of Transfer and Assumption. The Parties agree that (i) transfers of Assets that may be required by this Agreement or any Ancillary Agreement shall be effected by delivery by the transferor to the transferee of (A) with respect to those Assets that constitute stock or other equity interests that are certificated, certificates endorsed in blank or evidenced and/or accompanied by stock powers or other instruments of transfer endorsed in blank, against receipt and (B) with respect to all other Assets, such good and sufficient instruments of contribution, conveyance, assignment and transfer, in form and substance reasonably satisfactory to the Parties, as shall be necessary, in each case, to vest in the designated transferee all of the title and ownership interest of the transferor in and to any such Asset, and (ii) the assumptions of Liabilities required by this Agreement or any Ancillary Agreement shall be effected by delivery by the transferee to the transferor of such good and sufficient instruments of assumption, in form and substance reasonably satisfactory to the Parties, as shall be necessary, in each case, for the assumption by the transferee of such Liabilities.

(e) Plan of Reorganization. The Parties agree that this Agreement constitutes a "plan of reorganization" within the meaning of Treasury Regulation Section 1.368-2(g).

Section 2.2 Pennant Assets and Ensign Assets.

(a) For purposes of this Agreement, "Pennant Assets" shall mean, except as otherwise expressly provided in this Agreement or any Ancillary Agreement (including the Tax Matters Agreement):

(i) all of the equity interests in the Pennant Subsidiaries;

(ii) all Assets of the Pennant Subsidiaries;

(iii) all Pennant Contracts;

(iv) the Assets listed or described in Schedule 2.2(a); and

(v) any and all Assets owned or held immediately prior to the Effective Time by Ensign or any of its Subsidiaries that are used primarily in, or that primarily relate to, the Pennant Business other than any such Assets that are subject to a lease agreement between Ensign or any of its Subsidiaries and Pennant.

For the avoidance of doubt, the Pennant Assets shall include, but not be limited to, all Assets recorded on the consolidated balance sheet of Pennant as of the date of this Agreement, excluding capitalized leases.

(b) For the purposes of this Agreement, "Ensign Assets" shall mean (without duplication), (i) any and all Assets owned, directly or indirectly, by Ensign or any of its Subsidiaries as of the Effective Time, other than the Pennant Assets.

Section 2.3 Pennant Liabilities and Ensign Liabilities.

(a) For the purposes of this Agreement, "Pennant Liabilities" shall mean, except as otherwise expressly provided in this Agreement or any Ancillary Agreement (including the Tax Matters Agreement):

(i) all Liabilities to the extent relating to, arising out of or resulting from the Pennant Assets or the Pennant Business, whether arising before, at or after the Effective Time, including without limitation those expressly or implicitly assumed by Pennant Group under the Pennant Contracts;

(ii) all Liabilities to be assumed by Pennant pursuant to this Agreement or any Ancillary Agreement;

(iii) all Liabilities related to the Pennant Credit Facility; and

(iv) those Liabilities set forth in Section 2.3(a) of the Schedules.

(b) For the purposes of this Agreement, "Ensign Liabilities" shall mean (without duplication) any and all Liabilities of Ensign and its Subsidiaries as of the Effective Time other than Pennant Liabilities.

Section 2.4 Termination of Intercompany Agreements.

(a) Except as set forth in Section 2.4(b), Ensign, on behalf of itself and each of the other members of the Ensign Group, and Pennant, on behalf of itself and each of the other members of the Pennant Group, hereby terminate, effective as of the Effective Time, any and all Intercompany Agreements. No such terminated Intercompany Agreement will be of any further force or effect from and after the Effective Time and all Parties shall be released from all Liabilities thereunder other than the Liability to settle any Intercompany Accounts as provided in Section 2.5. Each Party shall take, or cause to be taken, any and all actions as may be reasonably necessary to effect the foregoing.

(b) The provisions of Section 2.4 shall not apply to any of the following agreements (which agreements shall continue to be outstanding after the Effective Time and thereafter shall be deemed to be, for each relevant Party (or the member of such Party's Group), an obligation to a third party and shall no longer be an Intercompany Agreement):

(i) this Agreement and the Ancillary Agreements (and each other agreement or instrument expressly contemplated by this Agreement or any Ancillary Agreement);

(ii) any agreements entered into by Ensign or an Affiliate thereof and Pennant or an Affiliate thereof in the ordinary course of business related to business operations of Subsidiaries thereof; and

(iii) any confidentiality or non-disclosure agreements among any members of either Group.

Section 2.5 Settlement of Intercompany Accounts. Each Intercompany Account outstanding immediately prior to the Effective Time, will be satisfied and/or settled in full in cash or otherwise cancelled and terminated or extinguished by the relevant members of the Ensign Group and the Pennant Group prior to the Effective Time, in each case, in the manner agreed to by the Parties.

Section 2.6 Replacement of Guarantees.

(a) The Parties shall cooperate and use their reasonable best efforts to arrange, effective at or prior to the Effective Time, at Pennant's cost and expense, the replacement of all Ensign Guarantees with alternate arrangements that do not require any credit support from any member of the Ensign Group, and shall use their reasonable best efforts to obtain from the beneficiaries of such Ensign Guarantees written releases indicating that each applicable member of the Ensign Group will, effective as of the Effective Time, have no further Liability with respect to such Ensign Guarantees. Pennant shall indemnify, defend and hold harmless each member of the Ensign Group against, and reimburse each member of the Ensign Group for, any Losses incurred following the Distribution with respect to such Ensign Guarantee, including without limitation auditor fees associated with such Ensign Guarantees and the cost of procuring any applicable third party valuations.

(b) If, following the Effective Time, the Parties are unable to replace any Ensign Guarantee, (i) the Parties shall cooperate and continue to use their reasonable best efforts to replace such Ensign Guarantee with alternate arrangements that do not require any credit support from any member of the Ensign Group and (ii) Pennant shall indemnify, defend and hold harmless each member of the Ensign Group against, and reimburse each member of the Ensign Group for, any Losses incurred following the Distribution with respect to such Ensign Guarantee, including without limitation auditor fees associated with such Ensign Guarantees and the cost of procuring any applicable third party valuations.

ARTICLE III
CERTAIN ACTIONS PRIOR TO THE DISTRIBUTION

Section 3.1 SEC and Other Securities Filings.

(a) Prior to the date of this Agreement, the Parties caused the Registration Statement to be prepared and filed with the SEC.

(b) The Parties caused the Registration Statement to become effective on [●], 2019.

(c) As soon as practicable after the date hereof, Ensign shall cause the Information Statement to be mailed to the Record Holders (or notice of internet availability thereof).

(d) The Parties shall cooperate in preparing, filing with the SEC and causing to become effective any other registration statements or amendments or supplements thereto that are necessary or appropriate in order to effect the Transactions, or to reflect the establishment of, or amendments to, any employee benefit plans contemplated hereby.

(e) The Parties shall take all such action as may be necessary or appropriate under state and foreign securities or "blue sky" Laws in connection with the Transactions.

Section 3.2 NASDAQ Listing Application.

(a) Prior to the date of this Agreement, the Parties caused an application for the listing on NASDAQ of Pennant Common Stock to be issued to the Record Holders in the Distribution (the "NASDAQ Listing Application") to be prepared and filed.

(b) Prior to the date of this Agreement, the Parties have caused the NASDAQ Listing Application to be approved, subject to official notice of distribution.

(c) Ensign has given NASDAQ notice of the Record Date in compliance with Rule 10b-17 under the Exchange Act.

Section 3.3 Distribution Agent. At or prior to the Effective Time, Ensign shall, if requested by the Distribution Agent, enter into a distribution agent agreement and/or a paying agent agreement with the Distribution Agent.

Section 3.4 Governmental Approvals and Consents. To the extent that any of the Transactions require any Governmental Approval or Consent which has not been obtained prior to the date of this Agreement, the Parties will use commercially reasonable efforts to obtain, or cause to be obtained, such Governmental Approval or Consent prior to the Effective Time.

Section 3.5 Ancillary Agreements. Prior to the Effective Time, each Party shall execute and deliver, and shall cause each applicable member of its Group to execute and deliver, as applicable, the following agreements (collectively, the "Ancillary Agreements"):

(a) the Tax Matters Agreement, (b) the Transition Services Agreement, (c) the Employee Matters Agreement, (d) the Contribution Agreements, (e) the Merger Agreement, (f) the Ensign Leases and (f) such other written agreements, documents or instruments as the Parties may agree are reasonably necessary or desirable and which specifically state that they are Ancillary Agreements within the meaning of this Agreement.

Section 3.6 Governance Matters.

(a) Certificate of Incorporation and Bylaws. Pennant has adopted the amended and restated certificate of incorporation and the amended and restated bylaws of Pennant, each substantially in the form filed by Pennant with the SEC as an exhibit to the Registration Statement, and Pennant shall not take any action to modify its charter or bylaws prior to the Effective Time.

(b) Officers and Directors. On or prior to the Distribution Date, the Parties shall take all necessary action so that, as of the Distribution Date, the officers and directors of Pennant will be as set forth in the Information Statement.

ARTICLE IV
THE DISTRIBUTION

Section 4.1 Distribution.

(a) Subject to the terms and conditions set forth in this Agreement, including Section 4.1(b):

(i) on or prior to the Distribution Date, Ensign shall deliver or otherwise make available to the Distribution Agent, for the benefit of holders of record of Ensign Common Stock at the close of business on the Record Date (the "Record Holders"), such number of issued and outstanding shares of Pennant Common Stock as is necessary to effect the Distribution; and

(ii) on the Distribution Date, Ensign will direct the Distribution Agent to distribute, effective as of the Effective Time, to each Record Holder, (A) one share of Pennant Common Stock for every two (2) shares of Ensign Common Stock held by such Record Holder on the Record Date and (B) cash, if applicable, in lieu of fractional shares, in an amount determined in accordance with Section 4.1(c) hereof. All such shares of Pennant Common Stock to be so distributed shall be distributed as uncertificated shares registered in book-entry form through the direct registration system. No certificates therefor shall be distributed. Following the Distribution, Ensign shall cause the Distribution Agent to deliver an account statement to each holder of Pennant Common Stock reflecting such holder's ownership thereof. All of the shares of Pennant Common Stock distributed in the Distribution will be validly issued, fully paid and non-assessable.

(b) Notwithstanding any other provision of this Agreement, Ensign, the Distribution Agent, or any Person that is a withholding agent under applicable Law shall be entitled to deduct and withhold from any consideration distributable or payable hereunder the amounts required to be deducted and withheld under the Code, or any provision of any U.S. federal, state, local or foreign Tax Law, and any such withholding agent is hereby authorized to sell any portion of the consideration otherwise distributable or payable in kind as is necessary to provide sufficient funds to enable the withholding agent to comply with such deduction and withholding requirements. Any amounts so withheld shall be paid over to the appropriate Taxing Authority in the manner prescribed by Law. To the extent that amounts are so deducted and withheld, such deducted and withheld amounts shall be treated for all purposes of this Agreement as having been paid to the Persons in respect of which such deduction and withholding was made.

(c) Notwithstanding anything herein to the contrary, no fractional shares of Pennant Common Stock shall be issued in connection with the Distribution, and any such fractional share interests to which a Record Holder would otherwise be entitled shall not entitle such Record Holder to vote or to any other rights as a stockholder of Pennant. In lieu of any such fractional shares, each Record Holder who, but for the provisions of this section, would be entitled to receive a fractional share interest of Pennant Common Stock pursuant to the Distribution, shall be paid cash, without any interest thereon, as hereinafter provided. Ensign will direct the Distribution Agent to determine the number of whole shares and fractional shares of Pennant Common Stock allocable to each Record Holder, to aggregate all such fractional shares into whole shares, to sell the whole shares obtained thereby in the open market at the then-prevailing prices on behalf of each Record Holder who otherwise would be entitled to receive fractional share interests and to distribute to each such Record Holder his, her or its ratable share of the total proceeds of such sale, after making appropriate deductions of the amounts required for U.S. federal income tax withholding purposes and after deducting any applicable transfer Taxes and the costs and expenses of such sale and

distribution, including brokers fees and commissions. The sales of fractional shares shall occur as soon after the Effective Time as practicable and as determined by the Distribution Agent, but in no case more than three (3) business days after the Effective Time. None of Ensign, Pennant or the Distribution Agent shall guarantee any minimum sale price for the fractional shares of Ensign Common Stock. Neither Ensign nor Pennant shall pay any interest on the proceeds from the sale of fractional shares. The Distribution Agent shall have the sole discretion to select the broker-dealers through which to sell the aggregated fractional shares and to determine when, how and at what price to sell such shares. Neither the Distribution Agent nor the broker-dealers through which the aggregated fractional shares are sold shall be Affiliates of Ensign or Pennant.

ARTICLE V
CONDITIONS

Section 5.1 Conditions Precedent to Consummation of the Distribution. The Distribution shall not be effected unless and until the following conditions have been satisfied or waived by Ensign, in its sole and absolute discretion, at or before the Effective Time:

(a) the board of directors of Ensign shall have declared the Distribution, which declaration may be made or withheld in its absolute and sole discretion;

(b) the Registration Statement shall have been declared effective by the SEC, with no stop order in effect with respect thereto, and no proceedings for such purpose shall be pending before, or threatened by, the SEC and a notice of internet availability of the Information Statement shall have been mailed to Ensign stockholders;

(c) Ensign shall have mailed the Information Statement (or notice of internet availability thereof) to the Record Holders;

(d) Ensign shall have obtained an opinion from Kirkland & Ellis LLP, in form and substance satisfactory to Ensign, to the effect that, subject to the assumptions and limitations described therein, the distribution of Pennant Common Stock and certain related transactions will qualify as a reorganization under Sections 368(a)(1)(D) and 355 of the Code, in which no gain or loss is recognized by Ensign or its stockholders, except in the case of the Ensign stockholders, for cash received in lieu of fractional shares;

(e) the NASDAQ Listing Application shall have been approved, subject to official notice of distribution;

(f) no order, injunction or decree issued by any Governmental Authority of competent jurisdiction or other legal restraint or prohibition preventing the consummation of all or any portion of the Distribution shall be in effect, and no other event shall have occurred or failed to occur that prevents the consummation of all or any portion of the Distribution;

(g) the Reorganization shall have been completed, except for such steps as Ensign in its sole discretion shall have determined may be completed after the Distribution Date;

(h) Pennant shall have completed the financing transactions described in the Information Statement and contemplated to occur on or prior to the Distribution Date, including the entry into the Pennant Credit Facility;

(i) Ensign shall have completed its own financing transactions contemplated to occur on or prior to the Distribution Date, including amending and restating its existing credit facility;

(j) no events or developments shall have occurred prior to the Distribution that, in the judgment of the Ensign board of directors, would result in the Distribution having a material adverse effect on Ensign or its stockholders;

(k) Pennant shall have adopted the amended and restated certificate of incorporation and amended and restated bylaws, as provided in Section 3.6(a);

(l) each of the Ancillary Agreements shall have been executed and delivered by each party thereto and be in full force and effect; and

(m) any required material Governmental Approvals and other Consents necessary to consummate the Distribution or any portion thereof shall have been obtained and be in full force and effect.

Section 5.2 Right Not to Close. Each of the conditions set forth in Section 5.1 is for the benefit of Ensign, and the board of directors of Ensign may, in its sole and absolute discretion, determine whether to waive any condition, in whole or in part. Any determination made by the board of directors of Ensign concerning the satisfaction or waiver of any or all of the conditions set forth in Section 5.1 will be conclusive and binding on the Parties. The satisfaction of the conditions set forth in Section 5.1 will not create any obligation on the part of Ensign to any other Person to effect any of the Transactions or in any way limit Ensign's right to terminate this Agreement and the Ancillary Agreements as set forth in Section 11.1 or alter the consequences of any termination from those specified in Section 11.2.

ARTICLE VI
NO REPRESENTATIONS OR WARRANTIES

Section 6.1 Disclaimer of Representations and Warranties. EACH PARTY (ON BEHALF OF ITSELF AND EACH OTHER MEMBER OF ITS GROUP) UNDERSTANDS AND AGREES THAT, EXCEPT AS EXPRESSLY SET FORTH HEREIN, IN ANY ANCILLARY AGREEMENT OR IN ANY OTHER AGREEMENT OR DOCUMENT CONTEMPLATED BY THIS AGREEMENT OR ANY ANCILLARY AGREEMENT, NO PARTY IS REPRESENTING OR WARRANTING IN ANY WAY AS TO (A) THE ASSETS, BUSINESSES OR LIABILITIES CONTRIBUTED, TRANSFERRED, DISTRIBUTED OR ASSUMED AS CONTEMPLATED HEREBY OR THEREBY, (B) ANY CONSENTS OR GOVERNMENTAL APPROVALS REQUIRED IN CONNECTION HEREWITH OR THEREWITH, (C) THE VALUE OR FREEDOM FROM ANY SECURITY INTERESTS OF, OR ANY OTHER MATTER CONCERNING, ANY ASSETS OF ANY PARTY, (D) THE ABSENCE OF ANY DEFENSES OR RIGHT OF SETOFF OR FREEDOM FROM COUNTERCLAIM WITH RESPECT TO ANY ACTION OR OTHER ASSET, INCLUDING ACCOUNTS RECEIVABLE, OF ANY PARTY, OR (E) THE LEGAL SUFFICIENCY OF ANY CONTRIBUTION, DISTRIBUTION, ASSIGNMENT, DOCUMENT, CERTIFICATE OR INSTRUMENT DELIVERED HEREUNDER OR THEREUNDER TO CONVEY TITLE TO ANY ASSET UPON THE EXECUTION, DELIVERY AND FILING HEREOF OR THEREOF.

Section 6.2 As Is, Where Is. EACH PARTY (ON BEHALF OF ITSELF AND EACH OTHER MEMBER OF ITS GROUP) UNDERSTANDS AND AGREES THAT, EXCEPT AS OTHERWISE PROVIDED IN THIS AGREEMENT AND ANY ANCILLARY AGREEMENT, ALL ASSETS TRANSFERRED PURSUANT TO THIS AGREEMENT OR ANY ANCILLARY AGREEMENT ARE BEING TRANSFERRED "AS IS, WHERE IS."

ARTICLE VII
CERTAIN COVENANTS AND ADDITIONAL AGREEMENTS

Section 7.1 Insurance Matters. Following the Effective Time, Ensign shall maintain its currently existing Insurance Policies related to director and officer liability (the "Ensign D&O Policies"). Prior to the Effective Time, Ensign and Pennant shall use commercially reasonable efforts to obtain separate Insurance Policies for Pennant on substantially similar terms as the Ensign D&O Policies (it being understood that Pennant shall be responsible for all premiums, costs and fees associated with any new insurance policies placed for the benefit of Pennant pursuant to this Section 7.1, which, for the avoidance of doubt, shall exclude any premiums, costs and fees associated with any run-off Insurance Policy obtained by Ensign in connection with the Distribution).

ARTICLE VIII
ACCESS TO INFORMATION; CONFIDENTIALITY; PRIVILEGE

Section 8.1 Agreement for Exchange of Information.

(a) Subject to Section 8.1(b) and Section 8.8(f), and except as set forth in any Ancillary Agreement, for a period of three (3) years following the Distribution Date (the "Access Period"), as soon as reasonably practicable after written request: (i) Ensign shall afford to any member of the Pennant Group and their authorized accountants, counsel and other designated representatives reasonable access during normal business hours to, or, at the Pennant Group's expense, provide copies of, all books, records, Contracts, instruments, data, documents and other information in the possession or under the control of any member of the Ensign Group immediately following the Distribution Date that relates to any member of the Pennant Group or the Pennant Business, and (ii) Pennant shall afford to any member of the Ensign Group and their authorized accountants, counsel and other designated representatives reasonable access during normal business hours to, or, at the Ensign Group's expense, provide copies of, all books, records, Contracts, instruments, data, documents and other information in the possession or under the control of any member of the Pennant Group immediately following the Distribution Date that relates to any member of the Ensign Group or the Ensign Business; provided, however, that in the event that Pennant or Ensign, as applicable, determine that any such provision of or access to any information in response to a request under this Section 8.1(a) would be commercially detrimental in any material respect, violate any Law or agreement or waive any attorney-client privilege, the work product doctrine or other applicable privilege, the Parties shall take all reasonable measures to permit compliance with such request in a manner that avoids any such harm or consequence; provided, further, that to the

extent specific information-sharing or knowledge-sharing provisions are contained in any of the Ancillary Agreements, such other provisions (and not this Section 8.1(a)) shall govern; provided, further, that the Access Period shall be extended with respect to requests related to any tax audit or proceeding or other third-party litigation or other dispute filed prior to the end of the Access Period until such litigation or dispute is finally resolved.

(b) A request for information under Section 8.1(a) may be made: (i) to comply with reporting, disclosure, filing or other requirements imposed on the requesting party (including under applicable securities Laws) by a Governmental Authority having jurisdiction over such requesting party, (ii) for use in any other judicial, regulatory, administrative or other proceeding or in order to satisfy audit, accounting, claims defense, regulatory filings, litigation or other similar requirements (other than in connection with any action, suit or proceeding in which any member of a Group is adverse to any member of the other Group), (iii) for use in compensation, benefit or welfare plan administration or other bona fide business purposes, or (iv) to comply with any obligations under this Agreement or any Ancillary Agreement.

(c) Without limiting the generality of Section 8.1(a), until the end of the first full fiscal year following the Distribution Date (and for a reasonable period of time thereafter as required for any party to prepare consolidated financial statements or complete a financial statement audit for the fiscal year during which the Distribution Date occurs), Pennant shall use its commercially reasonable efforts to cooperate with any requests from any member of the Ensign Group pursuant to Section 8.1(a) and Ensign shall use its commercially reasonable efforts to cooperate with any requests from any member of the Pennant Group pursuant to Section 8.1(a), in each case, to enable the requesting party to meet its timetable for dissemination of its earnings releases and financial statements and to enable such requesting party's auditors to timely complete their audit of the annual financial statements and review of the quarterly financial statements.

Section 8.2 Ownership of Information. Any information owned by any Person that is provided pursuant to Section 8.1(a) shall be deemed to remain the property of the providing Person. Unless specifically set forth herein, nothing contained in this Agreement shall be construed to grant or confer rights of license or otherwise to the requesting Person with respect to any such information.

Section 8.3 Compensation for Providing Information. A Person requesting information pursuant to Section 8.1(a) agrees to reimburse the providing Person for the reasonable and documented expenses out-of-pocket, if any, of gathering and copying such information, to the extent that such expenses are incurred for the benefit of the requesting Person.

Section 8.4 Retention of Records. To facilitate the exchange of information pursuant to this Article VIII after the Distribution Date, for a period of three (3) years following the Distribution Date, except as otherwise required or agreed in writing, the Parties agree to use commercially reasonable efforts to retain, or cause to be retained, all information in the possession or control of them or any member of their Group on the Distribution Date in accordance with the policies and procedures of Ensign as in effect on the Distribution Date.

Section 8.5 Limitation of Liability. No Person required to provide information under this Article VIII shall have any Liability (a) if any historical information provided pursuant to this Article VIII is found to be inaccurate, in the absence of gross negligence or willful misconduct by such Person, or (b) if any information is lost or destroyed despite using commercially reasonable efforts to comply with the provisions of Section 8.4.

Section 8.6 Production of Witnesses. At all times from and after the Distribution Date, upon reasonable request:

(a) Pennant shall use commercially reasonable efforts to make available, or cause to be made available, to any member of the Ensign Group, the directors, officers, employees and agents of any member of the Pennant Group as witnesses to the extent that the same may reasonably be required by the requesting party (giving consideration to business demands of such directors, officers, employees and agents) in connection with any legal, administrative or other proceeding in which the requesting party may from time to time be involved, except in the case of any Action, suit or proceeding in which any member of the Pennant Group is or may become adverse to any member of the Ensign Group; and

(b) Ensign shall use commercially reasonable efforts to make available, or cause to be made available, to any member of the Pennant Group, the directors, officers, employees and agents of any member of the Ensign Group as witnesses to the extent that the same may reasonably be required by the requesting party (giving consideration to business demands of such directors, officers, employees and agents) in connection with any legal, administrative or other proceeding in which the requesting party may from time to time be involved, except in the case of any Action, suit or proceeding in which any member of the Ensign Group is or may become adverse to any member of the Pennant Group.

Section 8.7 Confidentiality.

(a) Pennant (on behalf of itself and each other member of its Group) and Ensign (on behalf of itself and each other member of its Group) shall hold, and shall cause each of their respective Affiliates to hold, and each of the foregoing shall cause their respective directors, officers, employees, agents, consultants and advisors to hold, in strict confidence, and not disclose or release or use, without the prior written consent of such member of the other Group, for any purpose other than as expressly permitted pursuant to this Agreement or the Ancillary Agreements, any and all Confidential Information concerning any member of the other Group; provided, that each Party and the members of its Group may disclose, or may permit disclosure of, such Confidential Information (i) to other members of their Group and their respective auditors, attorneys, financial advisors, bankers and other appropriate consultants and advisors who have a need to know such information for purposes of performing services for a member of such Group and who are informed of their obligation to hold such information confidential to the same extent as is applicable to the Parties and in respect of whose failure to comply with such obligations, such Party will be responsible, (ii) if it or any of its Affiliates are required or compelled to disclose any such Confidential Information by judicial or administrative process or by other requirements of Law or stock exchange rule, or (iii) as necessary in order to permit such Party to prepare and disclose its financial statements, or other disclosures required by Law or such applicable stock exchange. Notwithstanding the foregoing, in the event that any demand or request for disclosure of Confidential Information is made pursuant to the foregoing clause (ii) above, the Party requested to disclose Confidential Information concerning a member of the other Group, shall, to the extent

reasonably practicable and not prohibited by law, promptly notify such member of the other Group of the existence of such request or demand and, to the extent commercially practicable, shall provide such member of the other Group thirty (30) days (or such lesser period as is commercially practicable) to, at such member of the other Group's own expense, seek an appropriate protective order or other remedy, which the Parties will reasonably cooperate in obtaining. In the event that such appropriate protective order or other remedy is not obtained within a reasonable period of time, the Party that is required to disclose Confidential Information about a member of the other Group shall furnish, or cause to be furnished, only that portion of the Confidential Information that is legally required to be disclosed and shall use commercially reasonable efforts to ensure that confidential treatment is accorded such information.

(b) Notwithstanding anything to the contrary set forth herein, the Parties shall be deemed to have satisfied their obligations hereunder with respect to Confidential Information of any member of the other Group if they exercise the same degree of care (but no less than a reasonable degree of care) as they exercise to preserve confidentiality for their own similar Confidential Information.

(c) Upon the written request of a Party or a member of its Group, the other Party shall take, and shall cause the applicable members of such other Party's Group to take, reasonable steps to promptly (i) deliver to the requesting Person all original copies of Confidential Information (whether written or electronic) concerning the requesting Person or any member of such requesting Person's Group that is in the possession of such other Party or any member of such other Party's Group and (ii) if specifically requested by the requesting Person, destroy any copies of such Confidential Information (including any extracts therefrom), unless (A) such delivery or destruction would violate any Law or regulatory requirement, (B) such Confidential Information constitutes attorney work product created for such Party, or (C) such Confidential Information, including emails, are contained in an archived computer system backup in accordance with bonafide document retention policies or security and disaster recovery procedures; provided, that the other Party shall not be obligated to destroy Confidential Information that is required by or relates to such other Party's business or the business of any member of such other Party's Group. Upon the written request of the requesting Person, the other Party shall, or shall cause another member of its Group to cause, its duly authorized officers to certify in writing to the requesting party that the requirements of the preceding sentence have been satisfied in full.

Section 8.8 Privileged Matters.

(a) Pre-Distribution Services. The Parties recognize that legal and other professional services that have been and will be provided prior to the Effective Time have been and will be rendered for the collective benefit of the Parties and their Affiliates, and that each of the Parties should be deemed to be the client with respect to such pre-Distribution services for the purposes of asserting all privileges that may be asserted under applicable Law.

(b) Post-Distribution Services. The Parties recognize that legal and other professional services will be provided following the Effective Time that will be rendered solely for the benefit of Pennant and its Affiliates or Ensign and its Affiliates, as the case may be. With respect to such post-Distribution services, the Parties agree as follows:

(i) Ensign shall be entitled, in perpetuity, to control the assertion or waiver of all privileges in connection with privileged information that relates solely to the Ensign Business, whether or not the privileged information is in the possession of or under the control of Ensign or Pennant. Ensign shall also be entitled, in perpetuity, to control the assertion or waiver of all privileges in connection with privileged information that relates solely to the subject matter of any claims constituting Ensign Liabilities, now pending or which may be asserted in the future, in any lawsuits or other proceedings initiated by or against any member of the Ensign Group, whether or not the privileged information is in the possession of or under the control of Ensign or Pennant; and

(ii) Pennant shall be entitled, in perpetuity, to control the assertion or waiver of all privileges in connection with privileged information that relates solely to the Pennant Business, whether or not the privileged information is in the possession of or under the control of Ensign or Pennant. Pennant shall also be entitled, in perpetuity, to control the assertion or waiver of all privileges in connection with privileged information that relates solely to the subject matter of any claims constituting Pennant Liabilities, now pending or which may be asserted in the future, in any lawsuits or other proceedings initiated by or against any member of the Pennant Group, whether or not the privileged information is in the possession of or under the control of Ensign or Pennant.

(c) The Parties agree that they shall have a shared privilege, with equal right to assert or waive, subject to the restrictions in this Section 8.8, with respect to all privileges not allocated pursuant to the terms of Section 8.8(b). Except as provided in Section 8.8(d), Pennant may not waive, and shall cause each other member of the Pennant Group not to waive, any privilege that could be asserted by a member of the Ensign Group under any applicable Law, and in which a member of the Ensign Group has a shared privilege, without the written consent of Ensign, which consent shall not be unreasonably withheld, conditioned or delayed. Except as provided in Section 8.8(d), Ensign may not waive, and shall cause each other member of the Ensign Group not to waive, any privilege that could be asserted by a member of the Pennant Group under any applicable Law, and in which a member of the Pennant Group has a shared privilege, without the written consent of Pennant, which consent shall not be unreasonably withheld, conditioned or delayed. If a dispute arises between or among Pennant and Ensign, or any members of their respective Groups, regarding whether a privilege should be waived to protect or advance the interest of a Party, each Party agrees that it shall endeavor to minimize any prejudice to the rights of such other Party and shall not unreasonably withhold consent to any request for waiver by such Party. Each Party agrees that it will not withhold consent to waiver for any purpose except to protect its own legitimate interests or the legitimate interests of any other member of its Group.

(d) Notwithstanding any of the other provisions of this Section 8.8, to the fullest extent permitted by Law, in the event of any litigation or dispute between or among the Parties and/or any members of their respective Groups, any Party or any members of the Party's respective Group may waive a privilege which it shares with another Party or any member of the other Group, without obtaining the written consent from the other Party or the other member(s) of a Party's Group which shares the privilege; provided, that such waiver of a shared privilege shall be effective only as to the use of information by the relevant Parties and/or the applicable members of their respective Groups in such litigation or dispute, and shall not operate as a waiver of the shared privilege with respect to any proceedings, disputes, or other matters involving third parties or with

respect to any other Actions. In the event of any such waiver, the Parties and the members of their respective Groups shall take all reasonable measures to ensure the confidentiality of the privileged information that is the subject of such waiver, including, as necessary, making any applications to an arbitral tribunal or court of law, as applicable, to preserve the confidentiality of such information; and any such privileged information shall otherwise be held confidential by the Parties and the members of their respective Groups and shall not be publicly disclosed. For the avoidance of doubt, this Section 8.8(d) provides the only circumstances, and the only conditions, under which a Party or a member of its respective Group may unilaterally waive any shared applicable legal privilege.

(e) Upon receipt by either Party, or by any member of its Group, of any subpoena, discovery or other request which requires the production or disclosure of information which such Party knows is subject to a shared privilege or as to which a member of the other Group has the sole right hereunder to assert or waive a privilege, or if either Party obtains knowledge that any of its or any other member of its Group's current or former directors, officers, agents or employees have received any subpoena, discovery or other requests which requires the production or disclosure of such privileged information, such Party shall promptly notify the other Party in writing of the existence of the request and shall provide the other Party a reasonable opportunity to review the information and to assert any rights it or they may have under this Section 8.8 or otherwise to prevent the production or disclosure of such privileged information.

(f) The access to information being granted pursuant to Section 8.1, the agreement to provide witnesses and individuals pursuant to Section 8.6 hereof, and the transfer of privileged information between and among the Parties and the members of their respective Groups pursuant to this Agreement shall not be deemed a waiver of any privilege that has been or may be asserted under this Agreement, any of the Ancillary Agreements or otherwise.

Section 8.9 Financial Information Certifications. The Parties agree to cooperate with each other in such manner as is reasonably necessary to enable the principal executive officer or officers, principal financial officer or officers and controller or controllers of each of the Parties to make the certifications required of them under Sections 302, 404 and 906 of the Sarbanes-Oxley Act of 2002.

ARTICLE IX
MUTUAL RELEASES; INDEMNIFICATION

Section 9.1 Release of Pre-Distribution Claims.

(a) Except as provided in Section 9.1(d), effective as of the Effective Time, Pennant does hereby, for itself and each other member of the Pennant Group, release and forever discharge each Ensign Indemnitee, from any and all Liabilities whatsoever to any member of the Pennant Group, whether at law or in equity (including any right of contribution), whether arising under any Contract, by operation of Law or otherwise, existing or arising from any acts or events occurring or failing to occur or alleged to have occurred or to have failed to occur or any conditions existing or alleged to have existed at or before the Effective Time, including in connection with the Transactions.

(b) Except as provided in Section 9.1(d), effective as of the Effective Time, Ensign does hereby, for itself and each other member of the Ensign Group, release and forever discharge each Pennant Indemnitee from any and all Liabilities whatsoever to any member of the Ensign Group, whether at law or in equity (including any right of contribution), whether arising under any Contract, by operation of Law or otherwise, existing or arising from any acts or events occurring or failing to occur or alleged to have occurred or to have failed to occur or any conditions existing or alleged to have existed at or before the Effective Time, including in connection with the Transactions.

(c) The Parties expressly understand and acknowledge that it is possible that unknown Losses or Claims exist or might come to exist or that present Losses may have been underestimated in amount, severity, or both. Accordingly, the Parties are deemed expressly to understand provisions and principles of law such as Section 1542 of the Civil Code of the State of California (as well as any and all provisions, rights and benefits conferred by any Law of any state or territory of the United States, or principle of common law, which is similar or comparable to Section 1542), which Section provides: **A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY**. The Parties are hereby deemed to agree that the provisions of Section 1542 and all similar federal or state Laws, rights, rules or legal principles of California or any other jurisdiction that may be applicable herein, are hereby knowingly and voluntarily waived and relinquished with respect to the releases in Section 9.1(a) and Section 9.1(b).

(d) Nothing contained in Section 9.1(a) or Section 9.1(b) shall impair any right of any Person to enforce this Agreement, any Ancillary Agreement or any agreements, arrangements, commitments or understandings that are specified in, or contemplated to continue pursuant to, this Agreement or any Ancillary Agreement. Without limiting the foregoing, nothing contained in Section 9.1(a) or Section 9.1(b) shall release any Person from:

(i) any Liability, contingent or otherwise, assumed by, or allocated to, such Person in accordance with this Agreement or any Ancillary Agreement;

(ii) any Liability that such Person may have with respect to indemnification or contribution pursuant to this Agreement or any Ancillary Agreement for claims brought by third Persons, which Liability shall be governed by the provisions of this Article IX and, if applicable, the appropriate provisions of the Ancillary Agreements;

(iii) any unpaid accounts payable or receivable arising from or relating to the sale, provision, or receipt of goods, payment for goods, property or services purchased, obtained or used in the ordinary course of business by any member of the Ensign Group from any member of the Pennant Group, or by any member of the Pennant Group from any member of the Ensign Group from and after the Effective Time; or

(iv) any Liability the release of which would result in the release of any Person other than an Indemnitee; provided, that the Parties agree not to bring suit, or permit any other member of their respective Group to bring suit, against any Indemnitee with respect to such Liability.

(e) Pennant shall not make, and shall not permit any other member of the Pennant Group to make, any claim or demand, or commence any Action asserting any claim or demand, including any claim of contribution or indemnification, against any Ensign Indemnitee with respect to any Liabilities released pursuant to Section 9.1(a). Ensign shall not make, and shall not permit any member of the Ensign Group to make, any claim or demand, or commence any Action asserting any claim or demand, including any claim of contribution or any indemnification, against any Pennant Indemnitee with respect to any Liabilities released pursuant to Section 9.1(b).

Section 9.2 Indemnification by Pennant. Except as provided in Section 9.4 and Section 9.5, Pennant shall, and, in the case of Section 9.2(a) or Section 9.2(b), shall in addition cause each Appropriate Member of the Pennant Group to, indemnify, defend and hold harmless, the Ensign Indemnitees from and against any and all Losses of the Ensign Indemnitees relating to, arising out of or resulting from any of the following (without duplication):

(a) any Pennant Liability, including the failure of any member of the Pennant Group or any other Person to pay, perform or otherwise promptly discharge any Pennant Liabilities in accordance with their respective terms, whether prior to, at or after the Effective Time;

(b) any breach by any member of the Pennant Group of any provision of this Agreement or of any of the Ancillary Agreements, subject to any limitations of liability provisions and other provisions applicable to any such breach set forth therein; and

(c) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to all information contained or incorporated by reference in the Registration Statement or the Information Statement other than information that relates solely to the Pennant Business;

in each case, without regard to when or where the Loss, claim, accident, occurrence, event or happening giving rise to the Loss took place, or whether any such Loss, claim, accident, occurrence, event or happening is known or unknown, or reported or unreported and regardless of whether such Loss, claim, accident, occurrence, event or happening giving rise to the Loss existed prior to, on or after the Effective Time or relates to, arises out of or results from actions, inactions, events, omissions, conditions, facts or circumstances occurring or existing prior to, on or after the Effective Time. As used in this Section 9.2, "Appropriate Member of the Pennant Group" means the member or members of the Pennant Group, if any, whose acts, conduct or omissions or failures to act caused, gave rise to or resulted in the Loss from and against which indemnity is provided.

Section 9.3 Indemnification by Ensign. Except as provided in Section 9.4 and Section 9.5, Ensign shall, and, in the case of Section 9.3(a) or Section 9.3(b), shall in addition cause each Appropriate Member of the Ensign Group to, indemnify, defend and hold harmless the Pennant Indemnitees from and against any and all Losses of the Pennant Indemnitees relating to, arising out of or resulting from any of the following (without duplication):

(a) any Ensign Liability, including the failure of any member of the Ensign Group or any other Person to pay, perform or otherwise promptly discharge any Ensign Liabilities in accordance with their respective terms, whether prior to, at or after the Effective Time;

(b) any breach by any member of the Ensign Group of any provision of this Agreement or of any of the Ancillary Agreements, subject to any limitations of liability provisions and other provisions applicable to any such breach set forth therein; and

(c) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to information contained or incorporated by reference in the Registration Statement or the Information Statement that relates solely to the Ensign Business;

in each case, without regard to when or where the Loss, claim, accident, occurrence, event or happening giving rise to the Loss took place, or whether any such Loss, claim, accident, occurrence, event or happening is known or unknown, or reported or unreported and regardless of whether such Loss, claim, accident, occurrence, event or happening giving rise to the Loss existed prior to, on or after the Effective Time or relates to, arises out of or results from actions, inactions, events, omissions, conditions, facts or circumstances occurring or existing prior to, on or after the Effective Time. As used in this Section 9.3, "Appropriate Member of the Ensign Group" means the member or members of the Ensign Group, if any, whose acts, conduct or omissions or failures to act caused, gave rise to or resulted in the Loss from and against which indemnity is provided.

Section 9.4 Procedures for Indemnification.

(a) An Indemnitee shall give written notice of any matter that such Indemnitee has determined has given or would reasonably be expected to give rise to a right of indemnification under this Agreement or any Ancillary Agreement (other than a Third-Party Claim which shall be governed by Section 9.4(b)) to any Party that is or may be required pursuant to this Agreement or any Ancillary Agreement to make such indemnification (the "Indemnifying Party") promptly (and in any event within fifteen (15) days) after making such a determination. Such notice shall state the amount of the Loss claimed, if known, and method of computation thereof, and containing a reference to the provisions of this Agreement or the applicable Ancillary Agreement in respect of which such right of indemnification is claimed by such Indemnitee; provided, however, that the failure to provide such notice shall not release the Indemnifying Party from any of its obligations except and solely to the extent the Indemnifying Party shall have been materially prejudiced as a result of such failure.

(b) If a claim or demand is made against an Indemnitee by any Person who is not a Party to this Agreement or an Affiliate of a Party (a "Third-Party Claim") as to which such Indemnitee is or reasonably expects to be entitled to indemnification pursuant to this Agreement, such Indemnitee shall notify the Indemnifying Party in writing, and in reasonable detail, of the Third-Party Claim promptly (and in any event within thirty (30) days) after receipt by such Indemnitee of written notice of the Third-Party Claim; provided, however, that the failure to provide notice of any such Third-Party Claim pursuant to this sentence shall not release the Indemnifying Party from any of its obligations except and solely to the extent the Indemnifying

Party shall have been materially prejudiced as a result of such failure (except that the Indemnifying Party or Parties shall not be liable for any expenses incurred by the Indemnitee in defending such Third-Party Claim during the period in which the Indemnitee failed to give such notice). Thereafter, the Indemnitee shall deliver to the Indemnifying Party, promptly (and in any event within ten (10) days) after the Indemnitee's receipt thereof, copies of all notices and documents (including court papers) received by the Indemnitee relating to the Third-Party Claim.

(c) An Indemnifying Party shall be entitled (but shall not be required) to assume, control the defense of, and settle any Third-Party Claim, at such Indemnifying Party's own cost and expense and by such Indemnifying Party's own counsel, which counsel must be reasonably acceptable to the Indemnitee, if it gives written notice of its intention to do so (including a statement that the Indemnitee is entitled to indemnification under this Article IX) to the applicable Indemnitees within thirty (30) days of the receipt of notice from such Indemnitees of the Third-Party Claim (failure of the Indemnifying Party to respond within such thirty (30) day period shall be deemed to be an election by the Indemnifying Party not to assume the defense for such Third-Party Claim). After a notice from an Indemnifying Party to an Indemnitee of its election to assume the defense of a Third-Party Claim, such Indemnitee shall have the right to employ separate counsel and to participate in (but not control) the defense, compromise or settlement thereof, at its own expense and, in any event, shall reasonably cooperate with the Indemnifying Party in such defense and make available to the Indemnifying Party all witnesses and information in such Indemnitee's possession or under such Indemnitee's control relating thereto as are reasonably required by the Indemnifying Party; provided, however, that such access shall not require the Indemnitee to disclose any information the disclosure of which would, in the good faith judgment of the Indemnitee, result in the loss of any existing privilege with respect to such information or violate any applicable Law or to take any actions that would unreasonably interfere with the operation of the Indemnitee's business.

(d) Notwithstanding anything to the contrary in this Section 9.4, in the event that (i) an Indemnifying Party elects not to assume the defense of a Third-Party Claim, (ii) there exists a conflict of interest or potential conflict of interest between the Indemnifying Party and the Indemnitee, (iii) any Third-Party Claim seeks an order, injunction or other equitable relief or relief for other than money damages against the Indemnitee, (iv) the Indemnitee's exposure to Liability in connection with such Third-Party Claim is reasonably expected to exceed the Indemnifying Party's exposure in respect of such Third-Party Claim taking into account the indemnification obligations hereunder, or (v) the Person making such Third-Party Claim is a Governmental Authority with regulatory authority over the Indemnitee or any of its material Assets, such Indemnitee shall be entitled to control the defense of such Third-Party Claim, at the Indemnifying Party's expense, with counsel of such Indemnitee's choosing (such counsel to be reasonably acceptable to the Indemnifying Party). If the Indemnitee is conducting the defense against any such Third-Party Claim, the Indemnifying Party shall reasonably cooperate with the Indemnitee in such defense and make available to the Indemnitee all witnesses and information in such Indemnifying Party's possession or under such Indemnifying Party's control relating thereto as are reasonably required by the Indemnitee; provided, however, that such access shall not require the Indemnifying Party to disclose any information the disclosure of which would, in the good faith judgment of the Indemnifying Party, result in the loss of any existing privilege with respect to such information or violate any applicable Law or to take any actions that would unreasonably interfere with the operation of the Indemnitee's business.

(e) Unless the Indemnifying Party has failed to assume the defense of the Third-Party Claim in accordance with the terms of this Agreement, no Indemnitee may settle or compromise any Third-Party Claim without the prior written consent of the Indemnifying Party (not to be unreasonably withheld, conditioned or delayed). If an Indemnifying Party has failed to assume the defense of the Third-Party Claim, it shall not be a defense to any obligation to pay any amount in respect of such Third-Party Claim that the Indemnifying Party was not consulted in the defense thereof, that such Indemnifying Party's views or opinions as to the conduct of such defense were not accepted or adopted, that such Indemnifying Party does not approve of the quality or manner of the defense thereof or that such Third-Party Claim was incurred by reason of a settlement rather than by a judgment or other determination of liability.

(f) In the case of a Third-Party Claim, no Indemnifying Party shall consent to entry of any judgment or enter into any settlement of the Third-Party Claim without the prior written consent (not to be unreasonably withheld, conditioned or delayed) of the Indemnitee if the effect thereof is to permit any injunction, declaratory judgment, other order or other non-monetary relief to be entered, directly or indirectly, against any Indemnitee, does not release the Indemnitee from all liabilities and obligations with respect to such Third-Party Claim or includes an admission of guilt or liability on behalf of the Indemnitee.

(g) Absent fraud or intentional misconduct by an Indemnifying Party, the indemnification provisions of this Article IX shall be the sole and exclusive remedy of an Indemnitee for any monetary or compensatory damages or Losses resulting from any breach of this Agreement or any Ancillary Agreement, and each Indemnitee expressly waives and relinquishes any and all rights, claims or remedies such Person may have with respect to the foregoing other than under this Article IX against any Indemnifying Party.

Section 9.5 Indemnification Obligations Net of Insurance Proceeds. The Parties intend that any Loss subject to indemnification or reimbursement pursuant to this Article IX (an "Indemnifiable Loss") will be net of Insurance Proceeds actually received that actually reduce the amount of the Loss. Accordingly, the amount which an Indemnifying Party is required to pay to any Indemnitee will be reduced by any Insurance Proceeds actually recovered by or on behalf of the Indemnitee in reduction of the related Loss. If an Indemnitee receives a payment (an "Indemnity Payment") required by this Agreement from an Indemnifying Party in respect of any Loss and subsequently receives Insurance Proceeds, the Indemnitee will promptly pay to the Indemnifying Party an amount equal to the excess of the Indemnity Payments received over the amount of the Indemnity Payments that would have been due if the Insurance Proceeds recovery had been received, realized or recovered before the Indemnity Payments were made. The Indemnitee shall use and cause its Affiliates to use commercially reasonable efforts to recover any Insurance Proceeds to which the Indemnitee is entitled with respect to any Indemnifiable Loss. The existence of a claim by an Indemnitee for insurance or against a third party in respect of any Indemnifiable Loss shall not, however, delay any payment pursuant to the indemnification provisions contained in this Article IX and otherwise determined to be due and owing by an Indemnifying Party; rather, the Indemnifying Party shall make payment in full of such amount so determined to be due and owing by it against a concurrent written assignment by the Indemnitee to the Indemnifying Party of the portion of the claim of the Indemnitee for such insurance or against such third party equal to the amount of such payment. The Indemnitee shall use and cause its Affiliates to use commercially reasonable efforts to assist the Indemnifying Party in recovering

or to recover on behalf of the Indemnifying Party, any Insurance Proceeds to which the Indemnifying Party is entitled with respect to any Indemnifiable Loss as a result of such assignment. The Indemnitee shall make available to the Indemnifying Party and its counsel all employees, books and records, communications, documents, items or matters within its knowledge, possession or control that are necessary, appropriate or reasonably deemed relevant by the Indemnifying Party with respect to the recovery of such Insurance Proceeds; provided, however, that nothing in this sentence shall be deemed to require a Party to make available books and records, communications, documents or items which (i) in such Party's good faith judgment could result in a waiver of any privilege even if the Parties cooperated to protect such privilege as contemplated by this Agreement or (ii) such Party is not permitted to make available because of any Law or any confidentiality obligation to a third party, in which case such Party shall use commercially reasonable efforts to seek a waiver of or other relief from such confidentiality restriction. Unless the Indemnifying Party has made payment in full of any Indemnifiable Loss, such Indemnifying Party shall use and cause its Affiliates to use commercially reasonable efforts to recover any Insurance Proceeds to which it or such Affiliate is entitled with respect to any Indemnifiable Loss.

Section 9.6 Indemnification Obligations Net of Taxes. The Parties intend that any Indemnifiable Loss will be net of Taxes. Accordingly, the amount which an Indemnifying Party is required to pay to an Indemnitee will be adjusted to reflect any Tax benefit to the Indemnitee from the underlying Loss and to reflect any Taxes imposed upon the Indemnitee as a result of the receipt of such payment. Such an adjustment will first be made at the time that the Indemnity Payment is made and will further be made, as appropriate, to take into account any change in the liability of the Indemnitee for Taxes that occurs in connection with the final resolution of an audit by a Taxing Authority. For purposes of this Section 9.6, the value of any Tax benefit to the Indemnitee from the underlying Loss shall be an amount equal to the product of (a) the amount of any present or future deduction allowed or allowable to the Indemnitee by the Code, or other applicable Law, as a result of such Loss and (b) the highest statutory rate applicable under Section 11 of the Code, or other applicable Law. For all Tax purposes other than for purposes of Section 355(g) of the Code, Ensign and Pennant agree to treat (i) any payment required by this Agreement (other than payments with respect to interest accruing after the Effective Time) as either a contribution by Ensign to Pennant or a distribution by Pennant to Ensign, as the case may be, occurring immediately prior to the Effective Time or as a payment of an assumed or retained Liability, and (ii) any payment of interest as taxable or deductible, as the case may be, to the party entitled under this Agreement to retain such payment or required under this Agreement to make such payment, in either case except as otherwise required by applicable Law.

Section 9.7 Contribution. If the indemnification provided for in this Article IX is unavailable to an Indemnitee in respect of any Indemnifiable Loss, then the Indemnifying Party, in lieu of indemnifying such Indemnitee, shall contribute to the Losses paid or payable by such Indemnitee as a result of such Indemnifiable Loss in such proportion as is appropriate to reflect the relative fault of Pennant and each other member of the Pennant Group, on the one hand, and Ensign and each other member of the Ensign Group, on the other hand, in connection with the circumstances which resulted in such Indemnifiable Loss.

Section 9.8 Remedies Cumulative. The remedies provided in this Article IX shall be cumulative and, subject to the provisions of Article X, shall not preclude assertion by any Indemnitee of any other rights or the seeking of any and all other remedies against any Indemnifying Party.

Section 9.9 Survival of Indemnities. The rights and obligations of each of the Parties and their respective Indemnitees under this Article IX shall survive the Effective Time for a period of twenty (20) years thereafter and shall survive the sale or other transfer by any Party or any of its Subsidiaries of any Assets or businesses or the assignment by it of any Liabilities.

Section 9.10 Limitation of Liability. EXCEPT TO THE EXTENT SPECIFICALLY PROVIDED IN THIS AGREEMENT AND ANY ANCILLARY AGREEMENT, IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER PARTY, WHETHER IN CONTRACT, IN TORT (INCLUDING NEGLIGENCE AND STRICT LIABILITY) OR OTHERWISE, FOR ANY EXEMPLARY, PUNITIVE, INDIRECT, REMOTE OR SPECULATIVE DAMAGES AS A RESULT OF ANY BREACH, PERFORMANCE OR NON-PERFORMANCE BY SUCH PARTY UNDER THIS AGREEMENT OR SUCH ANCILLARY AGREEMENT, WHETHER OR NOT SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

ARTICLE X
DISPUTE RESOLUTION

Section 10.1 Appointed Representative. Each Party shall appoint a representative who shall be responsible for administering the dispute resolution provisions in Section 10.2 (each, an "Appointed Representative"). Each Appointed Representative shall have the authority to resolve any Disputes on behalf of the Party appointing such representative.

Section 10.2 Negotiation and Dispute Resolution.

(a) Any dispute, controversy or claim arising out of, in connection with, or in relation to the interpretation, performance, nonperformance, enforceability, validity, termination or breach of this Agreement or any Ancillary Agreement or any of the transactions contemplated hereby or thereby between or among the Parties or any members of their respective Groups (each, a "Dispute" and, collectively, "Disputes") shall first be referred by either Party or any of the members of their respective Groups for amicable negotiations by the Appointed Representatives by providing written notice of such Dispute in the manner provided by Section 12.7 below ("Dispute Notice"). All documents, communications and information disclosed in the course of such negotiations that are not otherwise independently discoverable shall not be offered or received as evidence or used for impeachment or for any other purpose, but shall be considered as to have been disclosed for settlement purposes.

(b) If, for any reason, a satisfactory resolution of any Dispute is not achieved by the Appointed Representatives within thirty (30) days of the date of delivery of the Dispute Notice, such Dispute shall be referred for final and binding resolution by arbitration administered by the American Arbitration Association ("AAA") under its Commercial Arbitration Rules then in effect (the "AAA Rules"), except as modified herein:

(i) The arbitration shall be held in Orange County, California. There shall be three arbitrators. Each Party shall appoint one arbitrator in the manner provided by the AAA Rules. The two Party-appointed arbitrators shall jointly appoint the third arbitrator, who shall chair the arbitral tribunal. Upon the written request of any party to the Dispute, any arbitrator not timely shall be appointed by the AAA in the manner provided in the AAA Rules.

(ii) By electing to proceed under the AAA Rules, the parties to the Dispute confirm that any dispute, Claim or controversy concerning the arbitrability of a Dispute, including whether arbitration has been waived, whether an assignee of this Agreement is bound to arbitrate, or as to the interpretation or enforceability of this Section 10.2, shall be determined by the arbitrators.

(iii) The parties to the Dispute intend that the arbitrators shall apply the substantive Laws of the State of Delaware to any Dispute hereunder, without regard to any choice of law principles thereof that would mandate the application of the Laws of another jurisdiction. The parties further intend that this agreement to arbitrate shall be valid, enforceable and irrevocable, and any award rendered by the arbitrators shall be final and binding on all the parties to the Dispute. The parties to the Dispute agree to comply with any award made in any such arbitration proceedings and agree to enforcement of or entry of judgment upon such award, in any California state or federal court, or in any other court of competent jurisdiction.

(iv) By agreeing to arbitration, the parties to the Dispute do not intend to deprive any court of its jurisdiction to issue a pre-arbitral injunction, pre-arbitral attachment, or other order in aid of arbitration proceedings and the enforcement of any award. Without prejudice to such provisional remedies as may be available under the jurisdiction of a court, the arbitral tribunal shall have full authority to grant provisional remedies and to direct the parties to request that any court modify or vacate any temporary or preliminary relief issued by such court, and to award damages for the failure of any party to respect the arbitral tribunal's orders to that effect. In any such action each of the parties to the Dispute irrevocably and unconditionally (i) consents and submits to the jurisdiction and venue of the Courts of the State of California and the Federal Courts of the United States of America located within the State of California (the "California Courts"); (ii) waives, to the fullest extent it may effectively do so, any objection, including any objection to the laying of venue or based on the grounds of forum non conveniens or any right of objection to jurisdiction on account of its place of incorporation or domicile, which it may now or hereafter have to the bringing of any such action or proceeding in any California Court; (iii) consents to service of process in the manner provided by Section 12.8 below or in any other manner permitted by law; and (iv) **WAIVES ANY RIGHT TO TRIAL BY JURY**.

(v) This arbitration, and all prior, subsequent or concurrent judicial proceedings related thereto and permitted herein, shall be conducted pursuant to the Federal Arbitration Act, found at Title 9 of the U.S. Code.

(vi) In order to facilitate the comprehensive resolution of related disputes, all claims between any of the parties to the Dispute that arise under or in connection with this Agreement and the Ancillary Agreements may be brought in a single arbitration. Upon the request of any party to an arbitration proceeding constituted under this Agreement or the

Ancillary Agreement(s), the arbitral tribunal shall consolidate such arbitration proceeding with any other arbitration proceeding relating to this Agreement and/or the Ancillary Agreement(s), if the arbitral tribunal determines that (i) there are issues of fact or law common to the proceedings so that a consolidated proceeding would be more efficient than separate proceedings, and (ii) no party to the Dispute would be unduly prejudiced as a result of such consolidation through undue delay or otherwise. In the event of different rulings on this question by the arbitral tribunal constituted hereunder and another arbitral tribunal constituted under this Agreement or the Ancillary Agreement(s), the ruling of the arbitral tribunal constituted first in time shall control, and such arbitral tribunal shall serve as the tribunal for any consolidated arbitration.

(vii) In the event of a Dispute, each party to the Dispute shall continue to perform its obligations under this Agreement or any Ancillary Agreement in good faith during the resolution of such Dispute as if such Dispute had not arisen, unless and until this Agreement or such Ancillary Agreement is terminated in accordance with the provisions hereof.

(c) The Parties agree that the provisions of this Section 10.2 bind themselves and any of the members of their respective Groups, and further agree to take all measures to lawfully cause the members of their respective Groups to abide and be bound by the terms of this Section 10.2.

ARTICLE XI
TERMINATION

Section 11.1 Termination. Upon written notice, this Agreement and each of the Ancillary Agreements may be terminated at any time prior to the Effective Time by and in the sole discretion of Ensign without the approval of Pennant or any other party thereto.

Section 11.2 Effect of Termination. In the event of termination pursuant to Section 11.1, neither Party shall have any Liability of any kind to the other Party as a result of such termination.

ARTICLE XII
MISCELLANEOUS

Section 12.1 Further Assurances. Subject to the limitations or other provisions of this Agreement, (a) each Party shall, and shall cause the other members of its Group to, use commercially reasonable efforts (subject to, and in accordance with applicable Law) to take promptly, or cause to be taken promptly, all actions, and to do promptly, or cause to be done promptly, and to assist and cooperate with the other Party in doing, all things reasonably necessary, proper or advisable to consummate and make effective the Transactions and to carry out the intent and purposes of this Agreement, including using commercially reasonable efforts to obtain satisfaction of the conditions precedent in Article V within its reasonable control and to perform all covenants and agreements herein applicable to such Party or any member of its Group and (b) neither Party will, nor will either Party allow any other member of its Group to, without the prior written consent of the other Party, take any action which would reasonably be expected to prevent or materially impede, interfere with or delay any of the Transactions. Without limiting the generality of the foregoing, where the cooperation of third parties, such as insurers or trustees, would be necessary in order for a Party to completely fulfill its obligations under this Agreement, such Party shall use commercially reasonable efforts to cause such third parties to provide such cooperation.

Section 12.2 Payment of Expenses. All costs and expenses incurred and directly related to the Transactions shall be paid by the Party to which such cost or expense is properly allocable.

Section 12.3 Amendments and Waivers.

(a) Subject to Section 11.1, this Agreement may not be amended except by an agreement in writing signed by both Parties.

(b) Any term or provision of this Agreement may be waived, or the time for its performance may be extended, by the Party entitled to the benefit thereof and any such waiver shall be validly and sufficiently given for the purposes of this Agreement if it is in writing signed by an authorized representative of such Party. No delay or failure in exercising any right, power or remedy hereunder shall affect or operate as a waiver thereof; nor shall any single or partial exercise thereof or any abandonment or discontinuance of steps to enforce such a right, power or remedy preclude any further exercise thereof or of any other right, power or remedy. The rights and remedies hereunder are cumulative and not exclusive of any rights or remedies that either Party would otherwise have.

Section 12.4 Entire Agreement. This Agreement, the Ancillary Agreements and the Exhibits and Schedules referenced herein and therein and attached hereto or thereto, constitute the entire agreement and understanding between the Parties with respect to the subject matter hereof and supersede all prior negotiations, agreements, commitments, writings, courses of dealing and understandings with respect to the subject matter hereof.

Section 12.5 Survival of Agreements. Except as otherwise expressly contemplated by this Agreement, all covenants and agreements of the Parties contained in this Agreement shall survive the Effective Time and remain in full force and effect in accordance with their applicable terms.

Section 12.6 Third-Party Beneficiaries. Except (a) as provided in Article IX relating to Indemnitees and for the release of any Person provided under Section 9.1, (b) as provided in Section 7.1 relating to insured persons and (c) as provided in Section 8.1(a), this Agreement is solely for the benefit of the Parties and should not be deemed to confer upon third parties any remedy, claim, liability, reimbursement, cause of action or other right in excess of those existing without reference to this Agreement.

Section 12.7 Coordination with Tax Matters Agreement. Except as specifically provided herein, this Agreement shall not apply to Taxes (which are covered by the Tax Matters Agreement). In the case of any conflict between this Agreement and the Tax Matters Agreement in relation to any matter addressed in the Tax Matters Agreement, the Tax Matters Agreement shall prevail.

Section 12.8 Notices. All notices, requests, permissions, waivers and other communications hereunder shall be in writing and shall be deemed to have been duly given (a) five (5) Business Days following sending by registered or certified mail, postage prepaid, (b) when sent, if sent by facsimile or e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient, (c) when delivered, if delivered personally to the intended recipient, and (d) one (1) Business Day following sending by overnight delivery via a national courier service and, in each case, addressed to a Party at the following address for such Party (as updated from time to time by notice in writing to the other Party):

(a) If to Ensign:

The Ensign Group, Inc.
29222 Rancho Viejo Rd., Suite 127
San Juan Capistrano, CA 92675
Attention: General Counsel
Email: legal@ensignservices.net

(b) If to Pennant:

The Pennant Group, Inc.
1675 E. Riverside Dr., Ste. 150
Eagle, ID 83616
Attention: General Counsel
Email: legal@pennantservices.com

Section 12.9 Counterparts; Electronic Delivery. This Agreement may be executed in multiple counterparts, each of which when executed shall be deemed to be an original, but all of which together shall constitute one and the same agreement. Execution and delivery of this Agreement or any other documents pursuant to this Agreement by facsimile or other electronic means shall be deemed to be, and shall have the same legal effect as, execution by an original signature and delivery in person.

Section 12.10 Severability. If any term or other provision of this Agreement or the Exhibits and Schedules attached hereto is determined by a nonappealable decision by a court, administrative agency or arbitrator to be invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the Transactions is not affected in any manner materially adverse to either Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the court, administrative agency or arbitrator shall interpret this Agreement so as to affect the original intent of the Parties as closely as possible in an acceptable manner to the end that the Transactions are fulfilled to the fullest extent possible. If any sentence in this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only as broad as is enforceable.

Section 12.11 Assignability; Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Parties and their successors and permitted assigns; provided, however, that the rights and obligations of each Party under this Agreement shall not be assignable, in whole or in part, directly or indirectly, whether by operation of law or otherwise, by such Party without

the prior written consent of the other Party (such consent not to be unreasonably withheld, conditioned or delayed) and any attempt to assign any rights or obligations under this Agreement without such consent shall be null and void. Notwithstanding the foregoing, either Party may assign its rights and obligations under this Agreement to any of their respective Affiliates provided that no such assignment shall release such assigning Party from any liability or obligation under this Agreement.

Section 12.12 Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the substantive Laws of the State of Delaware, without regard to any conflicts of law provisions thereof that would result in the application of the Laws of any other jurisdiction.

Section 12.13 Construction. This Agreement shall be construed as if jointly drafted by the Parties and no rule of construction or strict interpretation shall be applied against either Party. The Parties represent that this Agreement is entered into with full consideration of any and all rights which the Parties may have. The Parties have relied upon their own knowledge and judgment. The Parties have had access to independent legal advice, have conducted such investigations they thought appropriate, and have consulted with such other independent advisors as they deemed appropriate regarding this Agreement and their rights and asserted rights in connection therewith. The Parties are not relying upon any representations or statements made by the other Party, or such other Party's employees, agents, representatives or attorneys, regarding this Agreement, except to the extent such representations are expressly set forth or incorporated in this Agreement. The Parties are not relying upon a legal duty, if one exists, on the part of the other Party (or such other Party's employees, agents, representatives or attorneys) to disclose any information in connection with the execution of this Agreement or their preparation, it being expressly understood that neither Party shall ever assert any failure to disclose information on the part of the other Party as a ground for challenging this Agreement.

Section 12.14 Performance. Each Party shall cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth herein to be performed by any Subsidiary or Affiliate of such Party.

Section 12.15 Title and Headings. Titles and headings to Sections and Articles are inserted for the convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

Section 12.16 Exhibits and Schedules. The Exhibits and Schedules attached hereto are incorporated herein by reference and shall be construed with and as an integral part of this Agreement to the same extent as if the same had been set forth verbatim herein.

[Signature Page Follows]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective officers as of the date first set forth above.

THE ENSIGN GROUP, INC.

By: _____
Name:
Title:

THE PENNANT GROUP, INC.

By: _____
Name:
Title:

Exhibit A

Pennant Subsidiaries

1. Cornerstone Healthcare, Inc.
2. Pinnacle Senior Living LLC
3. Eagle Pass Senior Living LLC
4. Mission Inn Senior Living LLC
5. Brookhollow Senior Living LLC
6. Beach City Senior Living LLC
7. Mesa Springs Senior Living LLC

Certain Pennant Assets

None.

Certain Pennant Liabilities

None.

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF THE PENNANT GROUP, INC.

The Pennant Group, Inc. (the "Corporation"), a corporation organized and existing under the General Corporation Law of the State of Delaware (the "DGCL"), hereby certifies that:

FIRST: The Certificate of Incorporation of the Corporation (the "Original Certificate of Incorporation") was originally filed in the Office of the Secretary of the State of Delaware on January 24, 2019.

SECOND: This Amended and Restated Certificate of Incorporation of the Corporation (this "Amended and Restated Certificate of Incorporation") has been duly approved by the board of directors of the Corporation in accordance with the provisions of Sections 242 and 245 of the DGCL, and was approved by the written consent of the sole stockholder of the Corporation in accordance with the provisions of Section 228 of the DGCL.

THIRD: This Amended and Restated Certificate of Incorporation amends, restates and integrates the Original Certificate of Incorporation.

FOURTH: The Original Certificate of Incorporation is hereby amended and restated to read in its entirety as follows:

ARTICLE I

The name of the Corporation is The Pennant Group, Inc.

ARTICLE II

The address of the Corporation's registered office in the State of Delaware is 1209 Orange Street, City of Wilmington, New Castle County, Delaware 19801. The name of the Corporation's registered agent at that address is The Corporation Trust Company.

ARTICLE III

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may now or hereafter be organized under the DGCL, as amended from time to time.

ARTICLE IV

The total number of shares of capital stock the Corporation is authorized to issue is One Hundred and One Million (101,000,000) shares, consisting of One Hundred Million (100,000,000) shares of common stock, par value $0.001 per share (the "Common Stock"), and One Million (1,000,000) shares of preferred stock, par value $0.001 per share ("Preferred Stock").

A. The holders of shares of the Common Stock shall be entitled to vote on all matters to be voted on by the stockholders of the Corporation and shall be entitled to one vote for each share thereof held of record.

B. The Preferred Stock may be issued from time to time by the board of directors as shares of one or more classes or series, without further stockholder approval. Subject to the provisions hereof and the limitations prescribed by law, the board of directors is expressly authorized, by adopting resolutions providing for the issuance of shares of any particular class or series and, if and to the extent from time to time required by law, by filing with the Delaware Secretary of State a certificate setting forth the resolutions so adopted pursuant to the DGCL, to establish the number of shares to be included in each such class or series and to fix the designation and relative powers, including voting powers (which may be full, limited or non-voting powers), preferences, rights, qualifications and limitations and restrictions thereof, relating to the shares of each such class or series. The rights, privileges, preferences and restrictions of any such additional class or series may be subordinated to, pari passu with (including, without limitation, inclusion in provisions with respect to liquidation and acquisition preferences, redemption and/or approval of matters by vote), or senior to any of those of any present or future class or series of Preferred Stock or Common Stock. The board of directors is also authorized to increase or decrease the number of authorized shares of any class or series of Preferred Stock prior or subsequent to the issue of that class or series, but not below the number of shares of such class or series then outstanding. In case the number of shares of any class or series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such class or series.

The authority of the board of directors with respect to each class or series shall include, but not be limited to, determination of the following:

(i) the distinctive class or serial designation of such class or series and the number of shares constituting such class or series;

(ii) the annual dividend rate on shares of such class or series, if any, whether dividends shall be cumulative and, if so, from which date or dates;

(iii) whether the shares of such class or series shall be redeemable and, if so, the terms and conditions of such redemption, including the date or dates upon and after which such shares shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates;

(iv) the obligation, if any, of the Corporation to retire shares of such class or series pursuant to a sinking fund;

(v) whether shares of such class or series shall be convertible into, or exchangeable for, shares of stock of any other class or classes and, if so, the terms and conditions of such conversion or exchange, including the price or prices or the rate or rates of conversion or exchange and the terms of adjustment, if any;

(vi) whether the shares of such class or series shall have voting rights, in addition to any voting rights provided by law, and, if so, the terms of such voting rights;

(vii) the rights of the shares of such class or series in the event of voluntary or involuntary liquidation, dissolution or winding-up of the Corporation; and

(viii) any other relative rights, powers, preferences, qualifications, limitations or restrictions thereof relating to such class or series.

ARTICLE V

The number of directors to constitute the whole board of directors shall be such number (not less than four nor more than seven) as shall be fixed from time to time by resolution of the board of directors adopted by such vote as may be required in the bylaws. The board of directors shall be divided into three classes as nearly equal in number as may be feasible, hereby designated as Class I, Class II and Class III, with the term of office of one class expiring each year. For the purposes hereof, the initial Class I, Class II and Class III directors shall be so designated by a resolution of the board of directors. Each director shall serve for a term ending on the third annual meeting of stockholders following the annual meeting of stockholders at which such director was elected, or until his or her earlier death, resignation or removal; provided, however, that the directors first elected to Class I shall serve for a term ending on the Corporation's first annual meeting of stockholders following the effectiveness of this Amended and Restated Certificate of Incorporation, the directors first elected to Class II shall serve for a term ending on the Corporation's second annual meeting of stockholders following the effectiveness of this Amended and Restated Certificate of Incorporation, and the directors first elected to Class III shall serve for a term ending on the Corporation's third annual meeting of stockholders following the effectiveness of this Amended and Restated Certificate of Incorporation. Subject to the rights, if any, of the holders of any Preferred Stock then outstanding, any vacancy in the board of directors, whether because of death, resignation, disqualification, an increase in the authorized number of directors, removal, or any other cause, may be filled by a vote of the majority of the remaining directors, although less than a quorum, or by a sole remaining director. When the board of directors fills a vacancy, the director chosen to fill that vacancy shall complete the term of the director he or she succeeds (or shall complete the term of the class of directors in which the new directorship was created) and shall hold office until such director's successor shall have been elected and qualified or until such director's earlier death, resignation or removal. No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of such director's term of office. Directors shall continue in office until others are elected and qualified in their stead, or until their earlier death, resignation or removal. When the number of directors is changed, each director then serving as such shall nevertheless continue as a director of the class of which he or she is a member until the expiration of his or her current term, and any newly created directorships or any decrease in directorships shall be so assigned among the classes by a majority of the directors then in office, though less than a quorum, as to make all classes as nearly equal in number as may be feasible. Subject to the rights of the holders of any series of Preferred Stock then outstanding and notwithstanding any other provision of this Amended and Restated Certificate of Incorporation, directors may be removed only for cause and only upon the affirmative vote of stockholders representing at least sixty-six and two-thirds percent (66$^{2}/_{3}$%) of the voting power of all of the shares of the Common Stock outstanding entitled to vote thereon, at a meeting of the Corporation's stockholders called for that purpose. Any director may resign at any time upon written notice to the Corporation.

Advance notice of stockholder nominations for the election of members of the board of directors and of business to be brought by stockholders before any meeting of the stockholders of the Corporation shall be given in the manner provided in the bylaws of the Corporation. Elections of directors need not be by written ballot unless the bylaws of the Corporation shall so provide.

ARTICLE VI

To the extent permitted by law, any action required to be taken at any annual or special meeting of stockholders of the corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if: (i) a consent in writing, setting forth the action so taken shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present, and (ii) such action has been earlier approved by the board of directors. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing. Special meetings of stockholders may be called only by the Chairman of the Board or the Chief Executive Officer or by the board of directors acting pursuant to a resolution adopted by a majority of the board of directors.

ARTICLE VII

In furtherance and not in limitation of the power conferred upon the board of directors by law, the board of directors shall have power to adopt, amend, alter and repeal from time to time the bylaws of the Corporation by majority vote of all directors except that any provision of the bylaws requiring, for board action, a vote of greater than a majority of the board shall not be amended, altered or repealed except by such supermajority vote. The stockholders of the Corporation may only adopt, amend or repeal bylaws with the affirmative vote of the holders of at least a majority of the voting power of all of the shares of the Common Stock outstanding and entitled to vote thereon.

ARTICLE VIII

The Corporation reserves the right to amend this Amended and Restated Certificate of Incorporation in any manner provided herein or permitted by the DGCL, and all rights and powers, if any, conferred herein on stockholders, directors and officers are subject to the reserved power. Notwithstanding the foregoing, without the affirmative vote of the holders of record of a majority of the voting power of all of the shares of the Common Stock outstanding entitled to vote thereon, the Corporation shall not alter, amend or repeal Article V, Article VI or Article VIII, of this Amended and Restated Certificate of Incorporation or the provisions of Article IV providing for undesignated Preferred Stock.

ARTICLE IX

A. To the fullest extent permitted by the DGCL, as the same exists or as may hereafter be amended, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.

B. The Corporation shall indemnify to the fullest extent permitted by law any person made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that he or she, his or her testator or intestate is or was a director or officer of the Corporation or any predecessor of the Corporation, or serves or served at any other enterprise as a director or officer at the request of the Corporation, or any predecessor to the Corporation.

C. Neither any amendment nor repeal of this Article IX, nor the adoption of any provision of this Amended and Restated Certificate of Incorporation inconsistent with this Article IX, shall eliminate or reduce the effect of this Article IX in respect of any matter occurring, or any action or proceeding accruing or arising or that, but for this Article IX, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

ARTICLE X

A. Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall, to the fullest extent permitted by law, be the sole and exclusive forum for any (1) derivative action or proceeding brought on behalf of the Corporation, (2) action asserting a claim of breach of a fiduciary duty owed by any director, officer, employee or agent of the Corporation to the Corporation or its stockholders, or any claim for aiding and abetting any such alleged breach, (3) action asserting a claim against the Corporation or any director or officer of the Corporation arising pursuant to any provision of the DGCL or this Amended and Restated Certificate of Incorporation or the bylaws of the Corporation, or (4) action asserting a claim against the Corporation or any director or officer of the Corporation governed by the internal affairs doctrine except for, as to each of (1) through (4) above, any claim (a) as to which the Court of Chancery determines that there is an indispensable party not subject to the jurisdiction of the Court of Chancery (and the indispensable party does not consent to the personal jurisdiction of the Court of Chancery within ten days following such determination), (b) which is vested in the exclusive jurisdiction of a court or forum other than the Court of Chancery, or (c) arising under the federal securities laws, including the Securities Act of 1933, as amended, as to which the Court of Chancery and the federal district court for the District of Delaware shall concurrently be the sole and exclusive forums. Notwithstanding the foregoing, the provisions of this paragraph A of this Article X will not apply to suits brought to enforce any liability or duty created by the Exchange Act of 1934, as amended, or any other claim for which the federal district courts of the United States of America shall be the sole and exclusive forum.

B. If any action the subject matter of which is within the scope of this Article X is filed in a court other than a court located within the State of Delaware (a “foreign action”) in the name of any stockholder, such stockholder shall be deemed to have consented to: (x) the personal jurisdiction of the state and federal courts located within the State of Delaware in connection with any action brought in any such court to enforce this Article X above (an “enforcement action”), and (y) having service of process made upon such stockholder in any such enforcement action by service upon such stockholder’s counsel in the foreign action as agent for such stockholder.

C. If any provision or provisions of this Article X shall be held to be invalid, illegal or unenforceable as applied to any person or entity or circumstance for any reason whatsoever, then, to the fullest extent permitted by law, the validity, legality and enforceability of such provisions in any other circumstance and of the remaining provisions of this Article X (including, without limitation, each portion of any sentence of this Article X containing any such provision held to be

invalid, illegal or unenforceable that is not itself held to be invalid, illegal or unenforceable) and the application of such provision to other persons or entities and circumstances shall not in any way be affected or impaired thereby. Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to the provisions of this Article X.

* * *

IN WITNESS WHEREOF, the Corporation has caused this Amended and Restated Certificate of Incorporation to be executed on its behalf by its duly authorized officer on this [•] day of [•], 2019.

THE PENNANT GROUP, INC.

By: _____
Name: [•]
Title: [•]

[*Signature Page to the Amended and Restated Certificate of Incorporation of The Pennant Group, Inc.*]

AMENDED AND RESTATED BYLAWS
OF
THE PENNANT GROUP, INC.
(Effective as of , 2019)

ARTICLE I
OFFICES

Section 1.01 *Registered Office.* The registered office of The Pennant Group, Inc. (the "corporation") in the State of Delaware shall be at 1209 Orange Street, in the City of Wilmington, County of New Castle, Delaware 19801. The name of the corporation's registered agent at that address shall be The Corporation Trust Company.

Section 1.02 *Other Offices.* The corporation also may have an office or offices at such other place or places either within or without the State of Delaware as the board of directors of the corporation (the "board" or the "board of directors") may from time to time determine or the business of the corporation may from time to time require.

Section 1.03 *Books and Records.* The books and records of the corporation may be kept at the corporation's headquarters in Eagle, Idaho or at such other locations within or without the State of Delaware as may from time to time be designated by the board of directors.

ARTICLE II
MEETINGS OF STOCKHOLDERS

Section 2.01 *Place of Meetings.* Each meeting of the stockholders of the corporation shall be held at such place either within or without the State of Delaware as shall be fixed by resolution of the board of directors and specified in the notice of said meeting. If no designation is made by the board of directors, the place of meeting shall be the principal office of the corporation.

Section 2.02 *Annual Meetings.* The annual meeting of the stockholders for the transaction of such business as may properly come before the meeting shall be held at such place, date and time as shall be determined by the board of directors.

Section 2.03 *Special Meetings.* A special meeting of the stockholders for any purpose or purposes may be called at any time only by the chairman of the board, the chief executive officer or by a majority of the board of directors.

Section 2.04 *Notice of Annual and Special Meetings.* Except as otherwise required by law, written, printed or electronic notice stating the place, date and hour of each meeting of stockholders, whether annual or special, and the purposes for which the meeting is called shall be given not less than ten (10) days nor more than sixty (60) days before the date of the meeting, either personally, by mail or, to the extent permitted by law, by a form of electronic transmission (as such term is defined in the Delaware General Corporation Law), to each stockholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the U.S. mail with postage thereon prepaid, addressed to the stockholder at his address as it appears on the stock transfer books of the corporation. Notice given by a form of electronic transmission that satisfies the requirements of the Delaware General Corporation Law

and has been consented to by the stockholder to whom notice is given shall be deemed given at the times specified with respect to the giving of notice by electronic transmission in the Delaware General Corporation Law. An affidavit of the corporation's secretary, an assistant secretary or an agent of the corporation that notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated in the affidavit. Any previously scheduled meeting of stockholders (whether an annual meeting or a special meeting) may be cancelled, rescheduled or postponed by resolution of the board of directors upon public notice given prior to the time previously scheduled for such meeting of stockholders.

Section 2.05 *Business at Annual and Special Meetings*. The business, including the nomination of directors, to be transacted at any annual or special meeting of stockholders shall be limited to business that is properly brought before the meeting. For the purposes of these bylaws, "properly brought before the meeting" shall mean the business that is (i) specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the board of directors, (ii) otherwise brought before an annual meeting by or at the direction of the board of directors, or (iii) a proper matter for stockholder action under the Delaware General Corporation Law that has been otherwise properly brought before an annual meeting by a stockholder who is a stockholder of record on the date of the giving of the notice provided for in this Section 2.05 and on the record date for the determination of stockholders entitled to notice of and to vote at such annual meeting, who is entitled to vote at such annual meeting and who complies with the notice procedures set forth in this Section 2.05. In order for business to be properly brought before an annual meeting by a stockholder, the stockholder must, in addition to any other applicable requirements, give written notice in proper form of such stockholder's intent to bring a matter before the annual meeting, which notice must be received by the secretary of the corporation at the corporation's principal executive offices no later than the close of business on the sixtieth (60th) day, nor earlier than the close of business on the ninetieth (90th) day, prior to the anniversary date of the immediately preceding annual meeting; provided, however, that in the event that no annual meeting was held in the previous year or the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the stockholder to be timely must be so received not earlier than the close of business on the ninetieth (90th) day prior to such annual meeting and not later than the close of business on the later of the sixtieth (60th) day prior to such annual meeting, or not later than the close of business on the 10th day following the day on which public disclosure of the date of the meeting was made by the corporation, whichever occurs first; provided, further, that for the purpose of calculating the timeliness of stockholder notices for the first annual meeting of stockholders following the effectiveness of these bylaws, the date of the immediately preceding annual meeting shall be deemed to be June 1, 2019. In no event shall the public announcement of a postponement or adjournment of an annual meeting to a later date or time commence a new time period for the giving of a stockholder's notice as described above. Except with respect to nominations for the election of directors, which shall be governed by Section 3.02 hereof, to be in proper form, each such notice shall set forth: (a) the name and address of the stockholder who intends to bring such matter before a meeting; (b) the class or series and number of shares of capital stock of the corporation entitled to vote at such meeting which are owned beneficially or of record by such stockholder; (c) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to bring such matter before the meeting; (d) a description of the business desired to be brought before the meeting and the reasons therefor; (e) such other information

regarding the stockholder and the business proposed by such stockholder as would be required to be included in the proxy statement pursuant to the rules and regulations of the Securities and Exchange Commission; and (f) a representation as to the stockholder's material interest in the business being proposed. In addition, the stockholder making such proposal shall promptly provide any other information reasonably requested by the corporation. Notwithstanding the foregoing, in order to include information with respect to a stockholder proposal in the proxy statement and form of proxy for a stockholder's meeting, stockholders must provide notice as required by, and otherwise comply with the requirements of, the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder. The presiding officer of the meeting shall refuse to acknowledge any business proposed to be brought before an annual or special meeting not made in compliance with the foregoing procedures.

Section 2.06 *Quorum and Adjourned Meetings*. The holders of a majority of the voting power of the stock entitled to vote at a meeting of the stockholders, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business, except as otherwise provided by statute or by the certificate of incorporation. Where a separate vote by a class or series or classes or series of stock is required at a meeting, the presence, in person or by proxy, of the holders of a majority of the voting power of each such class or series shall also be required to constitute a quorum. If, however, such quorum shall not be present or represented at any meeting of the stockholders, either the chairperson of the meeting or the holders of a majority of the voting power of the stock entitled to vote thereat, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting, at which the quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. Notice of an adjourned meeting need not be given if the time and place, if any, are announced at the meeting so adjourned, except that if the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. A quorum, once established at a meeting, shall not be broken by the withdrawal of the holders of enough voting power to leave less than a quorum. If a quorum is present at an original meeting, a quorum need not be present at an adjourned session of that meeting.

Section 2.07 *Required Vote*. When a quorum is present at any meeting, the vote of the holders of a majority of the voting power of the stock entitled to vote thereat, present in person or represented by proxy, shall decide any question brought before such meeting, unless the question is one upon which, by express provision of statute or by the certificate of incorporation or these bylaws, a different level of vote is required, in which case such express provisions shall govern and control the decision of such question. Notwithstanding the preceding sentence, elections of directors at all meetings of the stockholders at which directors are to be elected shall be by written ballot, and, except with respect to the right, if any, of the holders of any series of preferred stock or any other series or class of stock to elect additional directors under specified circumstances, a plurality of the voting power of the stock, present in person or represented by proxy, at the meeting and entitled to vote on the matter shall elect directors.

Section 2.08 *Conduct of Meetings of Stockholders.* The chairman of the board of directors, or if there shall be none or in his or her absence, the chief executive officer or if there shall be none or in his or her absence, the president, who is present at the meeting, or in all of their absences an individual designated by the board of directors, shall call to order and act as the chair of any meeting of the stockholders of the corporation. The stockholders shall not have the right to elect a different person as chairman of the meeting. The secretary of the corporation shall serve as the secretary of the meeting or, if there shall be none or in his or her absence, the secretary of the meeting shall be such person as the chair of the meeting appoints. The board of directors may, to the extent not prohibited by law, adopt by resolution such rules, regulations and procedures for the conduct of the meeting of stockholders as it shall deem appropriate. Except to the extent inconsistent with such rules, regulations and procedures as adopted by the board of directors, the chair of the meeting shall have the right and authority to convene and adjourn or recess (for any or no reason) the meeting (whether or not a quorum is present), prescribe such rules, regulations and procedures and to take or refrain from taking such actions as, in the sole judgment of the chair of the meeting, are necessary, appropriate or convenient for the conduct of the meeting, including, without limitation, establishing an agenda or order of business for the meeting, rules, regulations and procedures for maintaining order at the meeting and the safety of those present, limitations on participation in the meeting to stockholders of record of the corporation, their duly authorized proxies and such other persons as the chair of the meeting shall permit, restrictions on the use of audio and/or visual recording devices, restrictions on entry to the meeting after the time fixed for commencement thereof, limitations on the time allotted to questions or comments by participants and regulation of the opening and closing of the polls for balloting and matters which are to be voted on by ballot. Unless and to the extent otherwise determined by the board of directors or the chair of the meeting, it shall not be necessary to follow Roberts' Rules of Order or any other rules of parliamentary procedure at the meeting of stockholders. Following completion of the business of the meeting as determined by the chair of the meeting, the chair of the meeting shall have the exclusive authority to adjourn the meeting.

Section 2.09 *Conduct of Business*. No business shall be conducted at an annual or special meeting of stockholders of the corporation except business brought before the meeting in accordance with the procedures set forth in these bylaws. If the introduction of any business at an annual or special meeting of stockholders does not comply with the procedures specified in this Article, the chair of the meeting shall declare that such business is not properly before the meeting and shall not be considered at the meeting.

Section 2.10 *Stockholder List.* The secretary of the corporation shall prepare and make available, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, at the corporation's principal place of business. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 2.11 *Inspectors of Elections*. The board of directors by resolution shall appoint one or more inspectors of election, which inspector or inspectors may include individuals who serve the corporation in other capacities, including, without limitation, as officers, employees, agents or representatives of the corporation, to act at the meeting (or any adjournment thereof) and make a written report thereof. Such inspector shall decide upon the qualification of the voters and shall certify and report the number of shares represented at the meeting and entitled to vote on any question, determine the number of votes entitled to be cast by each share, shall conduct the vote and, when the voting is completed, accept the votes and ascertain and report the number of shares voted respectively for and against each question, and determine, and retain for a reasonable period a record of the disposition of, any challenge made to any determination made by such inspector. One or more persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed to act, or if all inspectors or alternates who have been appointed are unable to act, at a meeting of stockholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall have the duties prescribed by the General Corporation Law of the State of Delaware.

Section 2.12 *Fixing Record Date*. If the corporation proposes to take any action for which the Delaware General Corporation Law would permit it to fix a record date, the board of directors may fix such a record date as provided under the Delaware General Corporation Law.

Section 2.13 *Action Without a Meeting*. To the extent permitted by law, any action required to be taken at any annual or special meeting of stockholders of the corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken only with regards to an action that has been earlier approved by the board, without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken and earlier approved by the board, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

ARTICLE III
BOARD OF DIRECTORS

Section 3.01 *General Powers*. The business, property and affairs of the corporation shall be managed under the direction of the board of directors.

Section 3.02 *Nomination of Directors*. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors, except as may be otherwise provided in the certificate of incorporation with respect to the right, if any, of holders of a class of preferred stock of the corporation to nominate and elect a specified number of directors. To be properly brought before an annual meeting of the stockholders, or any special meeting of the stockholders called for the purpose of electing directors, nominations for the election of a director must be (i) made by or at the direction of the board of directors (or any duly authorized committee thereof) and specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (ii) made by or at the direction of the board

of directors (or any duly authorized committee thereof) to be brought before an annual meeting, or (iii) made by any stockholder of the corporation who is a stockholder of record on the date of the giving of the notice provided for in this Section 3.02 and on the record date for the determination of stockholders entitled to notice of and to vote at such meeting, who is entitled to vote at such meeting and who complies with the notice procedures set forth in this Section 3.02. In addition to any other applicable requirements, for a nomination to be made by a stockholder, such stockholder must have given timely notice thereof in proper written form to the secretary of the corporation. To be timely, such stockholder's notice must be received by the secretary of the corporation at the corporation's principal executive offices, (i) in the case of an annual meeting, in accordance with the time provisions set forth in Section 2.05, and, (ii) in the case of a special meeting of the stockholders called for the purpose of electing directors, not later than the close of business on the tenth (10th) day following the day on which notice of the date of the special meeting was mailed or public disclosure of the date of the special meeting was made by the corporation, whichever first occurs. To be in proper written form, each such stockholder's notice shall set forth: (a) the name, age, business address, residence address and principal occupation or employment of each nominee (present and for the past five years), and the name and address of the stockholder making the nomination, (b) the class or series and number of shares of capital stock of the corporation entitled to vote at such meeting which are owned beneficially or of record by each nominee and by the stockholder making the nomination, (c) a representation that the nominating stockholder is a stockholder of record of the corporation's stock entitled to vote at the meeting and intends to appear in person or by proxy at such meeting to nominate the person specified in the notice, (d) each nominee's qualifications for membership on the board of directors, (e) a description of all direct and indirect compensation and other monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between the nominating stockholder, on the one hand, and each proposed nominee, and his or her respective affiliates and associates, or others acting in concert therewith, on the other hand, including, without limitation, all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if the nominating stockholder were the "registrant" for purposes of such rule and the nominee were a director or executive officer of such registrant, (f) all information relating to the person that would be required by this Section 3.02 to be set forth in a stockholder's notice with respect to a director nomination if such nominee were a stockholder providing notice of a director nomination to be made at the meeting, (g) a notarized letter stating the person's written consent to being named in any proxy statement as a nominee and to serve as a director if elected, (h) all of the information relating to each nominee and the stockholder making the nomination that would be required in a proxy statement soliciting proxies for the election of the nominee as a director, or would otherwise be required, in each case pursuant to the rules and regulations of the Securities and Exchange Commission, (i) a complete and accurate description of all direct or indirect arrangements or understandings between the nominating stockholder and each nominee, any other person or persons (naming such person or persons) pursuant to whose request the nomination is being made by the stockholder, any person controlling, directly or indirectly, or acting in concert with, such nominating stockholder or such beneficial owner and any person controlling, controlled by or under common control with such nominating stockholder or such beneficial owner in connection with the nomination of any nominee to serve as a member of the board of directors or the proposal of any other business at any meeting of the stockholders of the corporation, (j) all other companies to which each nominee is being recommended as a nominee for director, (k) a signed

written consent of the nominee to cooperate with reasonable background checks and personal interviews, to be named in the proxy statement and to serve as a director of the corporation, if elected, (l) a completed and signed (A) questionnaire (as defined below) and (B) representation and agreement (as defined below), and (m) such additional information as the board of directors or a nomination or similar committee appointed by the board of directors may require pursuant to resolutions of the board of directors or such committee's charter. In addition, the stockholder making such nomination shall promptly provide any other information reasonably requested by the corporation, including, without limitation, such other information as may be reasonably required to determine (x) the eligibility of a nominee to serve as a director of the corporation, and (y) whether such nominee qualifies as an "independent director" or "audit committee financial expert" under applicable law, securities exchange rule or regulation or any publicly disclosed corporate governance guideline or committee charter of the corporation. Notwithstanding the foregoing, in order to include information with respect to a stockholder nomination in the proxy statement and form of proxy for a stockholder's meeting, stockholders must provide notice as required by, and otherwise comply with the requirements of, the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder. The presiding officer of the meeting shall refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

To be eligible to be a nominee for election or reelection as a director of the corporation, a nominee must deliver (in the case of nominee nominated by a stockholder pursuant to this Section 3.02, in accordance with the time periods prescribed for delivery of notice under these bylaws and applicable law) to the secretary of the corporation at the principal executive offices of the corporation (i) a written questionnaire with respect to the background and qualification of such person and the background of any other person or entity on whose behalf the nomination is being made (in the form provided by the secretary of the corporation upon written request) (a "questionnaire") and (ii) a written representation and agreement (in the form provided by the secretary of the corporation upon written request) that such person (A) is not and will not become a party to (1) any agreement, arrangement or understanding (whether written or oral) with, and has not given any commitment or assurance to, any person or entity as to how such person, if elected as a director of the corporation, will act or vote in such capacity on any issue or question (a "voting commitment") that has not been disclosed to the corporation or (2) any voting commitment that could limit or interfere with such person's ability to comply, if elected as a director of the corporation, with such person's fiduciary duties under applicable law; (B) is not and will not become a party to any agreement, arrangement or understanding (whether written or oral) with any person or entity other than the corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director of the corporation that has not been disclosed to the corporation and (C) in such person's individual capacity and on behalf of any person or entity on whose behalf the nomination is being made, would be in compliance, if elected as a director of the corporation, and will comply with all applicable law and all applicable rules of the U.S. stock exchanges upon which shares of capital stock of the corporation are listed and all applicable publicly disclosed corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and other guidelines of the corporation duly adopted by the board of directors (a "representation and agreement").

A stockholder providing notice of any nomination or other business proposed to be brought before a meeting shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in such notice pursuant to this Section 3.02 shall be true and correct (i) as of the record date for the meeting and (ii) as of the date that is ten (10) business days prior to the meeting or any adjournment, recess, rescheduling or postponement thereof, and such update and supplement shall be delivered to, or mailed and received by, the secretary of the corporation at the principal executive offices of the corporation not later than five (5) business days after the record date for the meeting (in the case of the update and supplement required to be made as of the record date) and not later than seven (7) business days prior to the meeting or, if practicable, any adjournment, recess, rescheduling or postponement thereof (and, if not practicable, on the first practicable date prior to the date to which the meeting has been adjourned, recessed, rescheduled or postponed) (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment, recess, rescheduling or postponement thereof).

Notwithstanding anything in these bylaws to the contrary, unless otherwise required by law, if a stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the corporation and present his or her proposed business or nomination, such proposed business will not be transacted and the nomination will be disregarded, notwithstanding that proxies in respect of such vote may have been received by the corporation. For purposes of this Section 3.02, to be considered a qualified representative of a stockholder, a person must be a duly authorized officer, manager or partner of such stockholder or must be authorized by a writing executed by such stockholder (or a reliable reproduction or electronic transmission of the writing) stating that such person is authorized to act for such stockholder as a proxy at the meeting of stockholders, and such person must produce proof that he or she is a duly authorized officer, manager or partner of such stockholder or such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, as well as valid government-issued photo identification, at the meeting of stockholders.

Section 3.03 *Number of Directors*. The number of directors to constitute the whole board of directors shall be such number (not less than four nor more than seven) as shall be fixed from time to time by resolution adopted by a majority of the entire board of directors. Directors need not be stockholders.

Section 3.04 *Quorum and Manner of Acting.* A majority of the number of the directors in office at the time shall constitute a quorum for the transaction of business at any meeting. Thereafter, a quorum shall be deemed present for purposes of conducting business and determining the vote required to take action for so long as at least a third of the total number of directors is present. Except as otherwise required by the certificate of incorporation or these bylaws, the affirmative vote of a majority of the directors present at any meeting at which a quorum is present shall be required for the taking of any action by the board of directors. In the absence of a quorum at any meeting of the board, such meeting need not be held, or a majority of the directors present thereat or, if no director is present, the secretary, may adjourn such meeting from time to time until a quorum shall be present. Notice of any adjourned meeting need not be given.

Section 3.05 *Offices; Place of Meetings.* The board of directors may hold meetings and have an office or offices at such place or places within or without the State of Delaware, as the board of directors may from time to time determine.

Section 3.06 *Annual Meeting.* A regular meeting of the board of directors shall be held without notice immediately after and at the same place as the annual meeting of the stockholders.

Section 3.07 *Regular Meeting.* Regular meetings of the board of directors shall be held at such places and at such times as the board of directors shall from time to time determine. Notice of regular meetings of the board of directors need not be given.

Section 3.08 *Special Meetings and Notice.* Special meetings of the board of directors shall be held whenever called by the chairman of the board, the chief executive officer or any two of the directors. Except as otherwise provided by law or by these bylaws, notice of each such special meeting shall be given by the secretary (i) in person or by telephone to the director at least 24 hours in advance of the meeting, (ii) by personally delivering written notice to the director's last known business or home address at least 48 hours in advance of the meeting, (iii) by delivering an electronic transmission (including, without limitation, via telefacsimile or electronic mail) to the director's last known number or address for receiving electronic transmissions of that type at least 48 hours in advance of the meeting, (iv) by depositing written notice with a reputable delivery service or overnight carrier addressed to the director's last known business or home address for delivery to that address no later than the business day preceding the date of the meeting or (v) by depositing written notice in the U.S. mail, postage prepaid, addressed to the director's last known business or home address no later than the third business day preceding the date of the meeting. Each such notice shall state the time and place of the meeting but need not state the purposes thereof except as otherwise herein expressly provided. Notice of any such meeting need not be given to any director, however, if waived by him or her in writing or by facsimile, electronic transmission or similar means, or by mail, whether before or after such meeting shall be held, or if he or she shall be present at such meeting; and any meeting of the board shall be a legal meeting without any notice thereof having been given if all of the directors shall be present thereat.

Section 3.09 *Organization.* At each meeting of the board of directors, the chairman of the board, or in the absence of the chairman of the board, if they be directors, the chief executive officer, or in the absence of the chief executive officer, the president, or in the absence of the president, any director chosen by a majority of the directors present thereat, shall preside. The secretary, or in his or her absence an assistant secretary of the corporation, or in the absence of the secretary and all assistant secretaries, a person whom the chairman of such meeting shall appoint, shall act as secretary of such meeting and keep the minutes thereof.

Section 3.10 *Order of Business.* At all meetings of the board of directors, business shall be transacted in the order determined by the board of directors.

Section 3.11 *Action by Unanimous Consent.* Any action required or permitted to be taken at any meeting of the board of directors or of any committee thereof may be taken without a meeting if all members of the board or of such committee, as the case may be, consent to the action in writing or by electronic transmission. The writing or writings or electronic transmission or transmissions shall be filed with the minutes of the proceedings of the board of directors or of the relevant committee.

Section 3.12 *Telephone, etc. Meetings.* Members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors, or committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute the presence of such person at such meeting.

Section 3.13 *Resignation.* Any director of the corporation may resign, as a director or as a committee member or both, at any time by giving notice in writing or by electronic transmission of his or her resignation to the chairman of the board, the chief executive officer or the secretary of the corporation. Such resignation shall take effect at the time specified therein (if the remaining directors agree to such time), or, if the time when it shall become effective shall not be specified therein, then it shall take effect when received. Except as aforesaid, the acceptance of such resignation shall not be necessary to make it effective.

Section 3.14 *Compensation.* Each director, in consideration of his or her serving as such, shall be entitled to receive from the corporation such amount per annum, or such fees for attendance at board and committee meetings, or both, or such other compensation, including options to acquire capital stock of the corporation, as the board of directors shall from time to time determine by resolution. The board of directors likewise may provide by resolution that the corporation shall reimburse each director or member of a committee for any expenses incurred by him or her on account of his or her attendance at any such meeting. Nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity and receiving proper compensation therefor.

Section 3.15 *Removal.* Unless otherwise specified by law or the certificate of incorporation, any director or the entire board of directors may be removed at any time by the affirmative vote of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the shares then entitled to vote at an election of directors, but only for cause.

Section 3.16 *Vacancies.* Except as otherwise provided in the certificate of incorporation and subject to the rights, if any, of the holders of any preferred stock then outstanding, any vacancy in the board, whether because of death, resignation, disqualification, an increase in the authorized number of directors, removal, or any other cause, may be filled by a vote of the majority of the remaining directors, although less than a quorum, or by a sole remaining director. When the board fills a vacancy, the director chosen to fill that vacancy shall complete the term of the director he or she succeeds (or shall complete the term of the class of directors in which the new directorship was created) and shall hold office until such director's successor shall have been elected and qualified or until such director's earlier death, resignation or removal. No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of such director's term of office.

Section 3.17 *Chairman and Vice-Chairman of the Board.* The board of directors may elect from its members a chairman of the board and a vice chairman. If a chairman has been elected and is present, the chairman shall preside at all meetings of the board of directors and the stockholders. The chairman shall have such other powers and perform such other duties as the board of directors may designate. If the board of directors elects a vice chairman, the vice chairman shall, in the absence or disability of the chairman, perform the duties and exercise the powers of the chairman and have such other powers and perform such other duties as the board of directors may designate.

ARTICLE IV
COMMITTEES

The board of directors may, by resolution or resolutions passed by a majority of the full board of directors, designate one or more committees, each such committee to consist of one or more directors of the corporation, which, to the extent provided in said resolution or resolutions and the committee's charter and subject to the limitations contained in the Delaware General Corporation Law, shall have and may exercise all the powers of the board of directors in the management of the business and affairs of the corporation. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the board of directors. The board of directors may make, alter and repeal a committee's charter or other rules for the conduct of such committee's business. Any such committee shall keep written minutes of its meetings and report the same to the board at the next regular meeting of the board. Unless the board or these bylaws shall otherwise prescribe the manner of proceedings of any such committee, meetings of such committee may be regularly scheduled in advance and may be called at any time by the chairman of the committee or by any two (2) members thereof; otherwise, the provisions of these bylaws with respect to notice and conduct of meetings of the board shall govern. The board of directors shall have power to change the members of any such committee at any time, to fill vacancies and to discharge any such committee, either with or without cause, at any time, unless otherwise provided in such committee's charter, or other rules for the conduct of its business, adopted by the board of directors.

ARTICLE V
OFFICERS

Section 5.01 *Number.* The principal officers of the corporation shall be chosen by the board of directors and shall be a chief executive officer, a chief financial officer, a president, one or more vice presidents as the board of directors from time to time may appoint (the number thereof and their respective titles to be determined by the board of directors and one or more of whom may be designated as executive or senior vice presidents), a secretary and a treasurer. In addition, there may be such subordinate officers, agents and employees as may be appointed in accordance with the provisions of Section 5.03. Any two or more offices may be held by the same person. Any officer may be, but need not be, a director or stockholder. The offices of the corporation for which officers may be elected shall be set forth from time to time by resolution of the board of directors.

Section 5.02 *Election, Qualification and Term of Office.* Each officer of the corporation shall be elected by the board of directors from time to time and shall hold office until his or her successor shall have been duly elected and qualified, unless a different term is specified in the resolution electing the officer, or until his or her death, or until he or she shall have resigned or shall have been removed in the manner herein provided.

Section 5.03 *Other Officers.* The corporation may have such other subordinate officers, agents and employees as the board of directors may deem necessary, including one or more assistant secretaries, one or more assistant treasurers, a controller and one or more assistant controllers, each of whom shall have such authority and perform such duties as the board of directors may from time to time determine.

Section 5.04 *Removal.* Any officer may be removed, either with or without cause, by resolution of the board of directors. Such removal from office shall not affect any rights that such removed officer may have under any employment or stockholder agreement.

Section 5.05 *Resignation.* Any officer may resign at any time by giving notice in writing or by electronic transmission to the board of directors, the chairman of the board or the chief executive officer. Any such resignation shall take effect at the time specified therein (if the board agrees to such time) or, if the time when it shall become effective shall not be specified therein, then it shall take effect when accepted by action of the board of directors. Except as aforesaid, the acceptance of such resignation shall not be necessary to make it effective.

Section 5.06 *Vacancies.* A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled for the unexpired portion of the term in the manner prescribed in these bylaws for regular election or appointment to such office.

Section 5.07 *Powers.* Unless otherwise specified by the board of directors, each officer shall have those powers and shall perform those duties that are (i) set forth in these bylaws (if any are so set forth), (ii) set forth in the resolution of the board of directors electing that officer or any subsequent resolution of the board of directors with respect to that officer's duties or (iii) commonly incident to the office held.

Section 5.08 *Chief Executive Officer.* The chief executive officer shall have general supervisory management over the business, affairs and policies of the corporation and over its officers, shall report to the board of directors and shall see that all orders and resolutions of the board of directors are carried into effect, all subject to the general direction and control of the board of directors. The chief executive officer shall have the authority to sign all certificates, contracts and other instruments on behalf of the corporation and take such actions required in connection therewith. In the absence of the chairman of the board for any reason, including the failure of the board of directors to elect the chairman of the board, or in the event of the chairman's inability or refusal to act, the chief executive officer shall have all the powers of, and be subject to all the restrictions upon, the chairman of the board.

Section 5.09 *President.* The president shall be subject to the direction and control of the chief executive officer and the board of directors and shall be responsible for the general active management of the business, affairs and policies of the corporation, shall perform such other duties as may be prescribed by the board of directors or the chief executive officer and shall have authority to sign all certificates, contracts and other instruments on behalf of the corporation and take such actions required in connection therewith. In the absence of the chief executive officer for any reason, including the failure of the board of directors to elect a chief executive officer, or in the event of the chief executive officer's inability or refusal to act, the president shall have all the powers of, and be subject to all the restrictions upon, the chief executive officer.

Section 5.10 *Chief Financial Officer*. The chief financial officer shall be subject to the direction and control of the board of directors and the chief executive officer, shall have primary responsibility for the financial affairs of the corporation and shall (i) keep accurate financial records for the corporation; (ii) deposit all moneys, drafts and checks in the name of, and to the credit of, the corporation in such banks and depositories as the board of directors shall, from time to time, designate or otherwise authorize; (iii) have the power to endorse, for deposit, all notes, checks and drafts received by the corporation; (iv) disburse the funds of the corporation in accordance with the corporation's policies and procedures as adopted by resolution of the board of directors, making or causing to be made proper vouchers therefor; (v) render to the chief executive officer and the board of directors, whenever requested, an account of all of his or her transactions as chief financial officer and of the financial condition of the corporation, and (vi) perform such other duties as may, from time to time, be prescribed by the board of directors or by the chief executive officer. The powers and duties specified herein may be modified or limited at any time by the board of directors.

Section 5.11 *Vice President*. The vice president or, if there be more than one, the vice presidents, in the order determined by the board of directors (or if there is no such determination, then in the order of their election), shall be subject to the direction and control of the board of directors and the chief executive officer, shall have such powers and duties as the board of directors or the chief executive officer may assign to them, and shall, in the absence of the president for any reason, including the failure of the board of directors to elect a president or in the event of the president's inability or refusal to act, perform the duties of the president, and, when so acting, have all the powers of, and be subject to all of the restrictions upon, the president. If the board of directors elects more than one vice president, then it shall determine their respective titles, seniority and duties. The vice president or vice presidents shall perform such other duties and have such other powers as the board of directors or the chief executive officer may from time to time prescribe.

Section 5.12 *Secretary*. The secretary shall, to the extent practicable, attend all meetings of the stockholders and the board of directors. The secretary shall record or cause to be recorded in books kept for such purpose the minutes of the meetings (and the actions by written consent) of the stockholders, the board of directors and all committees of which a secretary shall not have been appointed; shall see that all notices are duly given in accordance with the provisions of these bylaws and as required by law; shall be custodian of all corporate records (other than financial); shall see that the books, reports, statements, certificates and all other documents and records required by law are properly kept and filed; and, in general, shall perform all duties as may from time to time be assigned to him or her by the board of directors or the chief executive officer.

Section 5.13 *Assistant Secretary*. The assistant secretary, or if there be more than one, the assistant secretaries, in the order determined by the board of directors (or if there be no such determination, then in the order of their election), shall have such powers and duties as the board of directors or the chief executive officer may assign to them and shall, in the absence of the secretary for any reason, including the failure of the board of directors to elect a secretary or in the event of the secretary's inability or refusal to act, perform the duties and exercise the powers of the secretary and perform such other duties and have such other powers as the board of directors or chief executive officer may from time to time prescribe. Any assistant secretary shall have authority to attest by his or her signature to the same extent as the secretary.

Section 5.14 *Treasurer*. The treasurer shall have charge and custody of, and be responsible for, all funds and securities of the corporation, and shall deposit all such funds to the credit of the corporation in such banks, trust companies or other depositories as shall be selected by the board of directors or any officer or officers authorized by board of directors to make such determinations; shall disburse the funds of the corporation as may be ordered by the board of directors or any officer or officers authorized by the board of directors to make such determinations, making proper vouchers for such disbursements; shall keep full and accurate accounts of all funds received and paid on account of the corporation and shall render to the board of directors or the chief executive officer, whenever the board or the chief executive officer may require him or her so to do, a statement of all his or her transactions as treasurer; and, in general, shall perform all the duties incident to the office of treasurer and such other duties as from time to time may be assigned to him or her by the board of directors or the chief executive officer. In the absence of the chief financial officer for any reason, including the failure of the board of directors to elect a chief financial officer or in the event of the chief financial officer's inability or refusal to act, the treasurer shall perform the duties of the chief financial officer, and, when so acting, have all the powers of, and be subject to all of the restrictions upon, the chief financial officer.

Section 5.15 *Assistant Treasurer*. The assistant treasurer, or if there be more than one, the assistant treasurers, in the order determined by the board of directors (or if there be no such determination, then in the order of their election), shall, in the absence of the treasurer, for any reason, including the failure of the board of directors to elect a treasurer, or the treasurer's inability or refusal to act, perform the duties and exercise the powers of the treasurer, and perform such other duties and have such other powers as the board of directors and chief executive officer may from time to time prescribe.

Section 5.16 *Compensation*. The compensation of the officers shall be fixed from time to time by or in the manner prescribed by the board of directors, and none of such officers shall be prevented from receiving compensation by reason of the fact that he or she is also a director of the corporation. The application of this Section 5.16 shall not affect the right any officer may have regarding compensation under an employment agreement.

ARTICLE VI
STOCK CERTIFICATES AND TRANSFERS

Section 6.01 *Stock Certificates*. The shares of stock of the corporation shall be uncertificated, provided that the board of directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be represented by certificates. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Every holder of stock represented by certificates shall be entitled to have a certificate signed by, or in the name of the corporation by, (i) the chairman of the board, or the president or vice president and (ii) the treasurer or an assistant treasurer, or the secretary or an assistant secretary. Any or all signatures on any such certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed, whose

facsimile signature has been used on or who has duly affixed a facsimile signature or signatures to any such certificate or certificates shall cease to be such officer, transfer agent or registrar of the corporation whether because of death, resignation or otherwise before such certificate or certificates have been issued by the corporation, such certificate or certificates may nevertheless be issued as though the person or persons who signed such certificate or certificates, whose facsimile signature or signatures have been used thereon or who duly affixed a facsimile signature or signatures thereon had not ceased to be such officer, transfer agent or registrar of the corporation.

Section 6.02 *Lost, Stolen or Destroyed Certificates.* The board of directors may direct a new certificate or certificates or uncertificated shares to be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates or uncertificated shares, the board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his/her legal representative, to advertise the same in such manner as it shall require and/or to give the corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen or destroyed or the issuance of such new certificate or certificates or uncertificated shares.

Section 6.03 *Stock Transfers.* The shares of the stock of the corporation shall be transferred on the books of the corporation by the holder thereof in person or by his attorney, (i) with regard to certificated shares, upon surrender for cancellation of certificates for the same number of shares, with an assignment and power of transfer endorsed thereon or attached thereto, duly executed, and with such proof of the authenticity of the signature as the corporation or its agents may reasonably require, and (ii) with regard to uncertificated shares, upon delivery of an instruction duly executed, and with such proof of the authenticity of the signature as the corporation or its agents may reasonably require. Whenever any transfer of shares shall be made for collateral security, and not absolutely, it shall be so expressed in the entry of transfer if, when the certificates are presented to the corporation for transfer or uncertificated shares are requested to be transferred, both the transferor and transferee request the corporation to do so.

Section 6.04 *Registered Stockholders*. The corporation shall be entitled to recognize the exclusive right of a person registered on its records as the owner of shares of stock of the corporation to receive dividends, to vote, to receive notifications and otherwise to exercise all the rights and powers of an owner of such shares. The corporation shall not be bound to recognize any equitable or other claim to or interest in any such shares of stock on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Delaware.

ARTICLE VII
GENERAL PROVISIONS

Section 7.01 *Dividends*. Dividends upon the capital stock of the corporation, subject to the provisions of the certificate of incorporation, if any, may be declared by the board of directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the certificate of incorporation. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purposes as the directors shall think conducive to the interest of the corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

Section 7.02 *Contracts and Checks*. Except as otherwise required by law or the certificate of incorporation, any bonds, contracts, deeds, leases, checks, drafts or other orders for payment of money, demands for money, notes or other evidence of indebtedness, or other instruments may be executed and delivered in the name and on the behalf of the corporation by such officer or officers of the corporation as provided in these bylaws or as the board of directors may from time to time direct. Such authority may be general or confined to specific instances as the board of directors may determine, and unless so authorized by the board or by these bylaws, no officer, agent, or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount. The chairman of the board, the chief executive officer, the chief financial officer, the president or any vice president may execute bonds, contracts, deeds, leases, checks, drafts or other orders for payment of money, demands for money, notes or other evidence of indebtedness, and other instruments to be made or executed for or on behalf of the corporation. Subject to any restrictions imposed by the board of directors or the chairman of the board, the chief executive officer, the chief financial officer or the president of the corporation may delegate contractual powers to others under his jurisdiction, it being understood, however, that any such delegation of power shall not relieve such officer of responsibility with respect to the exercise of such delegated power.

Section 7.03 *Fiscal Year and Audits*. The fiscal year of the corporation shall begin on the first day of January and end on the thirty-first day of December of each year, unless otherwise fixed by resolution of the board of directors. The accounts, books and records of the corporation shall be audited upon the conclusion of each fiscal year by an independent certified public accountant selected by the board of directors, and it shall be the duty of the board of directors to cause such audit to be made annually.

Section 7.04 *Seal*. The Board of Directors may adopt a corporate seal having inscribed thereon the name of the corporation, the year of its organization and the words “Corporate Seal, Delaware.” The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

Section 7.05 *Waiver of Notices*. Whenever notice is required to be given by these bylaws or the certificate of incorporation or by law, the person entitled to said notice may waive such notice in writing, either before or after the time stated therein, and such waiver shall be deemed equivalent to notice.

Section 7.06 *Electronic Transmission.* For purposes of these bylaws, "electronic transmission" shall mean a form of communication not directly involving the physical transmission of paper that satisfies the requirements with respect to such communications contained in the Delaware General Corporation Law.

Section 7.07 *Voting Stock of Other Organizations.* Except as the board of directors may otherwise designate, each of the chief executive officer and the chief financial officer may waive notice of, and act as, or appoint any person or persons to act as, proxy or attorney-in-fact for the corporation (with power of substitution) at any meeting of the stockholders, members or other owners of any other corporation or organization the securities or ownership interests of which are owned by the corporation.

ARTICLE VIII
INDEMNIFICATION

Section 8.01 *Indemnification.* The corporation shall, to the fullest extent permitted by law, indemnify every person who is or was a party or is or was threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative (an "Action"), by reason of the fact that such person is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director, officer, trustee, plan administrator or plan fiduciary of another corporation, partnership, limited liability company, trust, employee benefit plan or other enterprise (an "Indemnified Person"), against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement or other disposition that the Indemnified Person actually and reasonably incurs in connection with the Action and shall reimburse each such person for all legal fees and expenses reasonably incurred by such person in seeking to enforce its rights to indemnification under this Article (by means of legal action or otherwise).

Section 8.02 *Advancement of Expenses.* Upon written request from an Indemnified Person, the corporation shall pay the expenses (including attorneys' fees) incurred by such Indemnified Person in connection with any Action in advance of the final disposition of such Action. The corporation's obligation to pay expenses pursuant to this Section shall be contingent upon the Indemnified Person providing the undertaking required by the Delaware General Corporation Law.

Section 8.03 *Non-Exclusivity.* The rights of indemnification and advancement of expenses contained in this Article shall not be exclusive of any other rights to indemnification or similar protection to which any Indemnified Person may be entitled under any agreement, vote of stockholders or disinterested directors, insurance policy or otherwise.

Section 8.04 *Heirs and Beneficiaries.* The rights created by this Article shall inure to the benefit of each Indemnified Person and each heir, executor and administrator of such Indemnified Person.

Section 8.05 *Effect of Amendment.* Neither the amendment, modification or repeal of this Article nor the adoption of any provision in these bylaws inconsistent with this Article shall adversely affect any right or protection of an Indemnified Person with respect to any act or omission that occurred prior to the time of such amendment, modification, repeal or adoption.

ARTICLE IX
AMENDMENTS

Except as otherwise set forth in these bylaws, the certificate of incorporation or the Delaware General Corporation Law, these bylaws may be altered, amended or repealed, or new bylaws may be adopted, by the board of directors or a majority of the voting power of all of the shares of common stock outstanding and entitled to vote thereon. If the power to adopt, amend or repeal bylaws is conferred upon the board of directors by the certificate of incorporation, it shall not divest or limit the power of the stockholders to adopt, amend or repeal bylaws.

CERTIFICATE OF SECRETARY
OF THE PENNANT GROUP, INC.

The undersigned, Derek J. Bunker, hereby certifies that he is the duly elected and acting Secretary of The Pennant Group, Inc., a Delaware corporation, and that the bylaws attached hereto constitute the bylaws of said corporation as duly adopted by the board of directors on , 2019 to be effective as of , 2019.

IN WITNESS WHEREOF, the undersigned has hereunto subscribed his name this day of , 2019.

By: _____
Name: Derek Bunker
Title: Secretary

Exhibit 10.1

TRANSITION SERVICES AGREEMENT

by and between

THE ENSIGN GROUP, INC.

and

THE PENNANT GROUP, INC.

dated as of

[_____], 2019

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TRANSITION SERVICES AGREEMENT

THIS TRANSITION SERVICES AGREEMENT (as the same may be amended or supplemented from time to time, this "Agreement") is entered into as of [_____], 2019, by and between The Ensign Group, Inc., a Delaware corporation ("Ensign"), and The Pennant Group, Inc., a Delaware corporation ("Pennant"). Ensign and Pennant are sometimes referred to herein individually as a "Party," and collectively as the "Parties." Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to such terms in the Separation Agreement.

RECITALS

WHEREAS, Ensign, through its direct and indirect Subsidiaries, owns the Ensign Business and the Pennant Business;

WHEREAS, Ensign and Pennant have entered into a Master Separation Agreement, dated as of the date hereof (the "Separation Agreement"), pursuant to which Ensign will be separated into two independent publicly-traded companies: (a) Pennant, which, following consummation of the transactions contemplated by the Separation Agreement, will own and conduct the Pennant Business, and (b) Ensign, which, following the consummation of the transactions contemplated by the Separation Agreement, will own and conduct the Ensign Business;

WHEREAS, in connection with the transactions contemplated by the Separation Agreement, (a) Pennant desires to procure certain services from Ensign, and Ensign is willing to provide such services to Pennant and (b) Ensign desires to procure certain services from Pennant, and Pennant is willing to provide such services to Ensign, in each case during a transition period and on the terms and subject to the conditions set forth in this Agreement;

WHEREAS, each Party desires to set forth in this Agreement the principal terms and conditions pursuant to which it will, as applicable, provide or receive such services; and

WHEREAS, the execution of this Agreement by the Parties is a condition precedent to the consummation of the transactions contemplated by the Separation Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual agreements contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

ARTICLE I
DEFINITIONS

Section 1.1 Certain Definitions. As used in this Agreement (including in Exhibit A), the following capitalized terms shall have the following meanings, applicable both to the singular and the plural forms of the terms described:

"Additional Interest" has the meaning set forth in Section 3.3(b).

"Additional Services" has the meaning set forth in Section 2.2.

"Additional Ensign Third-Party Providers" has the meaning set forth in Section 2.4(b).

"Additional Pennant Third-Party Providers" has the meaning set forth in Section 2.4(c).

"Additional Third-Party Providers" means the Additional Ensign Third-Party Providers and the Additional Pennant Third-Party Providers collectively.

"Adjusted Hourly Rate" for an employee means such employee's hourly rate as set forth on Exhibit C.

"Agreement" has the meaning set forth in the preamble to this Agreement.

"Bankruptcy Code" means 11 U.S.C. §§ 101 et seq., as amended.

"Effective Time" means 12:01 a.m. (Eastern time) on [_____], 2019.

"Ensign" has the meaning set forth in the preamble to this Agreement.

"Ensign Known Third-Party Providers" has the meaning set forth in Section 2.4(b).

"Ensign Service Costs" means the amounts to be paid by Pennant to Ensign for the Ensign Services provided pursuant to this Agreement.

"Ensign Services" means the services identified in Exhibit A to be provided by Ensign.

"Known Third-Party Providers" means the Ensign Known Third-Party Providers and the Pennant Known Third-Party Providers collectively.

"Parties" has the meaning set forth in the preamble to this Agreement.

"Party" has the meaning set forth in the preamble to this Agreement.

"Payment Date" has the meaning set forth in Section 3.3(b).

"Pennant" has the meaning set forth in the preamble to this Agreement.

"Pennant Known Third-Party Providers" has the meaning set forth in Section 2.4(c).

"Pennant Service Costs" means the amounts to be paid by Ensign to Pennant for Pennant Services provided pursuant to this Agreement.

"Pennant Services" means the services identified in Exhibit A to be provided by Pennant.

"Sales Taxes" has the meaning set forth in Section 3.2.

"Security Regulations" has the meaning set forth in Section 8.2(a).

"Separation Agreement" has the meaning set forth in the Recitals to this Agreement.

"Service Coordinator" has the meaning set forth in Section 2.8.

"Service-Providing Party" means either Ensign or Pennant, as applicable, providing the applicable Services to the Service-Receiving Party.

"Service-Providing Party Group" means the Service-Providing Party and the Subsidiaries of the Service-Providing Party, other than the other Party and the other Party's Subsidiaries.

"Service-Receiving Party" means either Ensign or Pennant, as applicable, receiving the applicable Services from the Service-Providing Party.

"Service-Receiving Party Group" means the Service-Receiving Party and the Subsidiaries of the Service-Receiving Party, other than the other Party and the other Party's Subsidiaries.

"Service-Receiving Party's Indemnitee" means if the Service-Receiving Party is Ensign, the Ensign Indemnitee or if the Service-Receiving Party is Pennant, the Pennant Indemnitee.

"Services" means the Ensign Services and Pennant Services collectively.

"Systems" has the meaning set forth in Section 8.2(a).

"Term" means the period from the Effective Time to the date of termination of Services under this Agreement pursuant to Section 7.1(b) or (c).

"Third-Party Products and Services" has the meaning set forth in Section 2.4(a).

"Third-Party Providers" has the meaning set forth in Section 2.4(a).

Section 1.2 Interpretation. In this Agreement, unless the context clearly indicates otherwise:

(a) words used in the singular include the plural and words used in the plural include the singular;

(b) the words "include," "includes" and "including" shall be deemed to be followed by the words "without limitation";

(c) the word "or" shall have the inclusive meaning represented by the phrase "and/or";

(d) relative to the determination of any period of time, "from" means "from and including," "to" means "to but excluding" and "through" means "through and including";

(e) accounting terms used herein shall have the meanings historically ascribed to them by Ensign and its Subsidiaries in its and their internal accounting and financial policies and procedures in effect immediately prior to the date of this Agreement;

(f) reference to any agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof and by this Agreement;

(g) reference to any Law means such Law (including any and all rules and regulations promulgated thereunder) as amended, modified, codified or reenacted, in whole or in part, and in effect at the time of determining compliance or applicability;

(h) references to any Person include such Person's successors and assigns but, if applicable, only if such successors and assigns are permitted by this Agreement; a reference to such Person's "Affiliates" shall be deemed to mean such Person's Affiliates following the Distribution under the Separation Agreement and any reference to a third party shall be deemed to mean a Person who is not a Party or an Affiliate of a Party;

(i) if there is any conflict between the provisions of the main body of this Agreement and Exhibit A or Exhibit B, as applicable, the provisions of the main body of this Agreement shall control unless explicitly stated otherwise in Exhibit A or Exhibit B, as applicable;

(j) if there is any conflict between the provisions of this Agreement and the Separation Agreement, the provisions of this Agreement shall control (but only with respect to the subject matter hereof) unless explicitly stated otherwise herein; and

(k) any portion of this Agreement obligating a Party to take any action or to refrain from taking any action, as the case may be, shall mean that such Party shall also be obligated to cause its relevant Subsidiaries to take such action or to refrain from taking such action, as the case may be.

ARTICLE II
SERVICES

Section 2.1 Services.

(a) Ensign Services

(i) Except as set forth in Exhibit A, Ensign shall use commercially reasonable efforts to provide (or to cause another applicable member of the Ensign Group to provide) to Pennant (or another applicable member of the Pennant Group) the Ensign Services in a manner, scope, nature, timeliness and quality consistent with the manner, scope, nature, timeliness and quality in which such Ensign Services (i) were provided to Pennant (or such other applicable member of the Pennant Group) prior to the Effective Time by Ensign (or such other applicable member of the Ensign Group) and (ii) are provided after the Effective Time by Ensign (or such other applicable member of the Ensign Group) for its own business.

(ii) For those Ensign Services provided to Pennant prior to the Effective Time, Pennant shall use the Ensign Services for substantially the same purposes and in substantially the same manner (including as to volume, amount, level or frequency, as applicable) as such Ensign Services have been used immediately prior to the Effective Time; provided that Exhibit A shall control the scope of and any limitation on the Ensign Services to be provided (to the extent set forth therein) including any Ensign Services that were not previously provided to Pennant prior to the Effective Time, unless otherwise agreed in writing.

(b) Pennant Services

(i) Except as set forth in Exhibit B, Pennant shall use commercially reasonable efforts to provide (or to cause another applicable member of the Pennant Group to provide) to Ensign (or another applicable member of the Ensign Group) the Pennant Services in a manner, scope, nature, timeliness and quality consistent with the manner, scope, nature, timeliness and quality in which such Pennant Services (i) were provided to Ensign (or such other applicable member of the Ensign Group) prior to the Effective Time by Pennant (or such other applicable member of the Pennant Group) and (ii) are provided after the Effective Time by Pennant (or such other applicable member of the Pennant Group) for its own business.

(ii) For those Pennant Services provided to Ensign prior to the Effective Time, Ensign shall use the Pennant Services for substantially the same purposes and in substantially the same manner (including as to volume, amount, level or frequency, as applicable) as such Pennant Services have been used immediately prior to the Effective Time; provided that Exhibit B shall control the scope of and any limitation on the Pennant Services to be provided (to the extent set forth therein) including any Pennant Services that were not previously provided to Ensign prior to the Effective Time, unless otherwise agreed in writing.

(c) The Parties acknowledge the transitional nature of the Services and agree to cooperate in good faith and to use commercially reasonable efforts to effectuate a smooth transition of the Services from the Service-Providing Party to the Service-Receiving Party (or its designee). In addition, the Service-Providing Party shall consider requests for service in good faith and shall use commercially reasonable efforts to provide any such service under this Section 2.1; provided that no member of the Service-Providing Party Group shall be obligated to perform any services if such member, in its reasonable judgment, does not have adequate resources to perform such services or if the provision of such services would interfere with the operation of the Ensign Business or Pennant Business, as applicable.

Section 2.2 Additional Services. If the Service-Receiving Party reasonably determines that additional transition services not listed in Exhibit A or Exhibit B, as applicable, are necessary after the Effective Time, the Service-Receiving Party shall provide written notice to the Service-Providing Party requesting the Service-Providing Party (i) to provide additional (including as to volume, amount, level or frequency, as applicable) or different services that the Service-Providing Party is not expressly obligated to provide under this Agreement, if such services are of the type and scope provided by any member of the Service-Providing Party Group (including any employee of any member of the Service-Providing Party Group) for the Service-Receiving Party prior to the Effective Time, or (ii) expand the scope of any applicable Service (such additional, different or expanded services, the "Additional Services"). The Service-Providing Party shall consider such request in good faith and shall use commercially reasonable efforts to provide any such Additional Service; provided that no member of the Service-Providing Party Group shall be obligated to perform any Additional Services if such member, in its reasonable judgment, does not have adequate resources to perform such Additional Services or if the provision of such Additional Services would interfere with the operation of the Ensign Business or Pennant Business, as

applicable. The Service-Providing Party shall notify the Service-Receiving Party within ten (10) calendar days of receipt of such request as to whether it will or will not provide the Additional Services. If the Service-Providing Party agrees to provide Additional Services pursuant to this Section 2.2, then the Parties shall in good faith negotiate the terms of a supplement to Exhibit A or Exhibit B, as applicable, which will describe in reasonable detail the Additional Services, project scope, term, price and payment terms to be charged for such Additional Services. Once agreed to in writing, the supplement to Exhibit A or Exhibit B, as applicable, shall be deemed part of this Agreement as of such date, and the Additional Services shall be deemed the applicable "Services" provided hereunder, in each case, subject to the terms and conditions of this Agreement.

Section 2.3 No Violations. Notwithstanding anything to the contrary in this Agreement, no Service-Providing Party (nor any member of its respective Group) shall be required to perform the applicable Services hereunder or to take any actions relating thereto that conflict with or violate any applicable Law or any material Contract, sublicense, authorization, certification or permit.

Section 2.4 Third-Party Providers.

(a) The Service-Providing Party shall use commercially reasonable efforts to obtain any required consents, licenses or approvals of the providers ("Third-Party Providers") of any products or services required to be used in providing any applicable Services pursuant to this Agreement ("Third-Party Products and Services"). The Parties understand and agree that provision of any applicable Services requiring the use of any Third-Party Products and Services shall be subject to receipt of any required consents, licenses or approvals of the applicable Third-Party Providers; provided that if any third-party consents, licenses or approvals are not obtained pursuant to the foregoing, the Service-Providing Party will, to the extent reasonably practicable, continue to use commercially reasonable efforts to provide (or to cause another applicable member of the Ensign Group or Pennant Group, as applicable, to provide) services that are substantially similar to the applicable Services for which such consent, license or approval was sought but not obtained; provided, however, that nothing in this Section 2.4(a) shall obligate any Service-Providing Party (or another applicable member of the Ensign Group or Pennant Group, as applicable) to violate any applicable Law or breach any of its contractual obligations to third parties in order to provide the applicable Services hereunder.

(b) With respect to the Ensign Services, (i) Pennant hereby consents to Ensign's use of any Third-Party Provider(s) named in Exhibit A with respect to such Ensign Services ("Ensign Known Third-Party Providers") and (ii) if, after the date of this Agreement, Ensign reasonably determines that it requires the use of Third-Party Providers in addition to the Ensign Known Third-Party Providers ("Additional Ensign Third-Party Providers") in providing such Ensign Services, the use of such Additional Ensign Third-Party Providers shall require the written consent of Pennant's Service Coordinator and, subject to Section 2.4(d), such consent will not be unreasonably withheld, conditioned or delayed.

(c) With respect to the Pennant Services, (i) Ensign hereby consents to Pennant's use of any Third-Party Provider(s) named in Exhibit B with respect to such Pennant Services ("Pennant Known Third-Party Providers") and (ii) if, after the date of this Agreement, Pennant reasonably determines that it requires the use of Third-Party Providers in addition to the Pennant Known Third-Party Providers ("Additional Pennant Third-Party Providers") in providing such Pennant Services, the use of such Additional Pennant Third-Party Providers shall require the written consent of Ensign's Service Coordinator and, subject to Section 2.4(d), such consent will not be unreasonably withheld, conditioned or delayed.

(d) Notwithstanding the foregoing, in those instances in which the use of Third-Party Products and Services will require payment of additional consideration by a Service-Receiving Party and the payment of such additional consideration is not contemplated by this Agreement (including Exhibit A or Exhibit B, as applicable) or has not been previously agreed by the Parties, then (i) the Service-Providing Party will provide the Service-Receiving Party with thirty (30) calendar days' prior written notice detailing the amount of such additional consideration and (ii) the Service-Receiving Party will then have the option to (A) procure its own Third-Party Products and Services at its own expense or (B) authorize the Service-Providing Party to incur the required additional consideration on its behalf and at the Service-Receiving Party's expense and such additional consideration will be deemed an applicable Service Cost under this Agreement.

Section 2.5 Independent Contractor. Each Service-Providing Party hereto (and each applicable member of the Service-Providing Party Group) shall act under this Agreement solely as an independent contractor, and not as an agent, of the other Party (and each applicable member of the Service-Providing Party Group).

Section 2.6 Employees and Representatives. Unless otherwise agreed in writing, each employee and representative of the Service-Providing Party (or a member of the Service-Providing Party Group) that provides Services to the Service-Receiving Party (or a member of the Service-Receiving Group) pursuant to this Agreement (a) shall be deemed for all purposes to be an employee or representative of Service-Providing Party (or a member of the Service-Providing Party Group) and not an employee or representative of Service-Receiving Party (or a member of the Service-Receiving Group) and (b) shall be under the direction, control and supervision of the Service-Providing Party (or such member of the Service-Providing Party Group), and Service-Providing Party (or a member of the Service-Providing Party Group) shall have the sole right to exercise all authority with respect to the employment (including termination of employment) and assignment of such employee or representative and shall have the sole responsibility to pay for all personnel and other related expenses, including salary or wages, of such employee or representative.

Section 2.7 Access. The Service-Receiving Party shall provide (or cause any applicable member of the Service-Providing Party to provide) the Service Providing Party (or any applicable member of the Service-Providing Party Group) such reasonable access to the employees, representatives, facilities and books and records of the Service-Receiving Party (or such member of the Service-Receiving Party Group) as the Service-Providing Party (or such member of the Service-Providing Party Group) shall reasonably request in order to enable the Service-Providing Party (or such member of the Service-Receiving Party Group) to provide any applicable Services required under this Agreement. Any member of the Service-Providing Party Group, receiving access pursuant to this Section 2.7 must conform with and abide by the confidentiality and security provisions in Article VIII, as applicable.

Section 2.8 Service Coordinators; Disputes. Each Party shall appoint a representative to act as the primary contact with respect to the provision of the Services (each such person, a "Service Coordinator"). The initial Service Coordinator for Pennant shall be Derek Bunker, and the initial Service Coordinator for Ensign shall be Pat Ikerd. The Service Coordinators shall meet as expeditiously as possible to resolve any dispute under this Agreement (including, but not limited to, any disputes relating to payments under Article III), and any dispute that is not resolved by the Service Coordinators within thirty (30) calendar days shall be deemed a Dispute under the Separation Agreement and shall be resolved in accordance with the dispute resolution procedures set forth in Article X of the Separation Agreement. When a disputed amount has been resolved, either by mutual agreement of the Parties or by a final decision by a court of competent jurisdiction, the Party owing any amount to another Party shall pay such amount owed to such other Party within five (5) Business Days following such resolution. Each Party may treat an act of the other Party's Service Coordinator as being authorized by such other Party without inquiring whether such Service Coordinator had authority to so act; provided that no Service Coordinator shall have authority to amend this Agreement. Each Party shall advise the other Party promptly in writing of any change in its respective Service Coordinator, setting forth the name of the replacement Service Coordinator, and stating that the replacement Service Coordinator is authorized to act for such Party in accordance with this Section 2.8.

ARTICLE III
PAYMENT

Section 3.1 Pricing.

(a) All Ensign Services provided by Ensign (or another applicable member of the Ensign Group) shall be charged to Pennant at the fees for such Ensign Services determined in accordance with Exhibit A, and the Ensign Service Costs shall be payable by Pennant in the manner set forth in Section 3.3.

(b) All Pennant Services provided by Ensign (or another applicable member of the Ensign Group) shall be charged to Ensign at the fees for such Pennant Services determined in accordance with Exhibit B, and the Pennant Service Costs shall be payable by Ensign in the manner set forth in Section 3.3.

Section 3.2 Taxes. The Parties acknowledge that fees charged for Services may be subject to goods and service taxes, value added taxes, sales taxes or similar taxes (collectively, "Sales Taxes"). With respect to all Services provided under this Agreement, (a) the Service-Providing Party shall be liable for reporting and paying the Sales Taxes or any other applicable taxes imposed on fees received for providing such Services and shall provide the Service-Receiving Party evidence of any such payment for taxes paid on fees received for providing such Services reasonably promptly following payment thereof and (b) the Service-Receiving Party shall reasonably promptly reimburse the Service-Providing Party for the amount of such taxes paid on fees received for providing such Services. The Service-Receiving Party shall be liable for any applicable use taxes imposed on the applicable Services received.

Section 3.3 Billing and Payment.

(a) With respect to Pennant as the Service-Providing Party, within twenty (20) calendar days and with respect to Ensign as the Service-Providing Party, within twenty-five (25) calendar days after the end of each month, the Service-Providing Party will invoice the Service-Receiving Party for the applicable Service Costs on a monthly basis, in arrears, for the prior month just ended. The invoice shall set forth in reasonable detail for the period covered by such invoice (i) the Services rendered, (ii) the Service Costs for each type of Service provided, (iii) the amount of such Service Costs that have been offset by Service Costs due to the other Party pursuant to Section 3.3(d) and (iv) such additional information as may be reasonably requested by the Service-Receiving Party.

(b) The Service-Receiving Party agrees to pay all of the applicable Service Costs that are not settled pursuant to an offset again amounts owed pursuant to Section 3.3(d) on or before thirty (30) calendar days after the date on which an invoice for Service Costs is delivered to the Service-Receiving Party (the "Payment Date") by check or wire transfer of immediately available funds to an account designated in writing from time to time by the Service-Providing Party. If the Service-Receiving Party fails to pay any monthly payment on or before the Payment Date, the Service-Providing Party shall provide written notice to the Service-Receiving Party of such failure promptly following the Payment Date and if the Service-Receiving Party fails to pay any monthly payment within fifteen (15) calendar days of delivery of such written notice, the Service-Receiving Party shall be obligated to pay, in addition to the amount due pursuant to such invoice, interest on such amount at a rate per annum equal to 5% calculated from the Payment Date ("Additional Interest"). Unless otherwise agreed in writing between the Parties, all payments made pursuant to this Agreement shall be made in U.S. dollars.

(c) Notwithstanding the foregoing, if the Service-Receiving Party in good faith disputes any invoiced charge, payment of such disputed charge shall be made only after mutual resolution of such dispute pursuant to Section 2.8. The Service-Receiving Party agrees to notify the Service-Providing Party promptly, and in no event later than the relevant Payment Date, of any disputed charge. Additional Interest shall not accrue on any amount in dispute, and no default shall be alleged until after the relevant Payment Date.

(d) Prior to the Service-Receiving Party making a payment of any amounts due pursuant to this Section 3.3, the Service-Receiving Party may offset against such payment any amounts owed by the Service-Providing Party to the Service-Receiving Party that has not been disputed pursuant to Section 3.3(c) pursuant to this Section 3.3.

(e) In addition to the offset right provided in Section 3.3(d) for amounts owed to each other, the Service-Receiving Party may offset against any amount owed to the Service-Providing Party as a result of amounts paid to third parties for goods or services that the Service-Receiving Party determines in its reasonable discretion were provided to the Service-Providing Party. Prior to any such payment to third parties, the Service-Receiving Party intending to make such payment shall notify the Service-Providing Party promptly and with sufficient detail to ascertain the appropriate party responsible for such payment. If the Service-Receiving Party does not provide such notice, it shall be liable for any losses incurred as a result of any incorrect payment made to third parties.

(f) During the term of this Agreement, each Party shall keep such books, records and accounts as are reasonably necessary to verify the calculation of the fees and related expense for Services provided hereunder. The Service-Providing Party shall provide documentation supporting any amounts invoiced pursuant to this Section 3.3 as the Service-Receiving Party may from time to time reasonably request. The Service-Receiving Party shall have the right to review such books, records and accounts at any time during normal business hours upon reasonable written notice, and the Service-Receiving Party agrees to conduct any such review in a manner so as not to unreasonably interfere with the Service-Providing Party's normal business operations.

Section 3.4 Budgeting and Accounting. Upon reasonable request, each Party will cooperate with the other Party with respect to budgeting and accounting matters relating to the Services.

ARTICLE IV
DISCLAIMER OF REPRESENTATIONS AND WARRANTIES

Section 4.1 Disclaimer.

(a) EXCEPT AS EXPRESSLY PROVIDED IN SECTION 2.1, PENNANT ACKNOWLEDGES AND AGREES THAT ENSIGN (AND EACH MEMBER OF THE ENSIGN GROUP) MAKES NO REPRESENTATIONS OR WARRANTIES (INCLUDING WARRANTIES OF MERCHANTABILITY, ADEQUACY OR FITNESS FOR A PARTICULAR PURPOSE) OR GUARANTIES OF ANY KIND, EXPRESS OR IMPLIED, STATUTORY OR OTHERWISE, WITH RESPECT TO ANY SERVICES PROVIDED HEREUNDER.

(b) EXCEPT AS EXPRESSLY PROVIDED IN SECTION 2.1, ENSIGN ACKNOWLEDGES AND AGREES THAT PENNANT (AND EACH MEMBER OF THE PENNANT GROUP) MAKES NO REPRESENTATIONS OR WARRANTIES (INCLUDING WARRANTIES OF MERCHANTABILITY, ADEQUACY OR FITNESS FOR A PARTICULAR PURPOSE) OR GUARANTIES OF ANY KIND, EXPRESS OR IMPLIED, STATUTORY OR OTHERWISE, WITH RESPECT TO ANY SERVICES PROVIDED HEREUNDER.

Section 4.2 As Is; Where Is. EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, THE SERVICES (AND ANY RELATED PRODUCTS) TO BE PROVIDED UNDER THIS AGREEMENT ARE FURNISHED AS IS, WHERE IS, WITH ALL FAULTS.

ARTICLE V
INDEMNIFICATION; LIMITATION OF LIABILITY

Section 5.1 Indemnification by the Service-Providing Party. The Service-Providing Party hereby agrees to indemnify, defend and hold harmless the Service-Receiving Party Indemnitees from and against any and all Losses relating to, arising out of or resulting from the Service-Providing Party's gross negligence or willful misconduct in the performance of its obligations hereunder, or material breach of this Agreement, other than to the extent such Losses are attributable to the gross negligence, willful misconduct or material breach of this Agreement by any member of the Service-Receiving Party's Group.

Section 5.2 Limitation of Liability.

(a) IN NO EVENT SHALL ANY MEMBER OF THE SERVICE PROVIDING PARTY'S GROUP, NOR ANY DIRECTOR, OFFICER, MANAGER, EMPLOYEE OR AGENT THEREOF, BE LIABLE, WHETHER IN CONTRACT, IN TORT (INCLUDING NEGLIGENCE AND STRICT LIABILITY) OR OTHERWISE TO THE SERVICE-RECEIVING PARTY (OR ANY SERVICE-RECEIVING PARTY'S INDEMNITEES) FOR ANY EXEMPLARY, PUNITIVE, INDIRECT, REMOTE OR SPECULATIVE DAMAGES AS A RESULT OF ANY BREACH, PERFORMANCE OR NON-PERFORMANCE BY SUCH PERSON UNDER THIS AGREEMENT, WHETHER OR NOT SUCH PERSON HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, EXCEPT TO THE EXTENT ANY SUCH AMOUNT IS PAID TO A THIRD PARTY BY THE SERVICE-RECEIVING PARTY OR ANY OF ITS AFFILIATES.

(b) THE SERVICE-PROVIDING PARTY'S TOTAL LIABILITY TO THE SERVICE-RECEIVING PARTY UNDER THIS AGREEMENT FOR ANY CLAIM SHALL NOT EXCEED, IN THE AGGREGATE, AN AMOUNT EQUAL TO THE TOTAL AMOUNT PAID BY THE SERVICE-RECEIVING PARTY FOR THE APPLICABLE SERVICES UNDER THIS AGREEMENT.

Section 5.3 Indemnification Procedure; Other Rights. All claims for indemnification pursuant to Section 5.1 shall be made in accordance with the procedures set forth in Section 9.4 of the Separation Agreement and shall be subject to Sections 9.2 through 9.10 of the Separation Agreement.

ARTICLE VI
FORCE MAJEURE

Section 6.1 General. If the Service-Providing Party (or any member of the Service-Providing Party Group) is prevented from or delayed in complying, in whole or in part, with any of the terms or provisions of this Agreement by reason of fire, flood, storm, earthquake, strike, walkout, lockout or other labor trouble or shortage, delays by unaffiliated suppliers or carriers, shortages of fuel or energy sources, power, raw materials or components, equipment failure, any law, order, proclamation, regulation, ordinance, demand, seizure or requirement of any Governmental Authority, riot, civil commotion, acts of war (declared or undeclared), rebellion, act of terrorism, nuclear or other accident, explosion, casualty, pandemic, act of God, or act, omission or delay in acting by any Governmental Authority or by the Service-Receiving Party (or any member of the Service-Receiving Party Group) or any other cause, whether or not of a class or kind listed in this sentence, which is beyond the reasonable control of Service-Providing Party (or any other applicable member of the Service-Providing Party Group), then upon notice to Service-Receiving Party pursuant to Section 6.2, the affected provisions and/or other requirements of this Agreement shall be suspended during the period of such disability and, unless otherwise set forth herein to the contrary, Service-Providing Party (and any applicable member of the Service-Providing Party Group) shall have no liability to Pennant (or any member of the Service-Receiving Party Group) in connection therewith. The Service-Receiving Party shall not be required to pay any fees applicable to any period during which the Service-Providing Party's performance is excused pursuant to this Section 6.1 and the applicable Services contemplated to be provided hereunder are not actually performed.

Section 6.2 Notice. Upon becoming aware of a disability causing a delay in the performance or preventing performance of any Services to be provided by Service-Providing Party (or another member of the Service-Providing Party Group) under this Agreement, Service-Providing Party shall promptly notify Service-Receiving Party in writing of the existence of such disability and the anticipated duration of the disability, if then known.

Section 6.3 Subcontractors; Fees. The Service-Receiving Party shall have the right, but not the obligation, to hire or engage one or more subcontractors to perform the applicable Services affected by the disability for the duration of the period during which such disability delays or prevents the performance of such Services by the Service-Providing Party, it being agreed that the fees paid or payable under this Agreement with respect to the applicable Services affected by the disability shall be reduced (or refunded, if applicable) on a dollar-for-dollar basis for all amounts paid by the Service-Receiving Party to such subcontractors; provided that the Service-Providing Party shall not be responsible for the amount of fees charged by any such subcontractors to perform such Services to the extent they exceed the fees payable under this Agreement for such Services.

Section 6.4 Limitations. Each Party shall use its commercially reasonable efforts to promptly remove any disability under Section 6.1 as soon as possible; provided that nothing in this Article VI will be construed to require the settlement of any lawsuit or other legal proceeding, strike, walkout, lockout or other labor dispute on terms which, in the reasonable judgment of the affected Party, are contrary to its interest. It is understood that the settlement of a lawsuit or other legal proceeding, strike, walkout, lockout or other labor dispute will be entirely within the discretion of the affected Party.

ARTICLE VII
TERM AND TERMINATION

Section 7.1 Term and Termination of Services.

(a) Subject to Section 7.1(c), Section 6.1 and except as otherwise set forth in Exhibit A or Exhibit B, as applicable, each of the Services shall be provided for the term specified in Section 7.1(b); provided that the Service-Receiving Party shall have the right to terminate one or more of the applicable Services that it receives under this Agreement at the end of a designated month by giving the Service-Providing Party the longer of (a) at least thirty (30) calendar days' prior written notice of such termination or (b) in the case of any Service that the Service-Providing Party incurs an expense from an unrelated third-party, the period of time required to terminate such third-party expense, but in no event longer than ninety (90) days unless the Service-Providing Party, in its reasonable judgment, determines that a longer period of time is commercially reasonable. The Parties shall cooperate with each other in good faith in their efforts to reasonably effect early termination of such Services, including, where applicable, partial termination, and to agree in good faith upon appropriate reduction of the charges hereunder in connection with such early termination.

(b) Except as set otherwise forth in Exhibit A or Exhibit B, as applicable, the provision of Services under this Agreement shall terminate upon the earlier of (a) the cessation of all Services pursuant to Section 7.1(a), or (b) the 24 month anniversary of the Effective Time, plus the total period of any extensions made by the Service-Providing Party pursuant to the following proviso;

provided that the Service-Receiving Party may, at its option, extend the period for any Service (i) for up to an additional two (2) months, on the same terms and conditions (including with respect to fees) as such Service was provided during the initial term for such Service, and (ii) thereafter, for up to an additional three (3) months, on the same terms and conditions as previously provided, except the Fees for such Service provided during such extension period shall be increased by twenty percent (20%). Thereafter, any extension to term of Service for any Service shall be at the Service-Providing Party's sole discretion. This Agreement, except for Section 2.1 and Section 2.2, shall survive the termination of Services, and any such termination shall not affect any payment obligation for Services rendered prior to termination.

(c) Notwithstanding the foregoing: (i) the Parties may terminate the provision of the applicable Services under this Agreement by mutual written consent and (ii) the Parties each reserve the right to immediately terminate the provision of the applicable Services under this Agreement by written notice to the other Party in the event that such other Party shall have (A) applied for or consented to the appointment of a receiver, trustee or liquidator; (B) admitted in writing an inability to pay debts as they mature; (C) made a general assignment for the benefit of creditors; or (D) filed a voluntary petition, or have filed against it a petition, for an order of relief under the Bankruptcy Code.

Section 7.2 Effect of Termination.

(a) Termination or expiration of the applicable Services under this Agreement shall not release a Party from any liability or obligation which already has accrued as of the effective date of such termination or expiration, and shall not constitute a waiver or release of, or otherwise be deemed to adversely affect, any rights, remedies or claims, which a Party may have hereunder at law, equity or otherwise or which may arise out of or in connection with such termination or expiration.

(b) As promptly as practicable following termination of any Service, and the payment by the Service-Receiving Party of all amounts owing hereunder, the Service-Providing Party shall return all reasonably available material, inventory and other property of the Service-Receiving Party Group held by the Service-Providing Party Group and shall deliver copies of all of the Service-Receiving Party Group's records maintained by the Service-Providing Party Group with regard to such Service in the Service-Providing Party's standard format and media. The Service-Providing Party shall deliver such property and records to such location or locations as reasonably requested by the Service-Receiving Party. Arrangements for shipping, including the cost of freight and insurance, and the reasonable cost of packing incurred by the Service-Providing Party shall be borne by the Service-Receiving Party.

ARTICLE VIII
CONFIDENTIALITY

Section 8.1 Confidentiality. Each Party agrees that the specific terms and conditions of this Agreement and any information conveyed or otherwise received by or on behalf of a Party in conjunction herewith shall be Confidential Information subject to the confidentiality provisions (and exceptions thereto) set forth in Section 8.7 of the Separation Agreement.

Section 8.2 System Security.

(a) If the Service-Providing Party (or a member of the Service-Providing Party Group) is given access to the computer systems or software (collectively, "Systems") of the Service-Receiving Party (or a member of the Service-Receiving Party Group) in connection with the provision of any Services, The Service-Providing Party shall comply (or cause such member of the Service-Providing Party Group to comply) with all of the system security policies, procedures and requirements (collectively, "Security Regulations") of the Service-Receiving Party (or such member of the Service-Receiving Party Group), and shall not (or shall cause such member the Service-Providing Party Group not to) tamper with, compromise or circumvent any security or audit measures employed by the Service-Receiving Party (or such member of the Service-Receiving Party Group). The Service-Providing Party shall (or shall cause such member of the Service-Providing Party Group to) access and use only those Systems of the Service-Receiving Party (or such member of the Service-Receiving Party Group) for which it has been granted the right to access and use.

(b) The Service-Providing Party shall use commercially reasonable efforts to ensure that only those of its personnel (or the personnel of such member of the Service-Providing Party Group) who are specifically authorized to have access to the Systems of the Service-Receiving Party (or such member of the Service-Receiving Party Group) gain such access, and use commercially reasonable efforts to prevent unauthorized access, use, destruction, alteration or loss of information contained therein, including notifying its personnel (or the personnel of such member of its Group) of the restrictions set forth in this Agreement and of the Security Regulations.

(c) The Parties acknowledge that the Service-Providing Party may receive or otherwise have access to information of the Service-Receiving Party that is considered "protected health information" under the Health Insurance Portability and Accountability Act of 1996, as amended and implemented through regulation ("HIPAA"). The Parties further acknowledge and agree that this may cause the Service-Providing Party to satisfy the definition of a "business associate" under HIPAA. To address the requirements of HIPAA, the Parties agree to comply with the Business Associate Addendum attached hereto as Exhibit D and incorporated herein by reference.

ARTICLE IX
MISCELLANEOUS

Section 9.1 Further Assurances. Subject to the limitations or other provisions of this Agreement, (a) each Party shall, and shall cause the other members of its Group to, use commercially reasonable efforts (subject to, and in accordance with applicable Law) to take promptly, or cause to be taken promptly, all actions, and to do promptly, or cause to be done promptly, and to assist and cooperate with the other Party in doing, all things reasonably necessary, proper or advisable to carry out the intent and purposes of this Agreement, including using commercially reasonable efforts to perform all covenants and agreements herein applicable to such Party or any member of its Group and (b) neither Party will, nor will either Party allow any other member of its Group to, without the prior written consent of the other Party, take any action which would reasonably be expected to prevent or materially impede, interfere with or delay the provision of any Services hereunder during the Term. Without limiting the generality of the foregoing, where the cooperation of third parties would be necessary in order for a Party to completely fulfill its obligations under this Agreement, such Party shall use commercially reasonable efforts to cause such third parties to provide such cooperation.

Section 9.2 Amendments and Waivers.

(a) Subject to Section 11.1 of the Separation Agreement and Section 2.2 of this Agreement, this Agreement may not be amended except by an agreement in writing signed by both Parties.

(b) Any term or provision of this Agreement may be waived, or the time for its performance may be extended, by the Party entitled to the benefit thereof and any such waiver shall be validly and sufficiently given for the purposes of this Agreement if it is in writing signed by an authorized representative of such Party. No delay or failure in exercising any right, power or remedy hereunder shall affect or operate as a waiver thereof; nor shall any single or partial exercise thereof or any abandonment or discontinuance of steps to enforce such a right, power or remedy preclude any further exercise thereof or of any other right, power or remedy. The rights and remedies hereunder are cumulative and not exclusive of any rights or remedies that either Party would otherwise have.

Section 9.3 Entire Agreement. This Agreement, the Separation Agreement, the other Ancillary Agreements, and the Exhibits and Schedules referenced herein and therein and attached hereto or thereto, constitute the entire agreement and understanding between the Parties with respect to the subject matter hereof and supersede all prior negotiations, agreements, commitments, writings, courses of dealing and understandings with respect to the subject matter hereof.

Section 9.4 Third-Party Beneficiaries. Except as provided in Article V relating to Pennant Indemnitees, this Agreement is solely for the benefit of the Parties and shall not be deemed to confer upon third parties any remedy, claim, liability, reimbursement, cause of action or other right in excess of those existing without reference to this Agreement.

Section 9.5 Notices. All notices, requests, permissions, waivers and other communications hereunder shall be provided in accordance with the provisions of Section 12.8 of the Separation Agreement.

Section 9.6 Counterparts; Electronic Delivery. This Agreement may be executed in multiple counterparts, each of which when executed shall be deemed to be an original, but all of which together shall constitute one and the same agreement. Execution and delivery of this Agreement or any other documents pursuant to this Agreement by facsimile or other electronic means shall be deemed to be, and shall have the same legal effect as, execution by an original signature and delivery in person.

Section 9.7 Severability. If any term or other provision of this Agreement or the Exhibits attached hereto is determined by a nonappealable decision by a court, administrative agency or arbitrator to be invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to either Party. Upon such determination

that any term or other provision is invalid, illegal or incapable of being enforced, the court, administrative agency or arbitrator shall interpret this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the fullest extent possible. If any sentence in this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable.

Section 9.8 Assignability; Binding Effect. The rights and obligations of each Party under this Agreement shall not be assignable, in whole or in part, directly or indirectly, whether by operation of law or otherwise, by such Party without the prior written consent of the other Party (such consent not to be unreasonably withheld, conditioned or delayed) and any attempt to assign any rights or obligations under this Agreement without such consent shall be null and void. Notwithstanding the foregoing, either Party may assign its rights and obligations under this Agreement to any of their respective Affiliates provided that no such assignment shall release such assigning Party from any liability or obligation under this Agreement. This Agreement shall be binding upon and inure to the benefit of the Parties and their successors and permitted assigns.

Section 9.9 Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the substantive laws of the State of Delaware, without regard to any conflicts of law provisions thereof that would result in the application of the laws of any other jurisdiction.

Section 9.10 Construction. This Agreement shall be construed as if jointly drafted by the Parties and no rule of construction or strict interpretation shall be applied against either Party. The Parties represent that this Agreement is entered into with full consideration of any and all rights which the Parties may have. The Parties have relied upon their own knowledge and judgment. The Parties have had access to independent legal advice, have conducted such investigations they thought appropriate, and have consulted with such other independent advisors as they deemed appropriate regarding this Agreement and their rights and asserted rights in connection therewith. The Parties are not relying upon any representations or statements made by the other Party, or such other Party's employees, agents, representatives or attorneys, regarding this Agreement, except to the extent such representations are expressly set forth or incorporated in this Agreement. The Parties are not relying upon a legal duty, if one exists, on the part of the other Party (or such other Party's employees, agents, representatives or attorneys) to disclose any information in connection with the execution of this Agreement or its preparation, it being expressly understood that neither Party shall ever assert any failure to disclose information on the part of the other Party as a ground for challenging this Agreement.

Section 9.11 Performance. Each Party shall cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth herein to be performed by any Subsidiary or Affiliate of such Party.

Section 9.12 Title and Headings. Titles and headings to Sections and Articles are inserted for the convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

Section 9.13 Exhibits. Exhibit A attached hereto is incorporated herein by reference and shall be construed with and as an integral part of this Agreement to the same extent as if the same had been set forth verbatim herein.

Section 9.14 Effective Time. This Agreement shall be effective as of the Effective Time.

[Signature Page Follows]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective officers as of the date first set forth above.

THE ENSIGN GROUP, INC.

By: _____
Name:
Title:

THE PENNANT GROUP, INC.

By: _____
Name:
Title:

Exhibit 10.2

TAX MATTERS AGREEMENT

THIS TAX MATTERS AGREEMENT is dated as of [_____], 2019, by and among The Ensign Group, Inc. ("Ensign"), a Delaware corporation, by and on behalf of itself and each Affiliate of Ensign (as determined after the Distribution), and The Pennant Group, Inc., a Delaware corporation, and currently a direct, subsidiary of Ensign ("SpinCo"), by and on behalf of itself and each Affiliate of SpinCo (as determined after the Distribution). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Master Separation Agreement, dated as of [_____], 2019 (the "Separation Agreement").

RECITALS

WHEREAS, Ensign is the common parent of an affiliated group whose includible corporations join in the filing of a consolidated U.S. federal income Tax Return (the "Ensign Consolidated Group");

WHEREAS, as of the date of this Agreement, SpinCo is a subsidiary of Ensign and a member of the Ensign Consolidated Group;

WHEREAS, the board of directors of Ensign has determined that it is advisable and in the best interests of Ensign and its stockholders to reorganize the assets and liabilities of Ensign into two separate, publicly traded companies: (i) Ensign which, following consummation of the transactions contemplated herein and in the Separation Agreement, will own and conduct, directly or indirectly, post-acute services businesses, including skilled nursing, senior living, and other ancillary operations (the "Distributing Business"); and (ii) SpinCo which, following consummation of the transactions contemplated herein and in the Separation Agreement, will own and conduct, directly or indirectly, the home health and hospice agencies business, the senior living business and any other business directly conducted by any member of the Pennant Group (as defined in the Separation Agreement) as of or prior to the date of the Separation Agreement (the "Controlled Business");

WHEREAS, on the Distribution Date and immediately prior to the Distribution, SpinCo will distribute the Pennant Cash Payment to Ensign pursuant to Section 2.1(a)(iii) of the Separation Agreement;

WHEREAS, on the Distribution Date, Ensign will distribute all of its outstanding shares of SpinCo to the holders of Ensign common stock pursuant to the Distribution;

WHEREAS, it is the intention of the Parties that the Contribution and the Distribution together qualify as a reorganization within the meaning of Sections 368(a)(1)(D) and 355 of the Code, and that the Pennant Cash Payment satisfies the requirements of Section 361(b) of the Code such that no gain is recognized upon receipt of the Pennant Cash Payment by Ensign in connection with any Contribution;

WHEREAS, in contemplation of the Reorganization and the Distribution, Ensign and SpinCo desire to set forth their agreement as to the rights and obligations of Ensign, SpinCo, and their respective Affiliates with respect to the responsibility, handling and allocation of federal, state and local Taxes, and various other Tax matters.

NOW, THEREFORE, in consideration of the foregoing and the terms, conditions, covenants, and provisions of this Agreement, Ensign, SpinCo, and their respective Affiliates (as determined after the Distribution) mutually covenant and agree as follows:

ARTICLE I
DEFINITIONS

"Active Business" means each of the Distributing Business and the Controlled Business, in each case taken as a whole.

"Adjustment" means an adjustment of any item of income, gain, loss, deduction, credit or any other item affecting Taxes of a taxpayer pursuant to a Final Determination.

"Affiliate" has the meaning set forth in the Separation Agreement.

"After Tax Amount" means any additional amount necessary to reflect (through a gross-up mechanism) the hypothetical Tax consequences of the receipt or accrual of any payment required to be made under this Agreement (including payment of an additional amount or amounts hereunder and the effect of the deductions available for interest paid or accrued and for Taxes such as state and local income Taxes), determined by using the highest marginal corporate Tax rate (or rates, in the case of an item that affects more than one Tax) for the relevant taxable period (or portion thereof).

"Agreement" means this Tax Matters Agreement, including any schedules, exhibits, and appendices attached hereto.

"ASC 740-10" means Financial Accounting Standard Board Accounting Standard Codification Subtopic 740-10, Income Taxes, including any amended or successor version.

"Benefited Party" has the meaning prescribed in Section 2.05(c).

"Code" means the Internal Revenue Code of 1986, as amended.

"Contribution" means the contribution by Ensign of the assets described in Article II of the Separation Agreement to SpinCo in exchange for (i) the assumption or incurrence, as applicable, by SpinCo and certain of its Subsidiaries of the Pennant Liabilities, and (ii) the issuance by SpinCo to Ensign of shares of SpinCo Common Stock, all as more fully described in the Separation Agreement and the Ancillary Agreements.

"Controlled Business" has the meaning set forth in the recitals.

"Deferred Tax Assets" means, as of a given date, the amount of deferred Tax benefits that would be recognized as assets on a business enterprise's balance sheet computed in accordance with GAAP.

"Deferred Tax Liabilities" means, as of a given date, the amount of deferred Tax liabilities that would be recognized as liabilities on a business enterprise's balance sheet computed in accordance with GAAP.

"Deferred Taxes" means, as of a given date, the amount of Deferred Tax Assets, less the amount of Deferred Tax Liabilities.

"Distributing Business" has the meaning set forth in the recitals.

"Distribution" has the meaning set forth in the Separation Agreement.

"Employee Matters Agreement" means that certain Employee Matters Agreement between the Parties, entered into as of the date hereof.

"Ensign Consolidated Group" has the meaning set forth in the recitals.

"Ensign Employee SpinCo Award" has the meaning set forth in Section 2.04(a).

"Ensign Group" means all entities that are Affiliates of Ensign immediately after the Distribution, and entities that become Affiliates thereafter.

"Ensign Representation Letter" means an officer's certificate in which certain representations, warranties and covenants are made on behalf of Ensign and its Affiliates in connection with the issuance of the Tax Opinion.

"Equity Award" means employee restricted stock, employee stock options, or deferred compensation granted, awarded or otherwise paid to a service provider by Ensign or a member of the SpinCo Group, as the case may be.

"Final Determination" shall mean the final resolution of liability for any Tax for a taxable period, including any related interest, penalties or other additions to tax, (i) by a decision, judgment, decree, or other order by a court of competent jurisdiction, which has become final and unappealable; (ii) by a final settlement with the IRS, closing agreement or accepted offer in compromise under Section 7121 or Section 7122 of the Code, or comparable agreement under the Law of other jurisdictions; (iii) by any allowance of a Refund in respect of an overpayment of Tax, but only after the expiration of all periods during which such Refund may be recovered (including by way of offset) by the jurisdiction imposing such Tax; or (iv) by any other final resolution, including by reason of the expiration of the applicable statute of limitations or the execution of a pre-filing agreement with the IRS or other Taxing Authority.

"GAAP" means United States generally accepted accounting principles as in effect on the Distribution Date.

"Income Taxes" means any Taxes based upon, measured by, or calculated with respect to: (i) net income or profits or net receipts (including, but not limited to, any capital gains, minimum Tax or any Tax on items of Tax preference, but not including sales, use, real or personal property, or transfer or similar Taxes) or (ii) multiple bases (including corporate or franchise, doing business and occupation taxes) if one or more bases upon which such Tax may be based, measured by, or calculated with respect to, is described in clause (i).

"Indemnified Party" has the meaning prescribed in Section 6.02.

"Indemnifying Party" has the meaning prescribed in Section 6.02.

"IRS" means the United States Internal Revenue Service.

"Liability Issue" has the meaning prescribed in Section 5.03(b).

"Non-Income Taxes" means any Taxes other than Income Taxes.

"Notified Action" has the meaning prescribed in Section 4.03(a).

"Party" means each of Ensign and SpinCo.

"Person" has the meaning set forth in the Separation Agreement.

"Post-Distribution Period" means any tax year or other taxable period beginning after the Distribution Date and, in the case of any Straddle Period, that part of the tax year or other taxable period that begins at the beginning of the day after the Distribution Date.

"Pre-Distribution Period" means any tax year or other taxable period that ends on or before the Distribution Date and, in the case of any Straddle Period, that part of the tax year or other taxable period through the end of the day on the Distribution Date.

"Pre-Distribution Period Adjustment" means any Adjustment after the Distribution Date with respect to a Pre-Distribution Period (a "Pre-Distribution Period Adjustment").

"Proposed Acquisition Transaction" means a transaction or series of transactions (i) as a result of which any of the Parties would merge or consolidate with any other Person, or (ii) as a result of which any Person or any group of Persons would (directly or indirectly) acquire, or have the right to acquire (through an option or otherwise), from any of the Parties or any of their Affiliates and/or one or more holders of their stock, respectively, any amount of stock of any of the Parties that would, when combined with any other changes in ownership of the stock of such Party, result in a shift of more than 35% of (a) the value of all outstanding shares of stock of such Party as of the Distribution Date, or (b) the total combined voting power of all outstanding shares of voting stock of such Party as of the Distribution Date. Notwithstanding the foregoing, a Proposed Acquisition Transaction shall not include (i) the adoption by a Party of, or the issuance of stock pursuant to, a stockholder rights plan or (ii) transactions that satisfy Safe Harbor VIII (relating to acquisitions in connection with a person's performance of services, which shall include, for the avoidance of doubt, Equity Awards granted to employees of members of the Ensign Group and the SpinCo Group) or Safe Harbor IX (relating to acquisitions by a retirement plan of an employer) of Treasury Regulations Section 1.355-7(d). For purposes of determining whether and to what extent a transaction constitutes an indirect acquisition for purposes of the first sentence of this definition, any recapitalization or other action resulting in a shift of voting power or any redemption or repurchase of shares of stock shall be treated as an indirect acquisition of shares of stock by the benefitted or non-exchanging stockholders. Notwithstanding the previous sentence, the effect of any such recapitalization, other action, or redemption or repurchase (directly or indirectly) of shares shall take into account any applicable IRS private letter ruling received by one or more of the Parties with respect thereto. This definition and the application thereof is intended to monitor compliance with Section 355(e) of the Code and the Treasury Regulations promulgated thereunder and shall be interpreted accordingly by the Parties in good faith.

"Refunds" has the meaning prescribed in Section 2.05(a).

"Representation Letters" means the Ensign Representation Letter (or Letters) and the SpinCo Representation Letter (or Letters).

"Restricted Period" means the period beginning at the Effective Time and ending on the two-year anniversary of the day after the Distribution Date.

"Separation Agreement" has the meaning set forth in the recitals.

"Separation Taxes" means any federal, state, and local Income Tax imposed on or assessed against Ensign or the Ensign Consolidated Group in connection with the Contribution and Distribution that would not have occurred had the Contribution and Distribution not occurred.

"SpinCo Consolidated Group" an affiliated group whose common parent is SpinCo, the includible corporations of which join with SpinCo in the filing of a consolidated U.S. federal income Tax Return.

"SpinCo Group" means SpinCo and Affiliates of SpinCo immediately after the Distribution, and entities that become Affiliates thereafter.

"SpinCo Representation Letter" means an officer's certificate in which certain representations, warranties, and covenants are made on behalf of SpinCo and its Affiliates in connection with the issuance of the Tax Opinion.

"SpinCo Separate Tax Return" means any Tax Return that is (i) required under applicable Law to be filed by any member of the SpinCo Group, and that does not include any member of the Ensign Group, for a Pre-Distribution Period or a Straddle Period or (ii) identified on Schedule A, in each case, whether or not such Tax Return is timely filed.

"Straddle Period" means any taxable period beginning on or before the Distribution Date and ending after the Distribution Date.

"Tax" and "Taxes" means any income, gross income, gross receipts, profits, capital stock, franchise, withholding, payroll, social security, workers' compensation, unemployment, disability, property, ad valorem, value added, stamp, excise, severance, occupation, service, sales, use, license, lease, transfer, import, export, alternative minimum, estimated or other tax (including any fee, assessment, or other charge in the nature of or in lieu of any tax), imposed by any governmental entity or political subdivision thereof, and any interest, penalty, additions to tax, or additional amounts in respect of the foregoing.

"Tax Attributes" means net operating losses, capital losses, investment tax credit carryovers, earnings and profits, foreign tax credit carryovers, overall foreign losses, previously taxed income, separate limitation losses, deductions, credits or other comparable items, and assets basis, that could affect a Tax liability for a past or future taxable period.

"Taxing Authority" means any national, municipal, governmental, state, federal or other body, or any quasi-governmental or private body, having jurisdiction over the assessment, determination, collection or imposition of any Tax (including the IRS).

"Tax Controversy" has the meaning prescribed in Section 5.01(a).

"Tax Detriment" means, without double counting, the sum of (i) the amount of the increase in the Tax liability of an entity (or of the consolidated or combined group of which it is a member), whether temporary or permanent, for any taxable period that arises, or may arise in the future, as a result of any adjustment to, or addition or deletion of, a Tax Item in the computation of the Tax liability of the entity (or the consolidated or combined group of which it is a member), and (ii) the amount by which the entity's (or consolidated or combined group of which it is a member) Deferred Taxes are increased as a result of such adjustment, addition, or deletion.

"Tax-Free Status of the Transactions" means the tax-free treatment accorded to certain of the Transactions as set forth in the Tax Opinion.

"Tax Item" means any item of income, gain, loss, deduction, credit, recapture of credit, or any other item (including the basis or adjusted basis of property) which increases or decreases Income Taxes paid or payable in any taxable period.

"Tax Opinion" means the opinion rendered by Kirkland & Ellis LLP, with respect to certain Tax aspects of the Contribution and Distribution.

"Tax Proceeding" means any audit, assessment of Taxes, pre-filing agreement, other examination by any Taxing Authority, proceeding, appeal of a proceeding or litigation relating to Taxes, whether administrative or judicial, including proceedings relating to competent authority determinations.

"Tax Return" means any return, report, certificate, form, filing, questionnaire or other document required to be filed, including requests for extensions of time, filings made with estimated Tax payments, claims for Refund or amended returns, any related or supporting information or schedule attached thereto that may be filed for any taxable period with any Taxing Authority in connection with any Tax or Taxes (whether or not a payment is required to be made with respect to such filing).

"Treasury Regulations" means the final and temporary (but not proposed) income tax regulations promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

"Unqualified Tax Opinion" means a "will" opinion, without substantive qualifications, of a nationally recognized law or accounting firm, which firm is reasonably acceptable to Ensign, to the effect that a transaction will not affect the Tax-Free Status of the Transactions.

ARTICLE II
RESPONSIBILITY FOR TAXES

2.01 Responsibility and Indemnification for Taxes.

(a) From and after the Distribution Date, without duplication, each of Ensign and SpinCo shall be responsible for, and shall pay its respective share of the liability for Taxes of Ensign, SpinCo, and their respective Affiliates, as provided in this Agreement. Ensign and its Affiliates shall indemnify and hold harmless SpinCo and its Affiliates from and against any Taxes for which Ensign is responsible pursuant to this Agreement, and SpinCo and its Affiliates shall indemnify and hold harmless Ensign and its Affiliates from and against any Taxes for which SpinCo is responsible pursuant to this Agreement.

(b) For the avoidance of doubt, all references to Taxes or Tax liabilities in this Agreement refer to the actual amounts of Taxes paid or due and do not apply to (i) the utilization, elimination, or adjustment of any Tax Attribute, or (ii) items or adjustments to items shown solely on a Party's balance sheet or other financial statement. There shall be no adjustments, payments, or obligations among the Parties made pursuant to this agreement for any gains or losses with respect to amounts shown on a Party's balance sheet or other financial statements and not specifically allocated herein, including but not limited to ASC 740-10 reserves, Deferred Tax Assets, Deferred Tax Liabilities, and other Tax accounting entries.

(c) Payments to Taxing Authorities and between the Parties, as the case may be, shall be made in accordance with the provisions of this Agreement.

2.02 Responsibility for Taxes.

(a) Generally

(i) Ensign.

Except as set forth in Sections 2.02(a)(ii) and 2.02(b), Ensign shall be responsible for:

(A) all Tax liability imposed on members of the Ensign Group or the SpinCo Group for all Pre-Distribution Periods;

(B) all Tax liability imposed on members of the Ensign Group for all Post-Distribution Periods; and

(C) 85% of any Pre-Distribution Period Adjustment.

(ii) SpinCo.

Except as set forth in Section 2.02(b), SpinCo shall be responsible for:

(A) all Tax liability imposed with respect to any SpinCo Separate Tax Return;

(B) all Tax liability imposed on members of the SpinCo Group for all Post-Distribution Periods; and

(C) 15% of any Pre-Distribution Period Adjustment.

(iii) Straddle Period Taxes.

Subject to Section 2.03, the responsibility for any Tax incurred in a Straddle Period shall be allocated between the Pre-Distribution Period and the Post-Distribution Period as if the relevant Person or Persons closed its financial accounting records as of the Distribution Date and determined the Tax attributable to the Pre-Distribution Period by applying the method of tax accounting that has historically been used for the business of such Person or Persons.

(b) Separation Taxes

(i) Ensign.

Ensign shall be responsible for:

(A) 50% of all Separation Taxes not due to any act, failure to act, or omission identified in this subsection (b) on the part of any member of the SpinCo Group or the Ensign Group, or any Separation Tax liability arising out of or in connection with the accuracy of any description of events, facts, or circumstances on or prior to the Distribution Date as contained in or made in connection with the Tax Opinion or other Ancillary Agreements, including any misrepresentation or omission by Ensign or SpinCo contained in any such document with respect to any period prior to the Distribution, but excluding in each case for this purpose any statement concerning a Party's plan or intention with respect to actions or operations after the Distribution Date,

(B) 100% of all Separation Taxes arising out of, based upon, or relating or attributable to any breach by Ensign of any representation, warranty, covenant, or obligation contained in this Agreement, any other Ancillary Agreement, the Tax Opinion, any Ensign Representation Letter, or otherwise made by Ensign in connection with the Distribution, but excluding for this purpose the breach of any representations (including those described in Section 4.01(b)(i)) not concerning a Party's plan or intention with respect to actions or operations after the Distribution Date, and

(C) 100% of all Separation Taxes arising from any event following the Distribution involving the stock or assets of Ensign or any of its Affiliates which causes the Distribution to be a Taxable event to Ensign as a result of the application of Section 355(e) of the Code or a similar provision of state or local Tax Law.

(ii) SpinCo.

SpinCo shall be responsible for:

(A) 50% of any Separation Taxes that are not due to any act, failure to act, or omission identified in this subsection (b) on the part of any member of the SpinCo Group or the Ensign Group, or any Separation Tax liability arising out of or in connection with the accuracy of any description of events, facts, or circumstances on or prior to the Distribution Date as contained in or made in connection with the Tax Opinion or other Ancillary Agreements, including any misrepresentation or omission by Ensign or SpinCo contained in any such document with respect to any period prior to the Distribution, but excluding in each case for this purpose any statement concerning a Party's plan or intention with respect to actions or operations after the Distribution Date,

(B) 100% of all Separation Taxes arising out of, based upon, or relating or attributable to any breach by SpinCo of any representation, warranty, covenant, or obligation contained in this Agreement, any other Ancillary Agreement, the Tax Opinions, any SpinCo Representation Letter, or otherwise made by SpinCo in connection with the Distribution, but excluding for this purpose the breach of any representations (including those described in Section 4.01(a)(i)) not concerning a Party's plan or intention with respect to actions or operations after the Distribution Date, and

(C) 100% of all Separation Taxes arising from any event post-Distribution involving the stock or assets of SpinCo or any of its Affiliates which causes the Distribution to be a Taxable event to Ensign as a result of the application of Section 355(e) of the Code or a similar provision of state or local Tax Law.

(c) Transfer Taxes. Notwithstanding anything to the contrary herein, all transfer, documentary, sales, use, stamp, registration and other such similar Taxes, and all conveyance fees, recording charges and other fees and charges (including any penalties and interest) incurred in connection with consummation of the transactions contemplated by this Agreement, the Separation Agreement or the Ancillary Agreements ("Transfer Taxes") shall be paid by SpinCo, and the Party required under applicable Law to file Tax Returns with respect to Transfer Taxes will file all necessary Tax Returns, and, if required by applicable Law, the non-preparing Party will, and will cause its Affiliates to, join in the execution of any such Tax Returns and other documentation; provided, however, that if the non-preparing Party fails to join in the execution of any such Tax Returns and other documentation then the Party obligated to file such Tax Returns shall be authorized to execute such Tax Returns and other documentation on behalf of the non-preparing Party.

2.03 Allocation of Certain Income Taxes and Income Tax Items.

(a) If Ensign, SpinCo, or any of their respective Affiliates is permitted but not required under applicable federal, state, or local Tax Laws to treat the Distribution Date as the last day of a taxable period, then, in accordance with Section 2.02(a)(iii), the parties shall treat such day as the last day of a taxable period under such applicable Tax Law, and shall file any elections necessary or appropriate to such treatment; provided that this Section 2.03(a) shall not be construed to require Ensign or SpinCo to change its taxable year.

(b) If applicable Law does not require or permit Ensign, SpinCo, or any of their respective Affiliates, as the case may be, to close its taxable year on the Distribution Date, then the allocation of income or deductions required to determine any Taxes or other amounts attributable to the portion of the Straddle Period ending on, or beginning after, the Distribution Date shall be made by means of a closing of the books and records of the SpinCo Group as of the close of the Distribution Date; provided that (i) exemptions, allowances, or deductions that are calculated on an annual or periodic basis shall be allocated between such portions in proportion to the number of days in each such portion, and (ii) property Taxes or other Non-Income Taxes that are calculated on an annual or periodic basis and not assessed with respect to a transaction or series of transactions shall be allocated to the portion of the Straddle Period ending on the Distribution Date and the portion of the Straddle Period beginning after the Distribution Date in proportion to the number of days in each such portion; provided, however, notwithstanding anything herein to the contrary, each Party and its Affiliates will remain solely responsible for any and all Taxes for which they are responsible under any lease of property from the other Party or any of its Affiliates.

(c) Tax Attributes arising in a Pre-Distribution Period shall be allocated to the Ensign Group and SpinCo Group in accordance with the Code and Treasury Regulations (and any applicable state, local, and non-U.S. Laws). Ensign and SpinCo shall jointly determine the allocation of such Tax Attributes arising in Pre-Distribution Periods as soon as reasonably practicable following the Distribution Date, and hereby agree to compute all Taxes for Post-Distribution Periods consistently with that determination unless otherwise required by a Final Determination.

(d) The Parties agree that, in connection with the Distribution, Ensign's current and accumulated earnings and profits will be allocated between Ensign and SpinCo based on their relative fair market values at the time of the Distribution in accordance with Treasury Regulation § 1.312-10.

2.04 Treatment of Equity Awards.

(a) To the extent permitted by law (and subject to Section 2.04(g)), Ensign (or the appropriate Ensign Affiliate) shall be entitled to and shall claim all federal income Tax deductions or other Tax benefits resulting from the grant of any Equity Awards prior to the Distribution to an employee of Ensign (or the appropriate Ensign Affiliate), including with respect to any SpinCo Restricted Stock (as defined in the Employee Matters Agreement) issued to employees of Ensign pursuant to the SpinCo Equity and Incentive Plan (as defined in the Employee Matters Agreement) (such Equity Awards, the "Ensign Employee SpinCo Awards").

(b) To the extent permitted by law (and subject to Section 2.04(g)), SpinCo (or the appropriate SpinCo Affiliate) shall be entitled to and shall claim all federal income Tax deductions or other Tax benefits resulting from the grant of any Equity Awards prior to the Distribution to an employee of SpinCo (or the appropriate SpinCo Affiliate).

(c) To the extent permitted by law, with respect to Equity Awards granted after the Distribution Date, the Party that grants the award shall be entitled to claim any Tax deduction or other benefit resulting from the grant and/or vesting of the award (including any dividends accrued or paid with respect to such award).

(d) If, pursuant to a Final Determination, all or any part of a Tax deduction claimed by Ensign pursuant to Section 2.04(a) is disallowed, then, to the extent permitted by law, SpinCo (or the appropriate SpinCo Affiliate) shall claim such Tax deduction. If SpinCo (or its Affiliate) realizes a Tax benefit from the claiming of such Tax deduction, SpinCo shall pay the amount of such Tax benefit to Ensign net of any Tax Detriment suffered by SpinCo or its Affiliate in connection therewith. If, pursuant to a Final Determination, all or any part of a Tax deduction claimed by SpinCo pursuant to Section 2.04(b) is disallowed, then, to the extent permitted by law, Ensign (or the appropriate Ensign Affiliate) shall claim such Tax deduction. Except in the case of an Ensign Employee SpinCo Award, if Ensign (or its Affiliate) realizes a Tax benefit from the claiming of such Tax deduction, Ensign shall pay the amount of such Tax benefit to SpinCo net of any Tax Detriment suffered by Ensign or its Affiliate in connection therewith.

(e) Upon the vesting and settlement of an Ensign Equity Award settled in Ensign common stock or paid by Ensign (including any dividends accrued or paid with respect thereto) the holder of which is an employee of SpinCo or a member of the SpinCo Group, Ensign shall timely transfer such Ensign common stock or such amounts to the employing entity of such holder; and the employing entity shall be solely responsible for ensuring (i) the settlement of such Ensign Equity Awards (including the payment of any dividends accrued or paid or other amounts with respect thereto, as applicable), and (ii) the withholding of all applicable Taxes and the prompt remittance of such withheld amounts, along with the employer's portion of any applicable payroll Taxes due with respect to the exercise or vesting and settlement of such Equity Award (including any dividends accrued or paid with respect thereto), to the appropriate Taxing Authority.

(f) Upon the vesting and settlement of a SpinCo Equity Award settled in SpinCo common stock or paid by SpinCo (including any dividends accrued or paid with respect thereto) the holder of which is an employee of Ensign or a member of the Ensign Group (including, for the avoidance of doubt, any Ensign Employee SpinCo Awards), SpinCo shall timely transfer such Spinco common stock or such amounts to the employing entity of such holder; and the employing entity shall be solely responsible for ensuring (i) the settlement of such Spinco Equity Awards (including the payment of any dividends accrued or paid or other amounts with respect thereto, as applicable), and (ii) the withholding of all applicable Taxes and prompt remittance of such withheld amounts, along with the employer's portion of any applicable payroll Taxes due with respect to the exercise or vesting and settlement of such Equity Award (including any dividends accrued or paid with respect thereto), to the appropriate Taxing Authority.

(g) The Parties hereto acknowledge and agree that, except to the extent otherwise required by applicable Law and subject to Section 83 of the Code, (A) SpinCo shall be treated for U.S. federal (and applicable state and local) income Tax purposes as issuing the Ensign Employee SpinCo Awards to Ensign (or its applicable Affiliate) in respect of services provided by Ensign (or such Affiliate), and (B) Ensign (or such Affiliate) shall in turn be treated for U.S. federal (and applicable state and local) income Tax purposes as delivering such Ensign Employee SpinCo Awards to such employee as compensation in respect of services provided to Ensign. Notwithstanding the foregoing or anything herein to the contrary, to the extent SpinCo (or its Affiliate) realizes a Tax benefit from the claiming of a Tax deduction with respect to an Ensign Employee SpinCo Award, SpinCo shall pay the amount of such Tax benefit to Ensign net of any Tax Detriment suffered by SpinCo or its Affiliate in connection therewith.

2.05 Tax Refunds.

(a) Except as otherwise provided herein, the benefit of any Tax credits, Tax Attributes, and any refund or credit of any overpayment of Taxes or estimated Tax liabilities ("Refunds"), including any corresponding benefit arising out of or related to any Tax liability that is the subject of this Agreement, will remain with the party entitled to the benefit under applicable Tax Law, as modified by any applicable audit agreements or past practice of Ensign and its Affiliates. No payments shall be made between the Parties to account for such adjustment.

(b) Except as provided in Section 2.06, Ensign shall be entitled to all Refunds for Taxes for which Ensign is responsible pursuant to Article II, and SpinCo shall be entitled to all Refunds for Taxes for which SpinCo is responsible pursuant to Article II (including, for the avoidance of doubt, Ensign and SpinCo's respective share of any Refund with respect to a Pre-Distribution Period Adjustment). A Party receiving a Refund to which the other Party is entitled pursuant to this Agreement shall pay the amount to which such other Party is entitled within ten twenty (20) days after the receipt of the Refund.

(c) In the event of an Adjustment relating to Taxes for which one Party is responsible pursuant to Article II which would have given rise to a Refund but for an offset against the Taxes for which the other Party is or may be responsible pursuant to Article II (the "Benefited Party"), then the Benefited Party shall pay to the other Party, within twenty (20) days of the Final Determination of such Adjustment an amount equal to the lesser of (i) the amount of such hypothetical Refund or (ii) the amount of such reduction in the Taxes of the Benefited Party, in each case, plus interest at the rate set forth in Section 6621(a)(1) of the Code on such amount for the period from the filing date of the Tax Return that would have given rise to such Refund to the payment date.

(d) Notwithstanding Section 2.05(a), to the extent that a Party applies or causes to be applied an overpayment of Taxes as a credit toward or a reduction in Taxes otherwise payable (or a Taxing Authority requires such application in lieu of a Refund) and such overpayment of Taxes, if received as a Refund, would have been payable by such Party to the other Party pursuant to this Section 2.05, such Party shall pay such amount to the other Party no later than the due date of the Tax Return for which such overpayment is applied to reduce Taxes otherwise payable.

(e) To the extent that the amount of any Refund under this Section 2.05 or Section 2.06(b), as applicable, is later reduced by a Taxing Authority or in a Tax Proceeding, such reduction shall be allocated to the Party to which such Refund was allocated pursuant to this Section 2.05 or Section 2.06(b), as applicable, and an appropriate adjusting payment shall be made.

2.06 Carrybacks.

(a) The carryback of any loss, credit, or other Tax Attribute from any Post-Distribution Period shall be in accordance with the provisions of the Code and Treasury Regulations (and any applicable state, local, or non-U.S. Law).

(b) (i) Subject to Section 2.06(c) and (d), in the event that any member of the SpinCo Group realizes any loss, credit, or other Tax Attribute in a Post-Distribution Period of such member, such member may elect to carry back such loss, credit, or other Tax Attribute to a Pre-Distribution Period or Straddle Period of Ensign. Ensign shall cooperate with SpinCo and such member in seeking from the appropriate Taxing Authority any Refund that reasonably would result from such carryback (including by filing an amended Tax Return) at SpinCo's cost and expense; provided, that Ensign shall not be required to seek such Refund, and SpinCo and such member shall not be permitted to seek such Refund, in each case to the extent that such Refund would reasonably be expected to materially adversely impact Ensign (including through an increase in Taxes or a loss or reduction of a Tax Attribute regardless of whether or when such Tax Attribute otherwise would have been used), in each case without the prior written consent of Ensign, which consent shall not be unreasonably withheld or delayed. SpinCo (or such member) shall be entitled to any Refund realized by any member of the Ensign Group or the SpinCo Group resulting from such carryback.

(ii) Subject to Section 2.06(c) and (d), in the event that any member of the Ensign Group realizes any loss, credit or other Tax Attribute in a Post-Distribution Period of such member, such member may elect to carry back such loss, credit or other Tax Attribute to a Pre-Distribution Period or Straddle Period of such member. SpinCo shall cooperate with Ensign and such member in seeking from the appropriate Taxing Authority any Refund that reasonably would result from such carryback (including by filing an amended Tax Return) at Ensign's cost and expense; provided, that SpinCo shall not be required to seek such Refund and Ensign and such member shall not be permitted to seek such Refund, in each case to the extent that such Refund would reasonably be expected to materially adversely impact SpinCo (including through an increase in Taxes or a loss or reduction of a Tax Attribute regardless of whether or when such Tax Attribute otherwise would have been used), in each case without the prior written consent of SpinCo, which consent shall not be unreasonably withheld or delayed. Ensign (or such member) shall be entitled to any Refund realized by any member of the SpinCo Group or the Ensign Group resulting from such carryback.

(c) Except as otherwise provided by applicable Law, if any loss, credit or other Tax Attribute of the Ensign Business and the SpinCo Business both would be eligible to be carried back or carried forward to the same Pre-Distribution Period (had such carryback been the only carryback to such taxable period), any Refund resulting therefrom shall be allocated between Ensign and SpinCo proportionately based on the relative amounts of the Refunds to which the Ensign Business and the SpinCo Business, respectively, would have been entitled had such carryback been the only carryback to such taxable period.

(d) To the extent the amount of any Refund under this Section 2.06 is later reduced by a Taxing Authority or a Tax Proceeding, such reduction shall be allocated to the Party to which such Refund was allocated pursuant to this Section 2.06.

2.07 Protective Section 336(e) Elections.

(a) Ensign and SpinCo shall make a protective election with respect to SpinCo under Section 336(e) of the Code (and any similar election under state or local Law) with respect to the Distribution in accordance with Treasury Regulations Section 1.336-2(h) and (j) (and any applicable provisions under state and local Law) and shall fully cooperate in the timely completion

and/or filings of such elections and any related filings or procedures (including filing or amending any Tax Returns to implement an election that becomes effective). This Section 2.07(a) is intended to constitute a binding, written agreement to make an election under Section 336(e) of the Code with respect to the Distribution.

(b) Notwithstanding anything to the contrary herein, in the event that the election contemplated in Section 2.07(a) is made and becomes effective, then the Parties shall share in any Tax benefit derived as a result of such election in accordance with the Parties' relative responsibility for such Taxes under this Article II, and payments shall be made between the Parties, if necessary.

(c) Ensign and SpinCo shall cooperate in good faith in order to determine whether to make a protective election under Section 336(e) of the Code (and any similar election under state or local Law) with respect to any subsidiary of SpinCo in accordance with Treasury Regulations Section 1.336-2(h) and (j) (and any applicable provisions under state and local Law).

ARTICLE III
TAX RETURNS AND INFORMATION EXCHANGE

3.01 Tax Return Preparation Responsibility; Payment of Taxes Shown Thereon.

(a) Except as provided in Section 3.01(c), Ensign shall prepare and timely file all Tax Returns for Pre-Distribution Periods for Ensign and its Affiliates, including SpinCo and its Affiliates, and all Tax Returns for Straddle Periods for all members of the Ensign Group. In connection with each federal, state, and local Tax Return that is required under this Agreement to be filed by Ensign for Pre-Distribution Periods or Straddle Periods, SpinCo shall timely furnish to Ensign such Tax information and documents as Ensign may reasonably request.

(b) To the extent that there are separate state or local Tax Returns attributable to a member of the Ensign Group required to be filed by members of the SpinCo Group with respect to Pre-Distribution Periods, SpinCo and Ensign shall cooperate in good faith to ensure that such returns are correctly filed by the party required to file such Tax Returns under applicable Law.

(c) SpinCo and its Affiliates shall prepare and timely file all Tax Returns for Straddle Periods for all members of the SpinCo Group, including any such Tax Return with respect to a Post-Distribution Period. If Ensign or any of its Affiliates is responsible under Section 2.02(a) for a portion of any Tax reported on a Straddle Period Tax Return for any member of the SpinCo Group, SpinCo shall provide Ensign with a copy of such Tax Return at least thirty (30) days prior to its due date. Ensign shall notify SpinCo of any disagreement within 20 days of Ensign's receipt of such Tax Return. Any dispute shall be resolved pursuant to the procedures provided by this Agreement.

(d) Except at the written direction of Ensign or to the extent permitted pursuant to Section 2.06, after the date of the Distribution, SpinCo shall not file (or allow any SpinCo Affiliate to file) any amended Tax Return or refund claim for any Pre-Distribution Periods.

(e) Ensign (and its Affiliates) shall be responsible for remitting payment of any Taxes shown on a Tax Return which Ensign (or any of its Affiliates) is responsible for filing. SpinCo (and its Affiliates) shall be responsible for remitting payment of any Taxes shown on a Tax Return which SpinCo (or any of its Affiliates) is responsible for filing.

(f) If Ensign (or any of its Affiliates) remits a Tax payment, but SpinCo (or any of its Affiliates) is responsible pursuant to Article II for all or a portion of the Tax shown on the applicable Tax Return, then SpinCo shall timely pay to Ensign that portion of the Tax for which SpinCo (or any of its Affiliates) is responsible. If SpinCo (or any of its Affiliates) remits a Tax payment, but Ensign (or any of its Affiliates) is responsible pursuant to Article II for all or a portion of the Tax shown on the applicable Tax Return, then Ensign shall timely pay to SpinCo that portion of the Tax for which Ensign (or any of its Affiliates) is responsible. Such payments shall be requested and made in accordance with the notice and payment provisions contained in Article VI. Nothing in this Section 3.01 shall affect the allocation of responsibility for Taxes as set forth in Article II.

3.02 Certain Items Related to Tax Return Preparation.

(a) All Tax Returns relating to a Pre-Distribution Tax Period shall be prepared and filed by the specified party in a manner consistent with past Tax reporting practices of the Ensign Group or the SpinCo Group, as applicable.

(b) Unless otherwise required by a Taxing Authority, the Parties hereby agree to prepare and file all Tax Returns, and to take all other actions, in a manner consistent with this Agreement, the Separation Agreement, the Ancillary Agreements, applicable Law, the Tax Opinion, and any Representation Letter. All Tax Returns shall be filed on a timely basis (taking into account applicable extensions) by the party responsible for filing such Tax Returns under this Agreement; provided, that if a Tax Return is to be signed by an officer of an entity different from the party responsible for filing such Tax Return, the appropriate Party shall have (or cause its Affiliate to have) the appropriate officer sign such Tax Return promptly after presentation thereof for signature.

(c) Except as otherwise specifically provided for in this Agreement, each Party shall have the exclusive right, in its reasonable discretion, with respect to any Tax Return for which it is responsible for the filing thereof pursuant to this Agreement, to determine (i) the manner in which such Tax Return shall be prepared and filed, including the accounting methods, positions, conventions and principles of taxation to be used and the manner in which any Tax Item shall be reported; (ii) whether any extensions may be requested; (iii) the election(s) that will be made by Ensign, SpinCo, or any of their Affiliates on such Tax Return; (iv) whether any amended Tax Return shall be filed; (v) whether any claim for Refund shall be made; (vi) whether any Refund shall be paid by way of refund or credited against any liability for the related Tax; and (vii) whether to retain outside firms to prepare or review such Tax Returns; provided, that Ensign shall prepare all Tax Returns for which it has filing responsibility, to the extent such Tax Returns reflect activities of the SpinCo Group, in a manner consistent with past Tax reporting practices with respect to such activities of the SpinCo Group, except as required by Law or regulation.

(d) As soon as reasonably practicable following the Distribution Date, and in any event within 90 calendar days after filing the federal income Tax Return for the Ensign Consolidated Group for the tax year that includes the Distribution Date, Ensign shall notify SpinCo of the Tax Attributes associated with SpinCo and each of its Affiliates, and the Tax bases of the assets and liabilities transferred to SpinCo in connection with the Distribution. Ensign shall advise SpinCo with respect to any Final Determination of Tax Adjustments relating to the Ensign Consolidated Group if such Final Determination of Tax Adjustments may affect any Tax Attribute of any member of the SpinCo Group after the Distribution Date within 90 calendar days after such change is made or there is a Final Determination of such change.

(e) Nothing in this Agreement shall be construed as a guarantee or representation of the existence or amount of any loss, credit, carryforward, basis, or other Tax Item or Tax Attribute, whether past, present, or future, of Ensign, SpinCo, or their respective Affiliates.

ARTICLE IV
TAX TREATMENT OF THE DISTRIBUTION

4.01 Representations.

(a) SpinCo.

(i) Tax-Free Status. SpinCo hereby represents and warrants that it has no plan or intention of taking any action, or failing or omitting to take any action, or knows of any circumstance, that could reasonably be expected to (i) cause the Contribution and the Distribution to fail to qualify as a reorganization within the meaning of Sections 368(a)(1)(D) and 355 of the Code or (ii) cause any representation or factual statement made in this Agreement, the Separation Agreement, the Ancillary Agreements, the Tax Opinion, or any SpinCo Representation Letter, as applicable, to be untrue in a manner that would have an adverse effect on the qualification of the Contribution and the Distribution as a reorganization within the meaning of Sections 368(a)(1)(D) and 355 of the Code or the tax treatment described in the Tax Opinion of certain aspects of the Reorganization and the Distribution.

(ii) Plan or Series of Related Transactions.

(A) SpinCo hereby represents and warrants that, to the knowledge of SpinCo and the management of SpinCo, neither the Distribution nor any related transactions are part of a plan (or series of related transactions) pursuant to which a Person will acquire directly or indirectly stock representing a fifty-percent or greater interest (within the meaning of Sections 355(d) and (e) of the Code) in SpinCo or any successor to SpinCo.

(B) SpinCo has no plan or intention to participate in, facilitate, undertake, or otherwise permit any acquisition of SpinCo after the Distribution pursuant to which a direct or indirect acquisition of stock of SpinCo would occur, which would result in a direct or indirect acquisition of stock representing a 50 percent or greater interest (within the meaning of Sections 355(d) and 355(e) of the Code) in SpinCo or any successor to SpinCo.

(C) SpinCo and its Affiliates have no plan or intention to redeem, purchase, or otherwise reacquire more than 20% of the capital stock of SpinCo in one or more transactions following the Distribution Date.

(D) SpinCo and its Affiliates have no plan or intention to (i) sell, exchange, distribute, or otherwise dispose of, directly or indirectly, other than in the ordinary course of business, all or a substantial part of the assets of any of the trades or businesses relied upon, including in the Tax Opinion, to satisfy Section 355(b) of the Code; (ii) discontinue or cause to be discontinued the active conduct of any of the trades or businesses relied upon, including in the Tax Opinion, to satisfy Section 355(b) of the Code; or (iii) cause the occurrence of any restructuring pursuant to which SpinCo ceases to be treated as conducting the trade or businesses relied upon, including in the Tax Opinion, to satisfy Section 355(b) of the Code.

(b) Ensign.

(i) Tax-Free Status. Ensign hereby represents and warrants that it has no plan or intention of taking any action, or failing or omitting to take any action, or knows of any circumstance, that could reasonably be expected to (i) cause the Contribution and the Distribution to fail to qualify as a reorganization within the meaning of Sections 368(a)(1)(D) and 355 of the Code, or (ii) cause any representation or factual statement made in the Separation Agreement, this Agreement, the other Ancillary Agreements, the Tax Opinion, or any Ensign Representation Letter, as applicable, to be untrue in a manner that would have an adverse effect on the qualification of the Contribution and the Distribution as a reorganization within the meaning of Sections 368(a) (1)(D) and 355 of the Code or the tax treatment described in the Tax Opinion of certain aspects of the Reorganization and the Distribution.

(ii) Plan or Series of Related Transactions.

(A) Ensign hereby represents and warrants that, to the knowledge of Ensign and the management of Ensign, neither the Distribution nor any related transactions are part of a plan (or series of related transactions) pursuant to which a Person will acquire directly or indirectly stock representing a fifty-percent or greater interest (within the meaning of Sections 355(d) and (e) of the Code) in Ensign or any successor to Ensign.

(B) Ensign has no plan or intention to participate in, facilitate, undertake or otherwise permit any acquisition of Ensign after the Distribution pursuant to which a direct or indirect acquisition of stock of Ensign would occur, which would result in a direct or indirect acquisition of stock representing a 50 percent or greater interest (within the meaning of Sections 355(d) and 355(e) of the Code) in Ensign or any successor to Ensign.

(C) Ensign and its Affiliates have no plan or intention to redeem, purchase or otherwise acquire more than 20% of Ensign’s capital stock in one or more transactions following the Distribution Date.

(D) Ensign and its Affiliates have no plan or intention to (i) sell, exchange, distribute or otherwise dispose of, directly or indirectly, other than in the ordinary course of business, all or a substantial part of the assets of any of the trades or businesses relied upon, including in the Tax Opinion, to satisfy Section 355(b) of the Code; (ii) discontinue or cause to be discontinued the active conduct of any of the trades or businesses relied upon, including in the Tax Opinion, to satisfy Section 355(b) of the Code, or (iii) cause the occurrence of any restructuring pursuant to which Ensign ceases to be treated as conducting the trade or businesses relied upon, including in the Tax Opinion, to satisfy Section 355(b) of the Code.

4.02 Covenants.

(a) The Parties shall not, and shall cause their Affiliates not to, take any action or fail to take any action, where such action or failure would be inconsistent with or have an adverse effect on the qualification of the Contribution and the Distribution as a reorganization within the meaning of Sections 368(a)(1)(D) and 355 of the Code or the tax treatment described in the Tax Opinion of certain aspects of the Distribution.

(b) Unless otherwise required by a Taxing Authority or applicable Law, the Parties hereby agree to prepare and file all Tax Returns, and to take all other actions, in a manner consistent with past practice.

(c) Unless otherwise required by a Taxing Authority or applicable Law, the Parties hereby agree to prepare and file all Tax Returns, and to take all other actions, in a manner consistent with the characterization of the Reorganization and the Distribution as described in the Tax Opinion and the Ancillary Agreements.

(d) Actions Consistent with Representations and Covenants.

(i) SpinCo shall not, and shall not permit any of its Affiliates to, take any action or fail to take any action, where such action or failure to act would be inconsistent with or cause to be materially untrue any material, information, covenant, or representation in the Separation Agreement, this Agreement, the other Ancillary Agreements, the Tax Opinion, or any SpinCo Representation Letter.

(ii) Ensign shall not, and shall not permit any of its Affiliates to, take any action or fail to take any action, where such action or failure to act would be inconsistent with or cause to be materially untrue any material, information, covenant, or representation in the Separation Agreement, this Agreement, the other Ancillary Agreements, the Tax Opinion, or any Ensign Representation Letter.

(e) Notwithstanding anything herein to the contrary, during the Restricted Period, SpinCo shall not (and shall not allow any of its subsidiaries or Affiliates to):

(i) allow any Proposed Acquisition Transaction to occur;

(ii) merge or consolidate with any other Person or dissolve, liquidate or partially liquidate (other than a wholly owned subsidiary of SpinCo merging or consolidating with SpinCo or another wholly owned subsidiary of SpinCo);

(iii) approve or allow the discontinuance, cessation, or sale or other transfer (to an Affiliate or otherwise) of any Active Business by SpinCo or its Affiliates, as applicable, for purposes of Section 355 of the Code;

(iv) sell or otherwise dispose of more than 35% of its consolidated gross or net assets or allow the sale or other disposition (to an Affiliate or otherwise) of more than 35% of the consolidated gross or net assets of SpinCo (in each case, excluding sales in the ordinary course of business, sales the net cash proceeds (taking into account any Taxes payable) of which are reinvested in other assets (including pursuant to an exchange under Section 1031 of the Code) and sales the net cash proceeds (taking into account any Taxes payable) of which are used to repay indebtedness, and measured based on fair market values as of the date of the Distribution or other transaction);

(v) amend its certificate of incorporation or take any similar action that affects the rights of stockholders under the certificate of incorporation;

(vi) purchase, directly or through any Affiliate, any of its outstanding stock after the Distribution, other than through stock purchases meeting the requirements of Section 4.05(1)(b) of Revenue Procedure 96-30 (as in effect prior to the amendment of such Revenue Procedure by Revenue Procedure 2003-48);

(vii) take any action or fail to take any action, or permit any of its Affiliates to take any action or fail to take any action, that is inconsistent with the representations and covenants made in the Representation Letters, or that is inconsistent with the Tax Opinion; nor

(f) enter into an arrangement or agreement to do any of the foregoing.

4.03 Procedures Regarding Opinions.

(a) If SpinCo notifies Ensign that it desires to take one of the actions described in Section 4.02 (a "Notified Action"), Ensign shall cooperate with SpinCo and use its reasonable best efforts to seek to obtain, as expeditiously as possible, a ruling from the IRS or an Unqualified Tax Opinion for the purpose of permitting SpinCo to take the Notified Action unless Ensign shall have waived the requirement to obtain such opinion. If such a ruling is to be sought, Ensign shall apply for such ruling and Ensign and SpinCo shall jointly control the process of obtaining such ruling. In no event shall Ensign be required to file any ruling request under this Section 4.03(a) unless SpinCo represents that (i) it has read such ruling request, and (ii) all information and representations, if any, relating to any member of the SpinCo Group, contained in such ruling request documents are (subject to any qualifications therein) true, correct, and complete. SpinCo shall reimburse Ensign for all reasonable costs and expenses incurred by the Ensign Group in obtaining a ruling or an Unqualified Tax Opinion requested by SpinCo within twenty (20) days after receiving an invoice from Ensign therefor.

(b) If Ensign requests a ruling or other guidance pursuant to Section 4.03(a): (A) Ensign shall keep SpinCo informed in a timely manner of all material actions taken or proposed to be taken by Ensign in connection therewith; (B) Ensign shall (i) reasonably in advance of the submission of any documents relating to the ruling provide SpinCo with a draft thereof, (ii) reasonably consider SpinCo's comments to such draft, (iii) provide SpinCo with a final copy of any documents relating to the ruling, (iv) provide SpinCo with notice reasonably in advance of, and SpinCo shall have the right to attend, any meetings with the Taxing Authority (subject to the approval of the Taxing Authority) that relate to such ruling, and (v) provide SpinCo with a copy of such ruling.

4.04 Enforcement. The Parties acknowledge that irreparable harm would occur in the event that any of the provisions of this Article IV were not performed in accordance with their specific terms or were otherwise breached. The Parties agree that, in order to preserve the qualification of the Contribution and the Distribution as a reorganization within the meaning of Sections 368(a)(1)(D) and 355 of the Code, injunctive relief is appropriate to prevent any violation of the foregoing covenants; provided, however, that injunctive relief shall not be the exclusive legal or equitable remedy for any such violation.

ARTICLE V
COOPERATION AND EXCHANGE OF INFORMATION

5.01 Cooperation.

(a) Notwithstanding anything to the contrary in the Separation Agreement or the Ancillary Agreements, Ensign and SpinCo shall cooperate (and shall cause each of their respective Affiliates to cooperate) fully at such time and to the extent reasonably requested by the other Party in connection with the preparation and filing of any Tax Return or the conduct of any Tax controversy, including any audit, protest, or claim for refund, competent authority proceeding, or litigation in Tax court or any other court of competent jurisdiction (a "Tax Controversy") (including providing a power of attorney) concerning any issues or any other matter contemplated under this Agreement or otherwise as reasonably requested by the other Party. Each Party shall make its employees and facilities available on a mutually convenient basis to facilitate such cooperation.

(b) Notwithstanding anything to the contrary in this Agreement, if a Party materially fails to comply with any of its obligations set forth in this Section 5.01, upon reasonable request and notice by the other Party, the non-performing Party shall (i) reimburse the other Party for any internal or incremental costs incurred by such other Party in having its employees or agents view or obtain such material, and (ii) to the extent such failure results in the imposition of additional Taxes, be liable in full for such additional Taxes.

5.02 Retention of Records.

(a) The Parties and their Affiliates shall retain and provide to one another on demand books, records, documentation, information, or other materials (including computer data) relating to any Tax Return, or any supplemental information necessary or reasonably helpful to support any position taken therein until the later of (x) the expiration of the applicable statute of limitations (giving effect to any extension, waiver, or mitigation thereof) or (y) in the event any claim has been made under this Agreement for which such information is relevant, the occurrence of a Final Determination with respect to such claim.

(b) The Parties shall retain and make available to one another and to Tax Authorities, records and documentation that specifically include information regarding the amount, basis, and fair market value of all assets exchanged in the Contribution, and relevant facts regarding any liabilities assumed or extinguished as part of Contribution, pursuant to Treasury Regulation Section 1.355-5(d).

(c) If at any time after the Distribution Date a Party proposes to destroy materials or information required to be retained pursuant to Section 5.02(a), it shall first notify the other Party in writing and such other Party shall be entitled to receive such materials or information proposed to be destroyed if such materials or information relate to the other Party or any of its Affiliates or any assets held by the other Party's or any of its Affiliates.

5.03 Contest Provisions.

(a) The Party responsible for Taxes under Article II (the "Responsible Party") shall, with respect to a Tax Return, have the exclusive right at its own cost, to control, contest and represent the interests of Ensign, SpinCo, and their respective Affiliates in any Tax Controversy related to such Tax Return; provided, for the avoidance of doubt that Ensign shall be the Responsible Party with respect to any Tax Return reflecting a Tax described in Section 2.02(a)(i)(A). Such right to control shall include the right, in the Responsible Party's reasonable discretion, to resolve, settle or agree to any deficiency, claim or adjustment proposed, asserted or assessed in connection with or as a result of any such Tax Controversy; provided, however, that at the request of Ensign or at SpinCo's option, SpinCo shall reasonably participate as described in Section 5.04 in the contest of a Tax Controversy of the Ensign Consolidated Group for any Pre-Distribution Periods.

(b) Ensign shall use reasonable efforts to keep SpinCo advised as to the status of Tax Controversies involving any issue that relates to a Tax of SpinCo or any SpinCo Affiliate or that could reasonably be expected to give rise to a liability of SpinCo or any of its Affiliates under this Agreement (in each case, a "Liability Issue"). Ensign shall promptly furnish to SpinCo copies of any inquiries or requests for information from any Taxing Authority or any other administrative, judicial, or other governmental authority concerning any Liability Issue pertaining to SpinCo.

5.04 Reasonable Participation.

(a) In the event that SpinCo elects or is required to participate in the defense of a Tax Controversy pursuant to Section 5.03(a), Ensign shall (i) provide SpinCo with notice reasonably in advance of any proceeding relating to such Tax Controversy, and (ii) consult in good faith with SpinCo on the resolution of the Tax Controversy and on any written submissions in connection with such Tax Controversy, including providing SpinCo with an opportunity to review and provide comments on any written submission.

(b) SpinCo shall have the right, at its expense, to be present at, and participate in, any proceeding relating to such Tax Controversy to the extent allowed by Law.

(c) Ensign shall not settle, either administratively or after the commencement of litigation, such Tax Controversy without the prior written consent of SpinCo, which shall not be unreasonably withheld, conditioned, or delayed. If SpinCo withholds, conditions, or delays consent in a manner deemed "unreasonable" by Ensign, Article VII shall govern the determination of unreasonable.

5.05 Information for Shareholders.

(a) Ensign shall provide each shareholder that receives SpinCo stock pursuant to the Distribution with the information necessary for such shareholder to comply with the requirements of Section 355 of the Code and the Treasury Regulations thereunder with respect to statements that such shareholders must file with their federal income Tax Returns demonstrating the applicability of Section 355 of the Code to the Distribution.

(b) Ensign shall make available on its website the information required by Section 6045B of the Code with respect to the effect of the Distribution on the basis of Ensign and SpinCo stock in the hands of a U.S. taxpayer.

ARTICLE VI
INDEMNITY OBLIGATIONS AND PAYMENTS

6.01 Indemnity Obligations. In addition to the obligations set forth in Article II,

(a) The Ensign Group shall indemnify and hold harmless SpinCo and any member of the SpinCo Group from and against any liability, cost, or expense, including, without limitation, any fine, penalty, interest, charge, or accountant's fee, arising out of fraudulent or negligent preparation of any Tax Return or claim for Refund filed by Ensign or an Ensign Affiliate for any period during which SpinCo or any member of the SpinCo Group was or has been a member of the Ensign Consolidated Group, or arising out of the untimely provision of information required to be provided under this Agreement.

(b) The SpinCo Group shall indemnify and hold harmless Ensign and any member of the Ensign Group from and against any liability, cost, or expenses, including, without limitation, any fine, penalty, interest, charge, or accountant's fee, arising out of fraudulent or negligent information, workpapers, documents, and other items prepared by SpinCo or any SpinCo Affiliate used in the preparation of any Tax Return or claim for Refund filed by Ensign or any Ensign Affiliate for any period during which SpinCo or any SpinCo Affiliate was or has been a member of the Ensign Consolidated Group, or arising out of the untimely provision of information required to be provided under this Agreement.

6.02 Notice. A Party making a claim for indemnification under this Agreement (the "Indemnified Party") shall provide the Party from whom such indemnification is sought (the "Indemnifying Party") with written notice of such claim describing such claim in reasonable detail and accompanied by reasonable documentation supporting such claim no later than twenty (20) calendar days after the Indemnified Party (i) files a Tax Return reporting Taxes due which are subject to reimbursement, or (ii) receives written notice from any Taxing Authority with respect to a Final Determination of Taxes that may be subject to indemnification under this Agreement; provided, however, that in the event that timely notice is not provided, the Indemnifying Party shall be relieved of its obligation to indemnify the Indemnified Party only to the extent that such delay results in actual increased costs or actual prejudice.

6.03 Payment. In the event that the Indemnifying Party is required to make a payment to the Indemnified Party pursuant to this Agreement, then to the extent not otherwise provided for in this Agreement or in the Separation Agreement, such payment shall be made according to this Section 6.03.

(a) All payments shall be made to the Indemnified Party or to the appropriate Taxing Authority as specified by the Indemnified Party within the time prescribed for such payment in this Agreement, or if no period is prescribed, within twenty (20) calendar days after delivery of written notice of payment owing together with a computation of the amounts due.

(b) Unless otherwise required by any Final Determination, the Parties agree that any payment made by one Party to the other Party (other than payments of interest and payment of After Tax Amounts pursuant to Section 6.03(c)) pursuant to this Agreement shall be treated for all Tax and financial accounting purposes as payments with respect to stock (dividend distributions or capital contributions, as the case may be) made immediately prior to the Distribution.

(c) If, pursuant to a Final Determination, it is determined that the receipt or accrual of any payment made under this Agreement (other than payments of interest) is subject to any Tax, the Party making such payment shall be liable for (i) the After Tax Amount with respect to such payment, and (ii) interest at the rate described in Section 6.03(d) on the amount of such Tax from the date such Tax is due through the date of payment of such After Tax Amount. The Party making a demand for payment pursuant to this Agreement and for a payment of an After Tax Amount with respect to such payment shall separately specify and compute such After Tax Amount. However, a Party may choose not to specify an After Tax Amount in a demand for payment pursuant to this Agreement without thereby being deemed to have waived its right subsequently to demand an After Tax Amount with respect to such payment.

(d) Any payment that is required to be made pursuant to this Agreement (i) by SpinCo (or a SpinCo Affiliate) to Ensign (or an Ensign Affiliate), or (ii) by Ensign (or an Ensign Affiliate) to SpinCo (or a SpinCo Affiliate), that is not made on or prior to the date that such payment is required to be made pursuant to this Agreement shall thereafter bear interest at the rate established for underpayments pursuant to Section 6621(a)(2) of the Code.

ARTICLE VII
DISPUTE RESOLUTION

7.01 All disputes, controversies, or claims arising under or in connection with this Agreement (including any dispute, controversy, or claim relating to the breach, termination, or validity thereof) between or among any of Ensign or its Affiliates and SpinCo or its Affiliates shall be governed by Article X of the Separation Agreement or the procedures set forth in Section 7.02 as determined by the Parties. If the Parties cannot agree as to which procedure will govern such dispute, such dispute shall be resolved pursuant to Article X of the Separation Agreement. Each Party agrees that the procedures set forth in Article X of the Separation Agreement or Section 7.02, as determined in Section 7.01, shall be the sole and exclusive remedy in connection with any dispute, controversy, or claim relating to any of the foregoing matters.

7.02 With respect to any dispute governed by this Section 7.02, the Parties shall appoint a nationally recognized independent public accounting firm (the "Accounting Firm") to resolve such dispute. In this regard, the Accounting Firm shall make determinations with respect to the disputed items based solely on representations made by Ensign and SpinCo and their respective representatives, and not by independent review, and shall function only as an expert and not as an arbitrator and shall be required to make a determination in favor of one Party only. The Parties shall require the Accounting Firm to attempt to resolve all disputes no later than sixty (60) days after the submission of such dispute to the Accounting Firm, but in no event later than the due date for the payment of Taxes or the filing of the applicable Tax Return, if applicable, and agree that all decisions by the Accounting Firm with respect thereto shall, absent fraud or manifest error, be final and conclusive and binding on the Parties. The Accounting Firm shall resolve all disputes in a manner consistent with this Agreement and, to the extent not inconsistent with this Agreement, in a manner consistent with the past practices of Ensign and its Affiliates, except as otherwise required by applicable Law. The Parties shall require the Accounting Firm to render all determinations in writing to each of the Parties and to set forth, in reasonable detail, the basis for such determination. The fees and expenses of the Accounting Firm shall be paid by the non-prevailing Party.

7.03 In order to facilitate the comprehensive resolution of related disputes, all claims between any of the parties to a Dispute that arises under or in connection with both this Agreement, on the one hand, and the Separation Agreement and/or the other Ancillary Agreements, on the other hand, may be brought in a single arbitration in accordance with this Section 7.03. Upon the written request of any party to an arbitration proceeding constituted under both this Agreement, on the one hand, and the Separation Agreement and/or the other Ancillary Agreements, on the other hand, the arbitral tribunal shall consolidate such arbitration proceeding with any other arbitration proceeding relating to this Agreement, on the one hand and the Separation Agreement and/or the other Ancillary Agreements, on the other hand, if the arbitral tribunal determines that (i) there are issues of fact or Law common to the proceedings so that a consolidated proceeding would be more efficient than separate proceedings, and (ii) no party to the Dispute would be unduly prejudiced as a result of such consolidation through undue delay or otherwise. In the event of different rulings on this question by the arbitral tribunal constituted hereunder and another arbitral tribunal constituted under this Agreement, on the one hand, and the Separation Agreement and/or the other Ancillary Agreements, on the other hand, the ruling of the arbitral tribunal constituted first in time shall control, and such arbitral tribunal shall serve as the tribunal for any consolidated arbitration. This Section 7.03 shall not apply to any claims brought under Section 7.02.

7.04 In the event of a Dispute, each party to the Dispute shall continue to perform its obligations under the Separation Agreement, this Agreement, and the other Ancillary Agreements in good faith during the resolution of such Dispute as if such Dispute had not arisen, unless and until the Separation Agreement, this Agreement, or the other Ancillary Agreements, as applicable, are terminated in accordance with their respective provisions.

ARTICLE VIII
MISCELLANEOUS

8.01 Incorporation by Reference. The following sections of the Separation Agreement are hereby incorporated in this Agreement by reference to the extent not inconsistent with any of the provisions set forth in this Agreement: Section 12.3 (Amendments and Waivers); Section 12.4 (Entire Agreement); Section 12.5 (Survival of Agreements); Section 12.9 (Counterparts; Electronic Delivery); Section 12.10 (Severability); Section 12.11 (Assignability; Binding Effect); Section 12.12 (Governing Law); Section 12.13 (Construction); Section 12.14 (Performance); and Section 12.15 (Title and Headings).

8.02 Third Party Beneficiaries. This Agreement shall be binding upon and inure solely to the benefit of Ensign, SpinCo, and their respective Affiliates, and nothing herein, express or implied, is intended to or shall confer upon any third parties any legal or equitable right, benefit, or remedy of any nature whatsoever under or by reason of this Agreement.

8.03 Effectiveness. This Agreement shall become effective on the Distribution Date.

8.04 Changes in Law. Any reference to a provision of the Code, Treasury Regulations, or a Law of another jurisdiction shall include a reference to any applicable successor provision or Law. If, due to any change in applicable Law or regulations or their interpretation by any court of Law or other governing body having jurisdiction subsequent to the date specified in the preamble to this Agreement, performance of any provision of this Agreement or any transaction contemplated hereby shall become impracticable or impossible, the Parties shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such provision.

8.05 Notices. All notices, requests, permissions, waivers and other communications hereunder shall be in writing and shall be deemed to have been duly given (a) five (5) Business Days following sending by registered or certified mail, postage prepaid, (b) when sent, if sent by facsimile or e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient, (c) when delivered, if delivered personally to the intended recipient, and (d) one (1) Business Day following sending by overnight delivery via a national courier service and, in each case, addressed to a Party at the following address for such Party (as updated from time to time by notice in writing to the other Party):

(a) If to Ensign, at:

The Ensign Group, Inc.
29222 Rancho Viejo Rd., Suite 127
San Juan Capistrano, CA 92675
Attention: General Counsel
Email: legal@ensignservices.net

(b) If to SpinCo, at:

The Pennant Group, Inc.
1675 E. Riverside Dr., Ste. 150
Eagle, ID 83616
Attention: General Counsel
Email: legal@pennantservices.com

8.06 Joint and Several Liability. SpinCo and each SpinCo Affiliate shall have joint and several liability for any obligation of SpinCo or a SpinCo Affiliate arising pursuant to this Agreement. Ensign and each Ensign Affiliate shall have joint and several liability for any obligation of Ensign or an Ensign Affiliate arising pursuant to this Agreement.

8.07 Tax Sharing Agreements. All Tax sharing, indemnification and similar agreements, written or unwritten, as between any member of the SpinCo Group, on the one hand, and any member of the Ensign Group, on the other hand (other than the Separation Agreement, this Agreement, or any other Ancillary Agreement), shall be or shall have been terminated as of the Effective Time and, after the Effective Time, none of such Parties (or their respective Subsidiaries) to any such Tax sharing, indemnification or similar agreement shall have any further rights or obligations under any such agreement.

8.08 Expenses. Unless otherwise expressly provided in this Agreement, each Party shall bear any and all expenses that arise from their respective obligations under this Agreement.

8.09 Confidentiality. Each Party shall hold and cause its consultants and advisors to hold in strict confidence, unless compelled to disclose by judicial or administrative process or, in the opinion of its counsel, by other requirements of Law, all information written or oral concerning the other Party hereto furnished it by such other Party or its representatives pursuant to this Agreement (except to the extent that such information can be shown to have been (i) previously known by the Party to which it was furnished, (ii) in the public domain through no fault of such Party, or (iii) later lawfully acquired from other sources by the Party to which it was furnished), and each Party shall not release or disclose such information to any other person, except its auditors, attorneys, financial advisors, bankers, and other consultants and advisors who shall be advised of the provisions of this Section 8.09. Each Party shall be deemed to have satisfied its obligation to hold confidential information concerning or supplied by the other Party if it exercises the same care as it takes to preserve confidentiality for its own similar information.

8.10 Limitation on Damages. Each Party irrevocably waives, and no Party shall be entitled to seek or receive, consequential, special, indirect or incidental damages (including without limitation damages for loss of profits) or punitive damages, regardless of how such damages were caused and regardless of the theory of liability; provided that the foregoing shall not limit each Party's indemnification obligations set forth in the Separation Agreement and the Ancillary Agreements.

8.11 Consent by Affiliates. Each of Ensign and SpinCo shall cause each of its respective Affiliates (including any entity that becomes an Affiliate after the date hereof) to consent to, and be bound by, the terms, conditions, covenants, and provisions of this Agreement.

8.12 Coordination with Other Agreements. The Parties agree that this Agreement shall take precedence over any and all agreements among the Parties with respect to Tax matters, including indemnification in respect of Tax matters; provided, however, this Agreement shall not take precedence over any Tax matter relating to the payment or reimbursement of Taxes that exists now or in the future under any lease of property between Ensign and SpinCo, or any of their respective Affiliates, as the case may be, and any such Taxes shall be governed exclusively by such leases without regard to this Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their authorized representatives as of the date first written above.

THE ENSIGN GROUP, INC.

By: _____
Name: _____
Title: _____

THE PENNANT GROUP, INC.

By: _____
Name: _____
Title: _____

Exhibit 10.3

EMPLOYEE MATTERS AGREEMENT

by and between

THE PENNANT GROUP, INC.

and

THE ENSIGN GROUP, INC.

Dated as of [•], 2019

EMPLOYEE MATTERS AGREEMENT

This EMPLOYEE MATTERS AGREEMENT (this "Agreement") is made and entered into as of [•], 2019, by and between The Pennant Group, Inc., a Delaware corporation ("SpinCo"), and The Ensign Group, Inc., a Delaware corporation ("RemainCo" and with SpinCo each, individually, a "Party", and, collectively, the "Parties"). Capitalized terms used in this Agreement, but not defined, shall have the meanings ascribed to them in the Master Separation Agreement, dated as of [•], 2019, by and between SpinCo and RemainCo (as amended from time to time, the "Distribution Agreement").

RECITALS

WHEREAS, pursuant to the Distribution Agreement, RemainCo shall be separated into two separate, publicly-traded companies, one for each of (i) the RemainCo Business, which shall be owned and conducted, directly or indirectly, by RemainCo, and (ii) the SpinCo Business, which shall be owned and conducted, directly or indirectly, by SpinCo; and

WHEREAS, each of RemainCo and SpinCo has determined that it is necessary and desirable to enter into this Agreement in order to allocate, assign or transfer, as applicable, to the appropriate Party, assets, responsibilities, liabilities and obligations with respect to employee compensation, benefits, labor and certain other employment matters associated with personnel of the SpinCo Business and the RemainCo Business, pursuant to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing, the mutual agreements, provisions and covenants contained in this Agreement, and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, SpinCo and RemainCo hereby agree as follows:

ARTICLE I
DEFINITIONS

Section 1.01 **Definitions**: As used in this Agreement, the following terms shall have the meanings indicated below:

(a) "COBRA" shall mean Code Section 4980B and ERISA Sections 601 through 608 or similar state law.

(b) "Code Section 409A" shall mean Section 409A of the Code and the regulations and guidance promulgated thereunder.

(c) "Cornerstone Equity and Incentive Plan" shall mean The Cornerstone Healthcare, Inc. 2016 Omnibus Incentive Plan, as amended from time to time.

(d) "Cornerstone Options" shall mean a vested or unvested stock option right issued under the Cornerstone Equity and Incentive Plan, which is outstanding immediately prior to the Effective Time.

(e) "Cornerstone Restricted Stock" shall mean a vested or unvested share of restricted stock issued pursuant to the applicable award agreement issued under the Cornerstone Equity and Incentive Plan, which is outstanding immediately prior to the Effective Time.

(f) "Employee" shall mean any individual who is an employee of RemainCo or any of its Subsidiaries (including, for the avoidance of doubt, SpinCo and its Subsidiaries) immediately before the Effective Time, including active employees and employees on vacation and approved leave of absence (including maternity, paternity, family, sick, short-term or long-term disability leave, qualified military service under the Uniformed Services Employment and Reemployment Rights Act of 1994, leave under the Family Medical Leave Act and other approved leaves).

(g) "Employment Claim" shall mean any actual or threatened action, lawsuit, charge, complaint, audit, inquiry, investigation, grievance, arbitration, claim (including ERISA claims), or federal, state, or local judicial or administrative proceeding of whatever kind involving a demand by, on behalf of or relating to an Employee, Former Employee, or current or former independent contractor, or by or relating to any federal, state, or local Government Entity alleging Liability against a Party or against a Party's pension, welfare or other benefit plan, or such plan's administrator, trustee or fiduciary.

(h) "Equity Awards" means awards issued under the RemainCo Equity and Incentive Plans and Cornerstone Equity and Incentive Plan.

(i) "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended, or any successor legislation.

(j) "Former Employee" shall mean any individual who was employed by RemainCo or any of its Subsidiaries (including, for the avoidance of doubt, SpinCo and its Subsidiaries) at any time prior to the Effective Time but who is not an Employee hereunder.

(k) "IRS" shall mean the Internal Revenue Service.

(l) "Plan" shall mean any plan, policy, arrangement, contract or agreement providing compensation or benefits for any group of Employees or individual Employee, or the dependents or beneficiaries of any such Employee(s), whether formal or informal or written or unwritten, and including, without limitation, any means, whether or not legally required, pursuant to which any benefit is provided by an employer to any Employee or the beneficiaries of any such Employee. The term "Plan" as used in this Agreement does not include any contract, agreement or understanding relating to settlement of actual or potential employment claims.

(m) "Pre-Spin RemainCo Stock Price" shall mean the closing share price of RemainCo Common Stock on the NASDAQ Global Select Market on the last trading day immediately preceding the Effective Time.

(n) "RemainCo 401(k) Plans" shall have the meaning set forth in Section 2.07 hereof.

(o) "RemainCo Employee" shall mean each Employee who is employed by a member of the RemainCo Group immediately following the Effective Time and any Employee who is transferred after the Effective Time pursuant to Section 2.01.

(p) "RemainCo Equity and Incentive Plans" shall mean The Ensign Group, Inc.'s (i) 2007 Omnibus Incentive Plan and (ii) 2017 Omnibus Incentive Plan, each as amended from time to time.

(q) "RemainCo Equity Awards" shall mean all of the shares of RemainCo Restricted Stock and RemainCo Options.

(r) "RemainCo Group" shall mean RemainCo and each Person that is a direct or indirect Subsidiary or affiliate of RemainCo (other than any member of the SpinCo Group).

(s) "RemainCo Group Health Plans" shall mean the RemainCo Plans providing medical, dental, vision and health care spending account benefits.

(t) "RemainCo Participant" shall mean a RemainCo Employee, any former RemainCo Employee, and any eligible dependent or beneficiary thereof who participates or is eligible to participate in a RemainCo Plan.

(u) "RemainCo Plan" shall mean each Plan that is sponsored, maintained, contributed to or required to be contributed to by any member of the RemainCo Group, but not including any SpinCo Plan.

(v) "RemainCo Options" shall mean unexercised vested or unvested stock option right issued under the RemainCo Equity and Incentive Plans, which are subject to vesting (if applicable) and forfeiture restrictions and is outstanding immediately prior to the Effective Time.

(w) "RemainCo Restricted Stock" shall mean an unvested share of restricted stock issued pursuant to the applicable award agreement issued under the RemainCo Equity and Incentive Plans, which is subject to vesting and forfeiture restrictions and is outstanding immediately prior to the Effective Time.

(x) "RemainCo Welfare Plans" shall mean the RemainCo Plans providing medical, dental, vision, health care spending accounts, disability, life and similar welfare benefits.

(y) "SpinCo 401(k) Plans" shall have the meaning set forth in Section 2.07 hereof.

(z) "SpinCo Employee" shall mean each Employee who is employed by a member of the SpinCo Group immediately following the Effective Time and any Employee who is transferred after the Effective Time pursuant to Section 2.01.

(aa) "SpinCo Equity and Incentive Plan" shall mean the The Pennant Group, Inc. 2019 Omnibus Incentive Plan, as amended from time to time.

(bb) "SpinCo Group" shall mean (a) prior to the Effective Time, SpinCo and each Person that will be a Subsidiary or affiliate of SpinCo as of immediately after the Effective Time; and (b) on and after the Effective Time, SpinCo and each Person that is a Subsidiary of SpinCo.

(cc) "SpinCo Group Health Plans" shall mean the SpinCo Plans providing medical, dental, vision and health care spending account benefits.

(dd) "SpinCo Participant" shall mean a SpinCo Employee, any former SpinCo Employee, and any eligible dependent or beneficiary thereof who participates or is eligible to participate in a SpinCo Plan.

(ee) "SpinCo Plan" shall mean each Plan that is sponsored, maintained or contributed to or required to be contributed to by any member of the SpinCo Group that does not also cover any RemainCo Employee.

(ff) "SpinCo Option" shall mean an unexercised, vested or unvested, stock option issued under the SpinCo Equity and Incentive Plan.

(gg) "SpinCo Restricted Stock" shall mean a vested or unvested stock-settled restricted stock issued under the SpinCo Equity and Incentive Plan.

(hh) "SpinCo RSU" shall mean a vested or unvested stock-settled restricted stock unit issued under the SpinCo Equity and Incentive Plan.

(ii) "SpinCo Welfare Plan" shall have the meaning set forth in Section 2.08(d) hereof.

Section 1.02 **Certain Constructions**. References to the singular in this Agreement shall refer to the plural and vice-versa, and references to the masculine shall refer to the feminine and vice-versa.

Section 1.03 **Schedules, Sections**. References to a "Schedule" are, unless otherwise specified, to one of the Schedules attached to this Agreement, and references to a "Section" are, unless otherwise specified, to one of the Sections of this Agreement.

Section 1.04 **Effective Time**. This Agreement shall be effective as of the Effective Time.

ARTICLE II
ALLOCATION OF EMPLOYEES; EMPLOYEE BENEFITS

Section 2.01 **Transfer of Employment of Certain SpinCo Employees**. RemainCo and SpinCo will cause the employment of each SpinCo Employee who is not employed by a SpinCo Group member as of the date hereof to be transferred to a SpinCo Group member prior to the Effective Time.

Section 2.02 **Re-Allocation of Employees**. If the Parties mutually agree after the Effective Time that an Employee or individual independent contractor was incorrectly allocated to the RemainCo Group or the SpinCo Group (or was incorrectly employed or engaged by a member of the RemainCo Group or the SpinCo Group as of the Effective Time), the Parties shall use their reasonable best efforts to correct such misallocation as appropriate (including by transferring the employment or engagement opportunity of such SpinCo Employee or RemainCo Employee (as applicable) or individual independent contractor to the applicable member of the applicable Group or by offering employment or an engagement opportunity to such SpinCo Employee, RemainCo Employee, or individual independent contractor), and, to the extent possible, such correction shall be effective as of the Effective Time.

Section 2.04 **Employee Liabilities Generally**.

(a) From and after the Effective Time, RemainCo or a member of the RemainCo Group hereby assumes or retains, and shall be responsible for paying, performing, fulfilling and discharging, (i) all Liabilities or obligations expressly assigned to or assumed by a member of the RemainCo Group under this Agreement; and (ii) except as otherwise expressly provided for herein or in the Distribution Agreement, all Liabilities with respect to the employment, service, termination of employment or termination of service of all RemainCo Employees, independent contractors allocated to the RemainCo Business, Former Employees whose employment duties were primarily related to the RemainCo Business at the time the action underlying the Liability occurred, and their respective dependents and beneficiaries (and any alternate payees in respect thereof), whenever incurred. All Liabilities assumed or retained by a member of the RemainCo Group under this Section 2.02(a) shall be "RemainCo Liabilities" for purposes of the Distribution Agreement.

(b) From and after the Effective Time, SpinCo or a member of the SpinCo Group hereby assumes or retains, and shall be responsible for paying, performing, fulfilling and discharging in accordance with their respective terms, (i) all Liabilities or obligations assigned to or assumed by a member of the SpinCo Group under this Agreement; and (ii) except as otherwise expressly provided for herein or in the Distribution Agreement, all Liabilities with respect to the employment, service, termination of employment or termination of service of all SpinCo Employees, independent contractors allocated to the SpinCo Business, Former Employees whose employment duties were primarily related to the SpinCo Business at the time the action underlying the Liability occurred, and their respective dependents and beneficiaries (and any alternate payees in respect thereof), whenever incurred. All Liabilities assumed or retained by a member of the SpinCo Group under this Section 2.02(b) shall be "SpinCo Liabilities" for purposes of the Distribution Agreement.

Section 2.05 **No Termination of Employment Intended as a Result of the Allocation of Employees**. It is intended that no RemainCo Employee and no SpinCo Employee will experience a termination of employment for severance purposes or otherwise solely as a result of the transactions contemplated by the Distribution Agreement (including any transfer of employment effectuated in connection with those transactions). To the extent permitted by applicable Law, no RemainCo Employees and no SpinCo Employees shall be entitled to any termination or severance payments or benefits as a result of such transactions or transfer, as applicable. RemainCo shall, and shall cause other members of the RemainCo Group (as applicable), and SpinCo shall, and shall cause other members of the SpinCo Group (as applicable), to cause any applicable Plan to be interpreted and administered consistent with such intent, to the greatest extent possible without breaching the applicable Plan.

Section 2.06 **At-Will Employment**. Nothing in this Agreement shall (a) create any obligation on the part of any member of the RemainCo Group or the SpinCo Group to continue the employment of any RemainCo Employee or SpinCo Employee following the date of this Agreement or the Effective Time (except as required by applicable Law) or (b) change the employment status of any RemainCo Employee or SpinCo Employee from "at-will," to the extent such RemainCo Employee or SpinCo Employee was an "at-will" employee under applicable Law.

Section 2.07 **Service Crediting**.

(a) From and after the Effective Time, SpinCo shall, and shall cause other members of the SpinCo Group (as applicable) to, recognize each SpinCo Employee's service prior to the Effective Time (including service with any member of the RemainCo Group prior to the Effective Time) for all purposes, including purposes of eligibility, vesting and level of paid time off or severance benefits under any SpinCo Plan, to the same extent and for the same purpose such service was recognized as of the Effective Time under the corresponding RemainCo Plan. Notwithstanding the foregoing, nothing herein shall require the SpinCo Group or any equity compensation plan or arrangement maintained by the SpinCo Group after the Effective Time to credit service prior to the Effective Time for purposes of any equity award or other equity-based benefit or equity-based compensation that may be established by the SpinCo Group at any time at or after the Effective Time, except as set forth in Section 3.01 herein.

(b) Notwithstanding anything to the contrary in this Agreement, the Distribution Agreement or any other Ancillary Agreement, no Employee shall receive service credit or benefits to the extent that receipt of such service credit or benefits would result in duplication of benefits provided by another RemainCo Plan or SpinCo Plan.

Section 2.08 **Continuity of Benefits and Coverage**. It is the intention of RemainCo and SpinCo that there be uninterrupted benefit plan participation and coverage for RemainCo Employees and SpinCo Employees, notwithstanding the transactions contemplated by the Distribution Agreement, this Agreement or any other Ancillary Agreement. Therefore, RemainCo and SpinCo shall use their reasonable best efforts to cause there to be no interruption of coverage with respect to the type of benefits or coverage being provided to such Employees immediately prior to the Effective Time.

Section 2.09 **Establishment and Spinoff of 401(k) Plans**. Prior to the Effective Time, the Ensign Services, Inc. 401(k) Retirement Savings Plan (the "RemainCo 401(k) Plan") shall be amended to become a multi-employer plan as that term is defined in the Code, whose participants may include SpinCo Employees and RemainCo Employees. From the Effective Time through December 31, 2020 (the "401(k) Continuation Period"), SpinCo Employees may continue to participate in the RemainCo 401(k) Plan. Liabilities relating to, or arising in connection with plan participants during the 401(k) Continuation Period shall be shared by RemainCo and SpinCo based on the allocation methodology in place prior to the Effective

Time. On or before January 1, 2021, SpinCo (or a designated member of the SpinCo Group) shall have adopted a defined contribution plan that contain a cash or deferred arrangement within the meaning of Section 401(k) of the Code and is intended to be qualified under Section 401(a) of the Code (the "SpinCo 401(k) Plan"). The SpinCo 401(k) Plan is intended to replace the RemainCo 401(k) Plan for the applicable SpinCo Employee. At all times, RemainCo shall retain sponsorship of the RemainCo 401(k) Plans. Upon the establishment of the SpinCo 401(k) Plan (the "401(k) Plan Effective Date"), all SpinCo Employees who, immediately prior to such time, were participants in or otherwise eligible to participate in a RemainCo 401(k) Plan shall be eligible to participate in the corresponding SpinCo 401(k) Plan with respect to compensation paid after the 401(k) Plan Effective Date. As soon as practicable after the 401(k) Plan Effective Date, the accounts of SpinCo Employees under the RemainCo 401(k) Plans and the value of assets attributable to such accounts of SpinCo Employees shall be transferred to the SpinCo 401(k) Plan in a "transfer of assets or liabilities" in accordance with Section 414(l) of the Code and Section 208 of ERISA and the respective rules and regulations promulgated thereunder. The assets so transferred shall be in the form of cash or other property, as RemainCo and SpinCo shall mutually agree prior to such transfer. Prior to such transfer, SpinCo shall provide RemainCo with such documents and other information as RemainCo shall reasonably request to assure itself that the SpinCo 401(k) Plans and the related trusts established pursuant thereto (a) are qualified and tax-exempt under Sections 401(a) and 501(a) of the Code, respectively, and (b) contain participant loan provisions and procedures necessary to effect the orderly transfer of participant loan balances associated with the transfer of assets. Prior to the transfer, RemainCo and SpinCo shall (or shall cause the applicable member(s) of their Group to) notify the IRS of the transfer by timely filing Forms 5310-A, to the extent such filings are required, and RemainCo shall provide to SpinCo copies of such personnel and other records of RemainCo pertaining to the SpinCo Employees and such records of any agent or representative of RemainCo pertaining to the SpinCo Employees, in each case, pertaining to the RemainCo 401(k) Plans and as SpinCo may reasonably request in order to administer and manage the accounts and assets transferred to the SpinCo 401(k) Plans. Upon such transfer, SpinCo and each member of the SpinCo Group and the SpinCo 401(k) Plans shall assume all liabilities and obligations with respect to all amounts transferred from the RemainCo 401(k) Plans to the SpinCo 401(k) Plans in respect of the SpinCo Employees, and RemainCo and each member of the RemainCo Group and the RemainCo 401(k) Plans shall be relieved of all such liabilities and obligations.

Section 2.10 **Group Health and Welfare Plan Continuation Coverage**.

(a) From the Effective Time through December 31, 2019 (the "Benefits Continuation Period"), RemainCo shall continue the RemainCo Welfare Plans. Liabilities relating to, or arising in connection with, any claims incurred under the RemainCo Welfare Plans by RemainCo Participants and SpinCo Participants during the Benefits Continuation Period, including claims that are self-insured and claims that are fully insured through third party insurance and including the coverage of SpinCo Participants after the Effective Time as described in subsection (b) below, shall be shared by RemainCo and SpinCo based on the allocation methodology in place prior to the Effective Time.

(b) SpinCo Participants who were participating in the RemainCo Welfare Plans immediately prior to the Effective Time shall be entitled to continue participating in the applicable RemainCo Welfare Plans until December 31, 2019, pursuant to the terms of the Transition Services Agreement and the terms and conditions of the applicable RemainCo Welfare Plan. SpinCo Employees who were employed at or before the Effective Time, but who have not completed their benefits waiting or eligibility period for the RemainCo Welfare Plans as of the Effective Time, shall be eligible to participate in the applicable RemainCo Welfare Plans, as of the date prior to January 1, 2020, in which they would have been eligible to participate had they been RemainCo Employees under such RemainCo Welfare Plans, and shall be entitled to continue participating in such RemainCo Welfare Plans until December 31, 2019 pursuant to the terms of the Transition Services Agreement and the terms and conditions of the applicable RemainCo Welfare Plan.

(c) Any SpinCo Employee covered under the RemainCo Group Health Plans who has a qualifying status change (e.g., birth/adoption of a child, marriage) shall be able to make changes to his or her enrollment based on the event in accordance with the terms of the applicable RemainCo Group Health Plan. SpinCo shall be responsible for the costs of SpinCo Participants' participation in the RemainCo Group Health Plans after the Effective Time, including pursuant to COBRA as described in Section 2.08(e)(ii) hereof, pursuant to the terms of Section 2.08(a) hereof and the Transition Services Agreement.

(d) SpinCo Group Welfare Plans. Effective no later than January 1, 2020, SpinCo or another member of the SpinCo Group shall take, or cause to be taken, all actions necessary and appropriate to establish or designate and administer group medical, dental, vision, health care spending account plans disability, life and similar welfare benefits (collectively, the "SpinCo Welfare Plans") to provide benefits thereunder for all eligible SpinCo Participants who choose to enroll in such SpinCo plans. With respect to any Liabilities relating to or arising in connection with claims incurred under a SpinCo Welfare Plan by SpinCo Participants from and after the effective date of such SpinCo Welfare Plan, including claims that are self-insured and claims that are fully insured through third party insurance, SpinCo and the applicable SpinCo Welfare Plan shall be solely responsible for such Liabilities.

(e) COBRA Continuation Coverage.

(i) From and after the Effective Time, (A) the RemainCo Group shall assume or retain and shall be solely responsible for, or cause the RemainCo Group Health Plans (and applicable insurance carriers) to be responsible for, the continuation coverage requirements imposed by COBRA as they relate to any RemainCo Participant or Former Employee, and no member of the SpinCo Group shall have any liability or obligation with respect thereto; and (B) subject to Section 2.08(e)(ii) below, the SpinCo Group shall assume or retain and shall be solely responsible for, or cause the SpinCo Group Health Plans (and applicable insurance carriers) to be responsible for, COBRA continuation coverage requirements as they relate to any SpinCo Participant, and no member of the RemainCo Group shall have any liability or obligation with respect thereto.

(ii) A SpinCo Participant who becomes entitled to COBRA continuation coverage by reason of an event that occurs during the Benefits Continuation Period shall be entitled to coverage under the applicable RemainCo Group Health Plans through December 31, 2019, and thereafter, such SpinCo Participant shall be entitled to coverage under the applicable SpinCo Group Health Plans for the remainder of his or her COBRA period after December 31, 2019.

(f) Business Associate Agreements. The Parties acknowledge that the RemainCo Group or the SpinCo Group may provide certain administrative services for the other Party's group health plans for a transitional period under the terms of the Transition Services Agreement. The Parties acknowledge and agree that providing these administrative services may cause a Party to satisfy the definition of a "business associate" under the Health Insurance Portability and Accountability Act of 1996, as amended and implanted by regulation ("HIPAA"). In such cases, the Party providing the administrative services agrees to comply with the business associate addendum that is attached to the Transition Services Agreement, as well as all other applicable health information privacy Laws.

Section 2.11 **Disability Plans**. Without limiting the generality of Section 2.08 hereof, each RemainCo Participant and SpinCo Participant who became disabled, as defined under a RemainCo Welfare Plan that provides short-or long-term disability benefits prior to January 1, 2020, shall be eligible or continue to be eligible for such benefits under the applicable RemainCo Welfare Plan in accordance with the terms and conditions of such RemainCo Welfare Plan; provided that SpinCo shall be responsible for reimbursing RemainCo for any self-insured short-term disability benefits with respect to such disabled SpinCo Employee for the period after the Effective Time until such time as those short-term disability benefits terminate in accordance with the terms of such RemainCo Welfare Plan. In the event any such disabled SpinCo Employee becomes eligible to transition directly from receiving short-term disability benefits to receiving long-term disability benefits either before, at or after the Effective Time under the applicable RemainCo Welfare Plan, RemainCo and the applicable RemainCo Welfare Plan shall provide the long-term disability benefits to which such disabled SpinCo Employee is entitled (taking into account, if applicable, the extent to which such employee has elected such coverage and has made the required contributions therefor). After the Benefits Continuation Period, the SpinCo Group shall be solely responsible for providing short- and long-term disability benefits under SpinCo Welfare Plans to eligible SpinCo Employees who become disabled after December 31, 2019, and, effective January 1, 2020, SpinCo or a member of the SpinCo Group shall take, or cause to be taken, all action necessary and appropriate to establish or designate and administer short- and long-term disability plans to provide benefits thereunder for all eligible SpinCo Employees (and their eligible dependents and beneficiaries).Insurance Contracts and Third-Party Vendor Agreements. To the extent any Plan is funded (in whole or in part) through the purchase of an insurance contract, RemainCo and SpinCo shall cooperate, and each shall use its commercially reasonable efforts to effectuate the provisions of this Agreement in relation to such contract and to obtain any necessary consents and maintain any pricing discounts or other preferential terms for both RemainCo (or the applicable member of the RemainCo Group) and SpinCo (or the applicable member of the SpinCo Group) for a reasonable term. To the extent any Plan is administered by a third-party vendor, RemainCo and SpinCo shall cooperate, and each shall use its commercially reasonable efforts to replicate any contract with such third-party vendor for RemainCo (or the applicable member of the RemainCo Group) or SpinCo (or the applicable member of the SpinCo Group), as applicable, and to maintain any pricing discounts or other preferential terms for both RemainCo (or the applicable member of the RemainCo Group) and SpinCo (or the applicable member of the SpinCo Group) for a reasonable term. Neither RemainCo nor SpinCo shall be

liable for failure to obtain consents, new insurance or administrative contracts, pricing discounts, or other preferential terms for the other Party or the applicable member of its Group. Each Party shall be responsible for any new or additional premiums, charges, or administrative fees that such Party may incur with respect to its insurance coverage or contracts pursuant to this Agreement.

Section 2.12 **Reimbursements**. The Parties acknowledge that the RemainCo Group, on the one hand, and the SpinCo Group, on the other hand, may incur costs and expenses, including, but not limited to, contributions to Plans and the payment of insurance premiums or vendor fees or expenses arising from or related to any of the Plans which are, as set forth in this Agreement, the responsibility of the other Party. Accordingly, the RemainCo Group and the SpinCo Group shall reimburse each other, as soon as practicable, but in any event within thirty (30) days of receipt from the other Party of appropriate verification, for all such costs, fees and expenses. Notwithstanding the foregoing, to the extent this Section 2.10 conflicts with the terms of the Transition Services Agreement related to the same cost or expense, the terms of the Transition Services Agreement shall control.

Section 2.13 **No Duplication of Benefits; Service and Other Credit**. RemainCo and SpinCo shall adopt, or cause to be adopted, all reasonable and necessary amendments and procedures to prevent SpinCo Participants from receiving duplicative benefits from the RemainCo Plans and the SpinCo Plans. With respect to SpinCo Employees, each SpinCo Plan shall provide that for purposes of determining eligibility to participate, vesting, and entitlement to benefits (but not for accrual of pension benefits under any defined benefit pension plan), service prior to the Effective Time with a RemainCo Group member shall be treated as service with the applicable SpinCo Group member. Such service also shall apply for purposes of satisfying any waiting periods, evidence of insurability requirements, or the application of any preexisting condition limitations under any SpinCo Plan. Each SpinCo Plan shall, to the extent practicable, waive pre-existing condition limitations with respect to SpinCo Employees. SpinCo shall honor any deductible, co-payment and out-of-pocket maximums incurred by the SpinCo Employees and their eligible dependents under the RemainCo Plans in which they participated immediately prior to the Effective Time during the portion of the calendar year prior to the Effective Time in satisfying any deductibles, co-payments or out-of-pocket maximums under the SpinCo Plans in which they are eligible to participate after the Effective Time in the same plan year in which such deductibles, co-payments or out-of-pocket maximums were incurred.

ARTICLE III
INCENTIVE COMPENSATION PLANS AND ARRANGEMENTS

Section 3.01 **Treatment of Equity Awards**.

(a) RemainCo Equity Awards. The treatment of the RemainCo Equity Awards shall be subject to Section [•] of the Tax Matters Agreement between the parties, dated as of the date hereof.

(i) RemainCo Options. Prior to the Effective Time, RemainCo shall take all actions necessary such that, as of the Effective Time, by virtue of the Distribution, (y) an employee of RemainCo who is a holder of a RemainCo Option shall continue to hold such RemainCo Option (with the number of shares of RemainCo Common Stock to which such RemainCo Option relates and the exercise price of the RemainCo Option following the Distribution, in both cases, adjusted accordingly as a result of the Distribution, in accordance with the equitable adjustment provisions set forth in the RemainCo Equity and Incentive Plans), and (z) an employee of SpinCo who is a holder of a RemainCo Option shall have such RemainCo Options converted to SpinCo Options subject to the same terms and conditions after the Effective Time as the terms and conditions applicable to the corresponding RemainCo Options (with both the number of shares of SpinCo Common Stock to which such SpinCo Option relates and the exercise price of the SpinCo Option following the Distribution, in both cases, adjusted accordingly as a result of the Distribution and to appropriately reflect that SpinCo is the actual employer, in accordance with the equitable adjustment provisions set forth in the RemainCo Equity and Incentive Plans) immediately prior to the Effective Time.

(ii) RemainCo Restricted Stock. Prior to the Effective Time, RemainCo shall take all actions necessary such that, as of the Effective Time, by virtue of the Distribution, each holder of a RemainCo Restricted Stock shall (A) continue to hold the same number of RemainCo Restricted Stock as of immediately prior to the Effective Time, and (B) receive shares of SpinCo Restricted Stock (with the number of shares of SpinCo Common Stock to which such SpinCo Restricted Stock relates rounded down to the nearest whole number, equal to the number of shares of SpinCo Common Stock the holder of such RemainCo Restricted Stock would have been entitled to receive in the Distribution had the shares subject to such RemainCo Restricted Stock represented outstanding vested shares of RemainCo Common Stock). Both the RemainCo Restricted Stock and the SpinCo Restricted Stock shall be subject to the same terms and conditions after the Effective Time as the terms and conditions applicable to the corresponding RemainCo Restricted Stock immediately prior to the Effective Time, and shall be adjusted in accordance with the equitable adjustment provisions set forth in the RemainCo Equity and Incentive Plans and to reflect that SpinCo is the actual employer.

(b) Cornerstone Equity Awards. The treatment of the Cornerstone Equity Awards is as set forth below.

(i) Cornerstone Options. Prior to the Effective Time, RemainCo shall take all actions necessary such that, as of the Effective Time, by virtue of the Distribution, an employee of SpinCo who is a holder of a Cornerstone Option shall have his Cornerstone Options converted to SpinCo Options subject to the same terms and conditions after the Effective Time as the terms and conditions applicable to the corresponding Cornerstone Options (with both the number of shares of SpinCo Common Stock to which such SpinCo Option relates and the exercise price of the SpinCo Option following the Distribution, in both cases, adjusted accordingly as a result of the Distribution and appropriately to reflect employment by SpinCo, in accordance with the equitable adjustment provisions set forth in the Cornerstone Equity and Incentive Plan) immediately prior to the Effective Time.

(ii) Cornerstone Restricted Stock. Prior to the Effective Time, RemainCo shall take all actions necessary such that, as of the Effective Time, by virtue of the Distribution, an employee of either RemainCo or SpinCo who is a holder of Cornerstone Restricted Stock shall have his Cornerstone Restricted Stock converted to SpinCo Restricted Stock subject to the same terms and conditions after the Effective Time as the terms and conditions applicable to the corresponding Cornerstone Restricted Stock (with the number of shares of SpinCo Common Stock to which such SpinCo Restricted Stock relates following the Distribution, adjusted accordingly as a result of the Distribution, in accordance with the equitable adjustment provisions set forth in the Cornerstone Equity and Incentive Plan and to reflect employment by SpinCo) immediately prior to the Effective Time.

(c) Equity and Incentive Plans.

(i) For purposes of the RemainCo Restricted Stock following the Effective Time, a SpinCo Employee's continued service with a member of the SpinCo Group shall be deemed continued service with a member of the RemainCo Group.

(ii) For purposes of the SpinCo Restricted Stock following the Effective Time, a RemainCo Employee's continued service with a member of the RemainCo Group shall be deemed continued service with a member of the SpinCo Group.

(iii) In connection with the Distribution, RemainCo shall cause SpinCo to adopt the SpinCo Equity and Incentive Plan, effective as of the Effective Time, and shall approve, as the sole stockholder, the adoption of the SpinCo Equity and Incentive Plan.

(d) Administration. Each of RemainCo and SpinCo shall establish an appropriate administration system in order to handle exercises and delivery of shares in an orderly manner and provide reasonable levels of service for equity award holders.

(e) Code Section 409A. Notwithstanding anything to the contrary contained herein, the provisions of this Section 3.01(e) shall be applied in a manner consistent with Code Section 409A and shall be modified, without the requirement of any further action by SpinCo, Cornerstone, or RemainCo, to the extent necessary to comply with Code Section 409A.

ARTICLE IV
LABOR AND EMPLOYMENT MATTERS

Section 4.01 **Payroll Reporting and Tax Withholding**.

(a) Form W-2 Reporting. To the extent an Employee's employing entity changes as a result of the transactions contemplated by the Distribution Agreement, RemainCo and SpinCo shall use the "standard procedure" for preparing and filing IRS Forms W-2 (Wage and Tax Statements), as described in Revenue Procedure 2004-53, for the calendar year in which such change occurs. Under this procedure, each employing entity shall provide (subject to any applicable provisions of the Transition Services Agreement) all required Forms W-2 to report the wages paid and taxes withheld by it during the year in which the Effective Time occurs. With respect to any issuances of RemainCo Common Stock or SpinCo Common Stock described above, the Employee's employing entity shall reflect such issuance and taxes withheld in connection with such issuance on the Form W-2 provided to such Employee by such employing entity during the year in which such issuance occurs. With respect to RemainCo Employees and SpinCo Employees outside of the United States, the Parties shall cooperate in good faith to obtain the same or similar results, to the extent possible, under applicable tax laws.

(b) Garnishments, Tax Levies, Child Support Orders, and Wage Assignments. With respect to any Employees with garnishments, tax levies, child support orders, or wage assignments in effect immediately prior to the Effective Time, a member of the SpinCo Group (with respect to SpinCo Employees) or a member of the RemainCo Group (with respect to RemainCo Employees) shall, to the extent permitted by applicable Law, honor such payroll deduction authorizations and shall continue to make payroll deductions and payments to the authorized payee, as specified by the court or governmental order which was filed prior to the Effective Time.

(c) Authorizations for Payroll Deductions. Unless otherwise prohibited by this Agreement, any other Ancillary Agreement, a Plan document, or applicable Law, with respect to Employees with authorizations for payroll deductions and direct deposits in effect immediately prior to the Effective Time, a member of the SpinCo Group (with respect to SpinCo Employees) or a member of the RemainCo Group (with respect to RemainCo Employees) shall honor such payroll deduction authorizations and shall not require that such Employee submit a new authorization to the extent that the type of deduction does not differ from that made prior to the Effective Time. Such deduction types include, without limitation, contributions to any Plan and direct deposit of payroll, union dues, employee relocation loans, and other types of authorized company receivables usually collectible through payroll deductions.

Section 4.02 **Employment Policies and Practices**. Subject to the provisions of the Transition Services Agreement, ERISA and other applicable Law, and unless otherwise specified in this Agreement, each member of the SpinCo Group and the RemainCo Group may, after the Effective Time, adopt, continue, modify or terminate such employment policies, compensation practices, retirement plans, welfare benefit plans, and other employee benefit plans of any kind or description, as each may determine, in its sole discretion, are necessary and appropriate, with respect to SpinCo Employees and RemainCo Employees, respectively; provided that no member of the SpinCo Group may amend or modify any RemainCo Welfare Plan during the Benefits Continuation Period.

Section 4.03 **Leave of Absence Policies**. Following the Effective Time, the applicable members of the SpinCo Group shall continue to apply the leave policies applicable to inactive SpinCo Employees who are on an approved leave of absence as of the Effective Time in accordance with the terms of such policies applicable to the SpinCo Employees as of the Effective Time. For purposes of such policies, to the extent allowed under applicable law, leaves of absence taken by SpinCo Employees prior to the Effective Time shall be deemed to have been taken as employees of the SpinCo Group.

Section 4.04 **Employee Records**. The RemainCo Group shall provide to the SpinCo Group (a) any and all original employment records and information (including, but not limited to, any personnel files, Form I-9, Form W-2, Form 1099 or other IRS forms) with respect to the SpinCo Employees that are in the possession of any member of the RemainCo Group that are reasonably required by the SpinCo Group to enable the SpinCo Group to properly employ the SpinCo Employees and to carry out its obligations under this Agreement, applicable Law and

any applicable Collective Bargaining Agreement ("Employee Record"); and (b) copies of any and all employment-related agreements, including, but not limited to, confidentiality agreements, restrictive covenants, arbitration agreements and employment-related acknowledgements to which any RemainCo Employee is a party and under which the SpinCo Group has any rights or obligations following the Effective Time.

Section 4.05 **WARN Act**. The Parties shall cooperate in good faith so that no terminations of employment in connection with the transactions contemplated or undertaken by this Agreement or the Distribution Agreement have triggered or shall trigger any rights or obligations under the federal Worker Adjustment and Retraining Notification Act, or any other federal, state, or local Law addressing employment separations (collectively, the "WARN Act").

Section 4.06 **Access to Employee Records**. Following the Effective Time and to the extent permitted by applicable Law, SpinCo shall permit RemainCo access to Employee Records of SpinCo Employees, to the extent reasonably necessary for RemainCo's legitimate business purposes or to comply with applicable Law, and RemainCo shall permit SpinCo access to Employee Records of RemainCo Employees, to the extent reasonably necessary for SpinCo's legitimate business purposes or to comply with applicable Law.

Section 4.07 **Protection of Personal Information**. The Parties shall comply with all applicable confidentiality obligations and privacy Laws that govern the personal information shared or otherwise made accessible following the Effective Time. Each Party further agrees to use commercially reasonable efforts to protect any personal information of the other Party that it acquires or accesses following the Effective Time.

ARTICLE V
MISCELLANEOUS

Section 5.01 **Relationship of Parties**. Nothing in this Agreement shall be deemed or construed by the Parties or any third party as creating the relationship of principal and agent, partnership or joint venture between the Parties, it being understood and agreed that no provision contained herein, and no act of the Parties, shall be deemed to create any relationship between the Parties other than the relationship set forth herein.

Section 5.02 **Access to Information; Cooperation**. The RemainCo Group, the SpinCo Group, and their authorized agents shall be given reasonable and timely access to and may take copies of all information relating to the subjects of this Agreement (to the extent not prohibited by applicable Law) in the custody of the other Party, including any agent, contractor, subcontractor, or any other person or entity under the contract of such Party. The Parties shall provide one another with such information within the scope of this Agreement as is reasonably necessary to administer each Party's Plans or take the actions required of such Party under this Agreement. The Parties shall cooperate with each other to minimize the disruption caused by any such access and providing of information.

Section 5.03 **Complete Agreement**. This Agreement and any related provisions of the Transition Services Agreement and the Distribution Agreement shall constitute the entire agreement between the Parties with respect to the subject matter hereof and shall supersede all previous negotiations, commitments and writings with respect to such subject matter.

Section 5.04 **Counterparts**. This Agreement may be executed in more than one counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more such counterparts have been signed by each of the Parties and delivered to the other Party.

Section 5.05 **Survival**. Except as otherwise contemplated by this Agreement or any Ancillary Agreement, all covenants and agreements of the Parties contained in this Agreement shall survive the Effective Time and remain in full force and effect in accordance with its applicable terms.

Section 5.06 **Notices**. All notices, requests, claims, demands and other communications under this Agreement shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by overnight courier service or by registered or certified mail (postage prepaid, return receipt requested) to the respective Party at the following addresses (or at such other address for a Party as shall be specified in a notice given in accordance with this Section 5.06):

To RemainCo:

The Ensign Group, Inc.
29222 Rancho Viejo Rd., Suite 127
San Juan Capistrano, CA 92675
Attn: General Counsel
Email: legal@ensignservices.net

To SpinCo:

The Pennant Group, Inc.
1675 E. Riverside Dr., Suite 150
Eagle, ID 83616
Attn: General Counsel
Email: legal@pennantservices.com

Section 5.07 **Waivers**. The failure of any Party to require strict performance by the other Party of any provision in this Agreement shall not waive or diminish that Party's right to demand strict performance thereafter of that or any other provision hereof.

Section 5.08 **Amendment**. This Agreement may not be modified or amended except by an agreement in writing signed by each of the Parties.

Section 5.09 **Assignment**. Except as otherwise provided for in this Agreement, this Agreement shall not be assignable, in whole or in part, directly or indirectly, by any Party without the prior written consent of the other Party, and any attempt to assign any rights or obligations arising under this Agreement without such consent shall be void; provided, that a

Party may assign this Agreement in connection with a merger transaction in which such Party is not the surviving entity or the sale by such Party of all or substantially all of its Assets; provided, further, that the surviving entity of such merger or the transferee of such Assets shall agree in writing, reasonably satisfactory to the other Party, to be bound by the terms of this Agreement as if named as a Party hereto.

Section 5.10 **Successors and Assigns**. The provisions of this Agreement and the obligations and rights hereunder shall be binding upon, inure to the benefit of and be enforceable by (and against) the Parties and their respective successors and permitted transferees and assigns.

Section 5.11 **No Circumvention**. The Parties agree not to directly or indirectly take any actions, act in concert with any Person who takes an action, or cause or allow any member of any such Party's Group to take any actions (including the failure to take a reasonable action) such that the resulting effect is to materially undermine the effectiveness of any of the provisions of this Agreement.

Section 5.12 **Third Party Beneficiaries**. This Agreement is solely for the benefit of the Parties and should not be deemed to confer upon third parties (including current or former employees of the Parties) any remedy, claim, liability, reimbursement, right of action or other right in excess of those existing without reference to this Agreement. Without limiting the generality of the foregoing, nothing contained in this Agreement (i) shall be construed to establish, amend, or modify any Plan or other benefit or compensation plan, program, agreement or arrangement, or (ii) create any rights or obligations in any Person not Party to this Agreement (including any RemainCo Employee or SpinCo Employee), including with respect to (x) any right to employment or continued employment or to a particular term or condition of employment and (y) the ability of the RemainCo Group and the SpinCo Group to amend, modify, or terminate any Plan or other benefit or compensation plan, program, agreement or arrangement at any time established, sponsored or maintained by any of them.

Section 5.13 **Title and Headings**. Titles and headings to sections herein are inserted for the convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

Section 5.14 **Governing Law**. This Agreement shall be interpreted and construed in accordance with the laws of the State of Delaware. Any and all claims, controversies, and causes of action arising out of or relating to this Agreement, whether sounding in contract, tort, statute or otherwise, shall be governed by the laws of the State of Delaware, including its statutes of limitations, without giving effect to any conflict-of-laws or other rule that would result in the application of the laws of a different jurisdiction.

Section 5.15 **Dispute Resolution; Consent to Jurisdiction; Specific Performance; Waiver of Jury Trial; Force Majeure**. The provisions of Article X (Dispute Resolution) and Sections 10.2(b) (Consent to Arbitration), and 10.2(b)(iv) (Waiver of Jury Trial) of the Distribution Agreement are incorporated herein by reference, mutatis mutandis.

Section 5.16 **Severability**. In the event any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby. The Parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions, the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

Section 5.17 **Interpretation**. The Parties have participated jointly in the negotiation and drafting of this Agreement. This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the Party drafting or causing any instrument to be drafted.

Section 5.18 **No Duplication; No Double Recovery**. Nothing in this Agreement is intended to confer to or impose upon any Party a duplicative right, entitlement, obligation or recovery with respect to any matter arising out of the same facts and circumstances.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the day and year first above written.

THE PENNANT GROUP, INC.

By: _____
Name:
Title:

THE ENSIGN GROUP, INC.

By: _____
Name:
Title:

MASTER LEASE

THIS **MASTER LEASE** (this "**Lease**") is entered into as of [_____], 2019, by and among each of the entities identified on Schedule 1 (collectively, "**Landlord**"), and each of the entities identified as "Tenant" on Schedule 2 (individually and collectively, "**Tenant**"). Notwithstanding anything in this Lease to the contrary, Landlord and Tenant hereby agree that this Lease shall not be effective until [_____].

RECITALS

A. Landlord desires to lease the Premises to Tenant and Tenant desires to lease the Premises from Landlord upon the terms set forth in this Lease.

B. Pursuant to that certain Guaranty of Master Lease dated of even date herewith (as amended, supplemented or otherwise modified from time to time, the "**Guaranty**"), Guarantor has agreed to guaranty the obligations of each of the entities comprising Tenant under this Lease.

C. A list of the Facilities covered by this Lease is attached hereto as Schedule 2.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE I
MASTER LEASE; DEFINITIONS; PREMISES; TERM

1.1 Recognition of Master Lease; Irrevocable Waiver of Certain Rights. Tenant and Landlord each acknowledges and agrees that this Lease constitutes a single, indivisible lease of the entire Premises, and the Premises constitutes a single economic unit. The Base Rent, Additional Rent, other amounts payable hereunder and all other provisions contained herein have been negotiated and agreed upon based on the intent to lease the entirety of the Premises as a single and inseparable transaction, and such Base Rent, Additional Rent, other amounts and other provisions would have been materially different had the parties intended to enter into separate leases or a divisible lease. Any Event of Default under this Lease shall constitute an Event of Default as to the entire Premises. Each of the entities comprising Tenant and Guarantor, in order to induce Landlord to enter into this Lease, to the extent permitted by law:

(a) Agrees, acknowledges and is forever estopped from asserting to the contrary that the statements set forth in the first sentence of this Section are true, correct and complete;

(b) Agrees, acknowledges and is forever estopped from asserting to the contrary that this Lease is a new and de novo lease, separate and distinct from any other lease between any of the entities comprising Tenant and any of the entities comprising Landlord that may have existed prior to the date hereof;

(c) Agrees, acknowledges and is forever estopped from asserting to the contrary that this Lease is a single lease pursuant to which the collective Premises are demised as a whole to Tenant;

(d) Agrees, acknowledges and is forever estopped from asserting to the contrary that if, notwithstanding the provisions of this Section, this Lease were to be determined or found to be in any proceeding, action or arbitration under state or federal bankruptcy, insolvency, debtor-relief or other applicable laws to constitute multiple leases demising multiple properties, such multiple leases could not, by the debtor, trustee, or any other party, be selectively or individually assumed, rejected or assigned; and

(e) Forever knowingly waives and relinquishes any and all rights under or benefits of the provisions of the Federal Bankruptcy Code Section 365 (11 U.S.C. § 365), or any successor or replacement thereof or any analogous state law, to selectively or individually assume, reject or assign the multiple leases comprising this Lease following a determination or finding in the nature of that described in the foregoing Section 1.1(d).

1.2 Definitions. Certain initially-capitalized terms used in this Lease are defined in Exhibit A. All accounting terms not otherwise defined in this Lease have the meanings assigned to them in accordance with GAAP.

1.3 Lease of Premises; Ownership.

1.3.1 Upon the terms and subject to the conditions set forth in this Lease, Landlord hereby leases to Tenant and Tenant leases from Landlord all of Landlord's rights and interest in and to the Premises.

1.3.2 Tenant acknowledges that the Premises are the property of Landlord and that Tenant has only the right to the possession and use of the Premises upon and subject to the terms and conditions of this Lease. Tenant will not, at any time during the Term, take any position, whether in any tax return, public filing, contractual arrangement, financial statement or otherwise, other than that Landlord is the owner of the Premises for federal, state and local income tax purposes and that this Lease is a "true lease".

1.4 Term. The initial term of this Lease (the "**Initial Term**") shall be for the period commencing as of [_____] (the "**Commencement Date**") and expiring at 11:59 p.m. on the last day of the calendar month in which the [_____] ([____]) anniversary of the Commencement Date occurs (the "**Initial Expiration Date**"). The term of this Lease may be extended for three (3) separate terms of five (5) years each (each, an "**Extension Term**") if: (a) at least twelve (12), but not more than twenty-four (24) months prior to the end of the then current Term, Tenant delivers to Landlord a written notice (an "**Extension Notice**") that it desires to exercise its right to extend the Term for one (1) Extension Term; and (b) no Event of Default shall have occurred and be continuing on the date Landlord receives the Extension Notice or on the last day of the then current Term. During any such Extension Term, except as otherwise specifically provided for herein, all of the terms and conditions of this Lease shall remain in full force and effect. Once delivered to Landlord, an Extension Notice shall be irrevocable.

1.5 Net Lease. This Lease is intended to be and shall be construed as an absolutely net lease, commonly referred to as a "net, net, net" or "triple net" lease, pursuant to which Landlord shall not, under any circumstances or conditions, whether presently existing or hereafter arising, and whether foreseen or unforeseen by the parties, be required to make any payment or expenditure of any kind whatsoever or be under any other obligation or liability whatsoever, except as expressly set forth herein, in connection with the Premises. All Rent payments shall be absolutely net to Landlord, free of all Impositions, utility charges, operating expenses, insurance premiums or any other charges or expenses in connection with the Premises, all of which shall be paid by Tenant.

ARTICLE II
RENT

2.1 Base Rent. During the Term, Tenant will pay to Landlord as base rent hereunder (the "**Base Rent**"), an annual amount equal to [_____] ($[_____]). Notwithstanding the foregoing, on the first day of the second (2nd) Lease Year and the first day of each Lease Year thereafter during the Term (including, without limitation, during any Extension Term), the Base Rent shall increase to an annual amount equal to the sum of (a) the Base Rent for the immediately preceding Lease Year, and (b) the Base Rent for the immediately preceding Lease Year multiplied by the Adjusted CPI Increase. The Base Rent shall be payable in advance in twelve (12) equal monthly installments on or before the first (1st) Business Day of each calendar month; provided, however, the Base Rent attributable to the first (1st) full calendar month of the Term and the calendar month in which the Commencement Date occurs, which may be a partial month, shall be payable on the Commencement Date. Notwithstanding anything herein to the contrary, Base Rent shall be adjusted pursuant to Section 6.7.

2.2 Additional Rent. In addition to the Base Rent, Tenant shall also pay and discharge as and when due and payable all other amounts, liabilities and obligations which Tenant assumes or agrees to pay under this Lease. In the event of any failure on the part of Tenant to pay any of those items referred to in the previous sentence, Tenant will also promptly pay and discharge every fine, penalty, interest and cost which may be added for non-payment or late payment of the same. Collectively, the items referred to in the first two sentences of this Section 2.2 are referred to as "**Additional Rent**." Except as may otherwise be set forth herein, any costs or expenses paid or incurred by Landlord on behalf of Tenant that constitute Additional Rent shall be reimbursed by Tenant to Landlord within ten (10) days after the presentation by Landlord to Tenant of invoices therefor.

2.3 Method of Payment. All Rent payable hereunder shall be paid in lawful money of the United States of America. Except as may otherwise be specifically set forth herein, Rent shall be prorated as to any partial months at the beginning and end of the Term. Rent to be paid to Landlord shall be paid by electronic funds transfer debit transactions through wire transfer of immediately available funds and shall be initiated by Tenant for settlement on or before the Payment Date; provided, however, if the Payment Date is not a Business Day, then settlement shall be made on the next succeeding day which is a Business Day. If Landlord directs Tenant to pay any Base Rent to any party other than Landlord, Tenant shall send to Landlord, simultaneously with such payment, a copy of the transmittal letter or invoice and a check whereby such payment is made or such other evidence of payment as Landlord may reasonably require.

2.4 Late Payment of Rent. Tenant hereby acknowledges that the late payment of Rent will cause Landlord to incur costs not contemplated hereunder, the exact amount of which is presently anticipated to be extremely difficult to ascertain. Accordingly, if any installment of Rent other than Additional Rent payable to a Person other than Landlord (or a Facility Mortgagee) shall not be paid within five (5) days of its Payment Date, Tenant shall pay to Landlord, on demand, a late charge equal to the lesser of (a) five percent (5%) of the amount of such installment or (b) the maximum amount permitted by law. The parties agree that this late charge represents a fair and reasonable estimate of the costs that Landlord will incur by reason of late payment by Tenant. The parties further agree that such late charge is Rent and not interest and such assessment does not constitute a lender or borrower/creditor relationship between Landlord and Tenant. In addition, if any installment of Rent other than Additional Rent payable to a Person other than Landlord (or a Facility Mortgagee) shall not be paid within ten (10) days after its Payment Date, the amount unpaid, including any late charges, shall bear interest at the Agreed Rate compounded monthly from such Payment Date to the date of payment thereof, and Tenant shall pay such interest to Landlord on demand. The payment of such late charge or such interest shall neither constitute waiver of nor excuse or cure any default under this Lease, nor prevent Landlord from exercising any other rights and remedies available to Landlord.

2.5 Guaranty. Tenant's obligations under this Lease are guaranteed by The Pennant Group, Inc., a Delaware corporation (such guarantor, together with its successors and assigns, are herein referred to, individually and collectively, as "**Guarantor**") pursuant to the Guaranty.

ARTICLE III
IMPOSITIONS AND OTHER CHARGES

3.1 Impositions.

3.1.1 Subject to Section 3.5, Tenant shall pay all Impositions attributable to a tax period, or portion thereof, occurring during the Term (irrespective of whether the Impositions for such tax period are due and payable after the Term), when due and before any fine, penalty, premium, interest or other cost may be added for non-payment. Where feasible, such payments shall be made directly to the taxing authorities. If any such Imposition may, at the option of the taxpayer, lawfully be paid in installments (whether or not interest shall accrue on the unpaid balance of such Imposition), Tenant may exercise the option to pay same (and any accrued interest on the unpaid balance of such Imposition) in installments (provided no such installments shall extend beyond the Term) and, in such event, shall pay such installments during the Term before any fine, penalty, premium, further interest or cost may be added thereto. Tenant shall deliver to Landlord, not less than five (5) days prior to the due date of each Imposition, copies of the invoice for such Imposition, the check delivered for payment thereof and an original receipt evidencing such payment or other proof of payment satisfactory to Landlord.

3.1.2 Notwithstanding Section 3.1.1 to the contrary, Landlord may elect to pay those Impositions, if any, based on Landlord's net income, gross receipts, franchise taxes and taxes on its capital stock directly to the taxing authority and within ten (10) Business Days of Landlord delivering to Tenant notice and evidence of such payment, Tenant shall reimburse Landlord for such paid Impositions. In connection with such Impositions, Tenant shall, upon request of Landlord, promptly provide to Landlord such data as is maintained by Tenant with respect to any Facility as may be necessary to prepare any returns and reports to be filed in connection therewith.

3.1.3 Tenant shall prepare and file all tax returns and reports as may be required by Legal Requirements with respect to or relating to all Impositions (other than those Impositions, if any, based on Landlord's net income, gross receipts, franchise taxes and taxes on its capital stock).

3.1.4 Tenant may, upon notice to Landlord, at Tenant's option and at Tenant's sole cost and expense, protest, appeal or institute such other proceedings as Tenant may deem appropriate to effect a reduction of real estate or personal property assessments and Landlord, at Tenant's expense, shall reasonably cooperate with Tenant in such protest, appeal or other action; provided, however, that upon Landlord's request in connection with any such protest or appeal, Tenant shall post an adequate bond or deposit sufficient sums with Landlord to insure payment of any such real estate or personal property assessments during the pendency of any such protest or appeal.

3.1.5 Landlord or Landlord's designee shall use reasonable efforts to give prompt notice to Tenant of all Impositions payable by Tenant hereunder of which Landlord at any time has knowledge, provided, however, that any failure by Landlord to provide such notice to Tenant shall in no way relieve Tenant of its obligation to timely pay the Impositions.

3.1.6 Impositions imposed or assessed in respect of the tax-fiscal period during which the Term terminates shall be adjusted and prorated between Landlord and Tenant, whether or not such Imposition is imposed or assessed before or after such termination, and Tenant's obligation to pay its prorated share thereof shall survive such termination.

3.2 Utilities; CC&Rs. Tenant shall pay any and all charges for electricity, power, gas, oil, water and other utilities used in connection with each Facility during the Term. Tenant shall also pay all costs and expenses of any kind whatsoever which may be imposed against Landlord during the Term by reason of any of the covenants, conditions and/or restrictions affecting any Facility or any portion thereof, or with respect to easements, licenses or other rights over, across or with respect to any adjacent or other property which benefits any Facility, including any and all costs and expenses associated with any utility, drainage and parking easements. If Landlord is billed directly for any of the foregoing costs, Landlord shall send Tenant the bill and Tenant shall pay the same before it is due.

3.3 Insurance. Subject to Section 3.6, Tenant shall pay or cause to be paid all premiums for the insurance coverage required to be maintained by Tenant hereunder.

3.4 Other Charges. Tenant shall pay all other amounts, liabilities, obligations, costs and expenses paid or incurred with respect to the ownership, repair, replacement, restoration, maintenance and operation of each Facility (**"Other Charges"**).

3.5 Real Property Imposition Impounds.

3.5.1 If required under the terms of any Facility Mortgage Document, or at Landlord's option (to be exercised by thirty (30) days' written notice to Tenant) following (i) the occurrence and during the continuation of an Event of Default, or (ii) following the occurrence of more than one (1) Event of Default in any twelve (12) month period and for the remainder of the Term, and provided Tenant is not already being required to impound such payments in accordance with the requirements of Section 15.4 below, Tenant shall be required to deposit, at the time of any payment of Base Rent, an amount equal to one-twelfth of Tenant's estimated annual real and personal property taxes required pursuant to Section 3.1. Such amounts shall be applied to the payment of the obligations in respect of which said amounts were deposited in such order of priority as Landlord shall reasonably determine, on or before the respective dates on which the same or any of them would become delinquent. The reasonable cost of administering such impound account shall be paid by Tenant. Nothing in this Section 3.5.1 shall be deemed to affect any right or remedy of Landlord hereunder. If Landlord elects (to the extent permitted pursuant to this Section 3.5.1), to require Tenant to impound Real Property Impositions hereunder, Tenant shall, as soon as they are received, deliver to Landlord copies of all notices, demands, claims, bills and receipts in relation to the Real Property Impositions.

3.5.2 The sums deposited by Tenant under this Section 3.5 shall be held by Landlord, shall not bear interest nor be held by Landlord in trust or as an agent of Tenant, and may be commingled with the other assets of Landlord. Provided no Event of Default then exists and is continuing under this Lease, and provided that Tenant has timely delivered to Landlord copies of any bills, claims or notices that Tenant has received, the sums deposited by Tenant under this Section 3.5 shall be used by Landlord to pay Real Property Impositions as the same become due. Upon the occurrence of any Event of Default, Landlord may apply any funds held by it under this Section 3.5 to cure such Event of Default or on account of any damages suffered or incurred by Landlord in connection therewith or to any other obligations of Tenant arising under this Lease, in such order as Landlord in its discretion may determine.

3.5.3 If Landlord transfers this Lease, it shall transfer all amounts then held by it under this Section 3.5 to the transferee, and Landlord shall thereafter have no liability of any kind with respect thereto. As of the Expiration Date, any sums held by Landlord under this Section 3.5 shall be returned to Tenant provided that there is no Event of Default and provided that any and all Real Property Impositions due and owing hereunder have been paid in full.

3.5.4 Notwithstanding anything herein which may be construed to the contrary, if Landlord elects (to the extent permitted pursuant to Section 3.5.1) to require Tenant to impound Real Property Impositions hereunder, Landlord shall have no liability to Tenant for failing to pay any Real Property Impositions to the extent that: (a) any Event of Default has occurred and is continuing, (b) insufficient deposits under this Section 3.5 are held by Landlord at the time such Real Property Impositions become due and payable, or (c) Tenant has failed to provide Landlord with copies of the bills, notices, and claims for such Real Property Impositions as required pursuant to Section 3.5.1.

3.6 Insurance Premium Impounds. Without limiting or expanding Tenant's obligation pursuant to Article 15, if required under the terms of any Facility Mortgage Document, or at Landlord's option (to be exercised by thirty (30) days' written notice to Tenant) following (i) the occurrence and during the continuation of an Event of Default, or (ii) following the occurrence of more than one (1) Event of Default in any twelve (12) month period and for the remainder of the Term, and provided Tenant is not already being required to impound such payments in accordance with the requirements of Section 15.4 below, Tenant shall be required to deposit, at the time of any monthly payment of Base Rent, an amount equal to one-twelfth of Tenant's estimated annual insurance premiums required pursuant to Section 3.6 and Article VIII. Such amounts shall be applied to the payment of the obligations in respect of which said amounts were deposited in such order of priority as Landlord shall reasonably determine, on or before the respective dates on which the same or any of them would become delinquent. The reasonable cost of administering such impound account shall be paid by Tenant. Nothing in this Section 3.6 shall be deemed to affect any right or remedy of Landlord hereunder. As applicable, the terms of Section 3.5 shall govern the amounts deposited under this Section 3.6.

ARTICLE IV
ACCEPTANCE OF PREMISES; NO IMPAIRMENT

4.1 Acceptance of Premises. Tenant acknowledges receipt and delivery of possession of the Premises and confirms that Tenant has examined and otherwise has knowledge of the condition of the Premises prior to the execution and delivery of this Lease and has found the same to be in good order and repair, free from Hazardous Materials not in compliance with applicable Hazardous Materials Laws and satisfactory for its purposes hereunder. Regardless, however, of any examination or inspection made by Tenant and whether or not any patent or latent defect or condition was revealed or discovered thereby, Tenant is leasing the Premises "as is" in its present condition. Tenant waives any claim or action against Landlord in respect of the condition of the Premises including any defects or adverse conditions not discovered or otherwise known by Tenant as of the Commencement Date. LANDLORD MAKES NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, IN RESPECT OF THE PREMISES, EITHER AS TO ITS FITNESS FOR USE, DESIGN OR CONDITION FOR ANY PARTICULAR USE OR PURPOSE OR OTHERWISE, OR AS TO THE NATURE OR QUALITY OF THE MATERIAL OR WORKMANSHIP THEREIN, OR THE EXISTENCE OF ANY HAZARDOUS MATERIALS, IT BEING AGREED THAT ALL SUCH RISKS, LATENT OR PATENT, ARE TO BE BORNE SOLELY BY TENANT.

4.2 No Impairment. The respective obligations of Landlord and Tenant shall not be affected or impaired by reason of (a) any damage to, or destruction of, any Facility, from whatever cause, or any Condemnation of any Facility (except as otherwise expressly and specifically provided in Article X or Article XI); (b) the interruption or discontinuation of any service or utility servicing any Facility; (c) the lawful or unlawful prohibition of, or restriction upon, Tenant's use of any Facility due to the interference with such use by any Person or eviction by paramount title; (d) any claim that Tenant has or might have against Landlord on account of any breach of warranty or default by Landlord under this Lease or any other agreement by which Landlord is bound; (e) any bankruptcy, insolvency, reorganization, composition, readjustment, liquidation, dissolution, winding up or other proceedings affecting Landlord or any assignee or transferee of Landlord; (f) any Licensing Impairment; or (g) for any other cause whether similar or dissimilar to any of the foregoing. Tenant hereby specifically waives all rights, arising from any occurrence whatsoever, which may now or hereafter be conferred upon it by law or equity (x) to modify, surrender or terminate this Lease or quit or surrender any Facility, or (y) that would entitle Tenant to any abatement,

reduction, offset, suspension or deferment of Rent. The obligations of Landlord and Tenant hereunder shall be separate and independent covenants and agreements and Rent shall continue to be payable in all events until the termination of this Lease, other than by reason of an Event of Default. Tenant's sole right to recover damages against Landlord under this Lease shall be to prove such damages in a separate action.

ARTICLE V
OPERATING COVENANTS

5.1 Tenant Personal Property. Tenant shall obtain and install all items of furniture, fixtures, supplies and equipment not included as Landlord Personal Property as shall be necessary or reasonably appropriate to operate each Facility in compliance with this Lease (the "**Tenant Personal Property**").

5.2 Landlord Personal Property. Consistent with Tenant's maintenance obligations hereunder, Tenant may, from time to time, in Tenant's reasonable discretion, without notice to or approval of Landlord, sell or dispose of any item of the Landlord Personal Property; provided, however, that, unless such item is functionally obsolete, Tenant shall promptly replace such item with an item of similar or superior quality, use and functionality, and any such replacement item shall, for all purposes of this Lease, continue to be treated as part of the "Landlord Personal Property." Tenant shall, promptly upon Landlord's request from time to time, provide such information as Landlord may reasonably request relative to any sales, dispositions or replacements of the Landlord Personal Property pursuant to this Section 5.2 and shall provide to Landlord with an updated inventory of the Landlord Personal Property.

5.3 Primary Intended Use. During the entire Term, Tenant shall continually use each Facility for its Primary Intended Use (subject to Articles X and XI) and for no other use or purposes, and shall operate each Facility in a manner consistent with the Ordinary Course of Business.

5.4 Compliance with Legal Requirements and Authorizations.

5.4.1 Tenant, at its sole cost and expense, shall promptly (a) comply in all material respects with all Legal Requirements and Insurance Requirements regarding the use, condition and operation of each Facility and the Tenant Personal Property, and (b) procure, maintain and comply in all material respects with all Authorizations. The Authorizations for any Facility shall, to the maximum extent permitted by Legal Requirements, relate and apply exclusively to such Facility, and Tenant acknowledges and agrees that, subject to all applicable Legal Requirements, the Authorizations are appurtenant to the Facilities to which they apply, both during and following the termination or expiration of the Term.

5.4.2 Tenant and the Premises shall comply in all material respects with all licensing and other Legal Requirements applicable to the Premises and the business conducted thereon and, to the extent applicable, all Third Party Payor Program requirements. Further, Tenant shall not commit any act or omission that would in any way violate any certificate of occupancy affecting any Facility, result in closure of the Facility, result in the termination or suspension of Tenant's ability to operate any Facility for its Primary Intended Use or result in the termination, suspension, non-renewal or other limitation of any Authorization, including, but not limited to, the authority to admit residents to any Facility or right to receive reimbursement for items or services provided at any Facility from any Third Party Payor Program.

5.4.3 Tenant shall not transfer any Authorizations to any location other than the Facility operated by such Tenant or as otherwise required by the terms of this Lease nor pledge any Authorizations as collateral security for any loan or indebtedness except as required by the terms of this Lease.

5.5 Preservation of Business. Tenant acknowledges that the diversion of management or supervisory personnel, residents or resident care activities from any Facility to other facilities owned or operated by Tenant, Guarantor, or any of their respective Affiliates will have a material adverse effect on the value and utility of such Facility. Therefore, Tenant agrees that during the Term and for a period of one (1) year thereafter, none of Tenant, Guarantor, nor any of their respective Affiliates shall, without the prior written consent of Landlord (which may not be unreasonably withheld), and except as is necessary for medically appropriate reasons: (i) recommend or solicit the removal or transfer of any resident from any Facility to any other nursing, health care, senior housing, or retirement housing facility (excluding, however, any such facilities that are owned by Landlord (or any of its Affiliates) and leased to Tenant, Guarantor, or any of their respective Affiliates); or (ii) divert actual personnel, residents or resident care activities of any Facility to any other facilities owned or operated by Tenant, Guarantor, or any of their respective Affiliates (excluding, however, any such facilities that are owned by Landlord (or any of its Affiliates) and leased to Tenant, Guarantor, or any of their respective Affiliates) or from which Tenant, Guarantor, or any of their respective Affiliates receive any type of referral fees or other compensation for transfers. In addition to the foregoing, during the Nonsolicitation Period, none of Tenant, Guarantor, nor any of their respective Affiliates shall directly or indirectly, induce any management or supervisory personnel working on or in connection with any Facility or the operations thereof to accept employment at any other nursing, health care, senior housing, or retirement housing facility that is operated, owned, developed, leased, managed, controlled, or invested in by Tenant, Guarantor, or any of their respective Affiliates or in which Tenant, Guarantor, or any of their respective Affiliates otherwise participates in or receives revenues from; provided that advertisements and similar announcements by Tenant seeking employees that are not directed solely to the Facility's management and supervisory personnel but rather to the public at large or to members of a trade organization or industry or through advertisements in newspapers, periodicals or the media in general shall not be deemed to be an inducement or prohibited hereunder. The obligations of Tenant and Guarantor under this Section 5.5 shall survive the expiration or earlier termination of this Lease.

5.6 Maintenance of Books and Records. Tenant shall keep and maintain, or cause to be kept and maintained, proper and accurate books and records in accordance with GAAP, and a standard modern system of accounting, in all material respects reflecting the financial affairs of Tenant and the results from operations of each Facility, individually and collectively. Landlord shall have the right, from time to time during normal business hours after three (3) Business Days prior oral or written notice to Tenant, itself or through any of Landlord's Representatives, to examine and audit such books and records at the office of Tenant or other Person maintaining such books and records and to make such copies or extracts thereof as Landlord or Landlord's Representatives shall request and Tenant hereby agrees to reasonably cooperate with any such examination or audit at Tenant's cost and expense.

5.7 Financial, Management and Regulatory Reports. Tenant shall provide Landlord with the reports listed in Exhibit D within the applicable time specified therein. All financial information provided shall be prepared in accordance with GAAP and shall be submitted electronically using the applicable template provided by Landlord from time to time or, if no such template is provided by Landlord, in the form of unrestricted, unlocked ".xls" spreadsheets created using Microsoft Excel (2003 or newer editions) or in such other form as Landlord may reasonably require from time to time. For so long as Tenant or any Guarantor is or becomes subject to any reporting requirements of the Securities and Exchange Commission (the "SEC") during the Term, the timely filing of any such reports with the SEC and publication thereof by the SEC shall be deemed delivery to Landlord hereunder.

5.7.1 In addition to the reports required under Section 5.7 above, upon Landlord's request from time to time, Tenant shall provide Landlord with such additional information and unaudited quarterly financial information concerning each Facility, the operations thereof and Tenant and Guarantor as Landlord may require for purposes of securing financing for the Premises or its ongoing filings with the Securities and Exchange Commission, under both the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, including, but not limited to, 10-Q Quarterly Reports, 10-K Annual

Reports and registration statements to be filed by Landlord during the Term. Notwithstanding the foregoing, neither Tenant nor Guarantor shall be required to disclose information that is material non-public information or is subject to the quality assurance immunity or is subject to attorney-client privilege or the attorney work product doctrine.

5.7.2 Tenant specifically agrees that Landlord may include Tenant's financial information and such information concerning the operation of any Facility which does not violate the confidentiality of the facility-resident relationship and the physician-patient privilege under applicable laws, in Landlord's public filings and informational publications, as necessary or prudent to comply with any reporting requirements under applicable federal or state laws, including those of any successor to Landlord.

5.8 Estoppel Certificates. Tenant shall, at any time upon not less than ten (10) days prior written request by Landlord, have an authorized representative execute, acknowledge and deliver to Landlord or its designee a written statement certifying (a) that this Lease, together with any specified modifications, is in full force and effect, (b) the dates to which Rent and additional charges have been paid, (c) that no default by either party exists or specifying any such default and (d) as to such other matters as Landlord may reasonably request.

5.9 Furnish Information. Tenant shall promptly notify Landlord of any condition or event that constitutes a breach of any term, condition, warranty, representation, or provision of this Lease and of any adverse change in the financial condition of any Tenant or Guarantor and of any Event of Default.

5.10 Affiliate Transactions. No Tenant shall enter into, or be a party to, any transaction with an Affiliate of any Tenant or any of the partners, members or shareholders of any Tenant except in the Ordinary Course of Business and on terms that are fully disclosed to Landlord within a reasonable amount of time and are no less favorable to any Tenant or such Affiliate than would be obtained in a comparable arm's-length transaction with an unrelated third party; provided that this covenant shall not apply to or restrict guarantees by Tenant of debt financing issued or incurred by the Guarantor.

5.11 Waste. No Tenant shall commit or suffer to be committed any waste on any of the Premises, nor shall any Tenant cause or permit any nuisance thereon.

5.12 Additional Covenants. Tenant shall satisfy and comply with the following covenants throughout the Term:

5.12.1 Tenant shall not, directly or indirectly, create, incur, assume, guarantee or otherwise become or remain directly or indirectly liable with respect to (i) any Debt except for Permitted Debt; or (ii) any Contingent Obligations except for Permitted Contingent Obligations. Tenant shall not default on the payment of any Permitted Debt or Permitted Contingent Obligations.

5.12.2 Tenant shall not, directly or indirectly, (i) acquire or enter into any agreement to acquire any assets other than in the Ordinary Course of Business, or (ii) engage or enter into any agreement to engage in any joint venture or partnership with any other Person.

5.12.3 Tenant shall not cancel or otherwise forgive or release any material claim or material debt owed to any Tenant by any Person, except for adequate consideration and in the Ordinary Course of Business. If any proceedings are filed seeking to enjoin or otherwise prevent or declare invalid or unlawful Tenant's occupancy, maintenance, or operation of a Facility or any portion thereof for its Primary Intended Use, Tenant shall cause such proceedings to be vigorously contested in good faith, and shall, without limiting the generality of the foregoing, use all reasonable commercial efforts to bring about a favorable and speedy disposition of all such proceedings and any other proceedings.

5.12.4 After the occurrence of an Event of Default under Section 12.1.1 or, upon written notice from the Landlord, after the occurrence of any other Event of Default, and, in each case, until such Event of Default is cured, no Tenant shall make any payments or distributions (including salaries, bonuses, fees, principal, interest, dividends, liquidating distributions, management fees, cash flow distributions or lease payments) to any Guarantor or any Affiliate of any Tenant or any Guarantor, or any shareholder, member, partner or other equity interest holder of any Tenant, any Guarantor or any Affiliate of any Tenant or any Guarantor.

5.13 No Liens. Subject to the provisions of Article VII relating to permitted contests and excluding the applicable Permitted Encumbrances, Tenant will not directly or indirectly create or allow to remain and will promptly discharge at its expense any lien, encumbrance, attachment, title retention agreement or claim upon any Facility, this Lease or Tenant's interest in any Facility or any attachment, levy, claim or encumbrance in respect of the Rent.

ARTICLE VI
MAINTENANCE AND REPAIR

6.1 Tenant's Maintenance Obligation. Tenant shall (a) keep and maintain each Facility in good appearance, repair and condition, and maintain proper housekeeping, (b) promptly make all repairs (interior and exterior, structural and nonstructural, ordinary and extraordinary, foreseen and unforeseen) necessary to keep each Facility in good and lawful order and condition and in compliance with all Legal Requirements, Insurance Requirements and Authorizations and to maintain each Facility in a high quality operating and structural condition for use for its Primary Intended Use, and (c) keep and maintain all Landlord Personal Property and Tenant Personal Property in good condition and repair and replace such property consistent with prudent industry practice. All repairs performed by Tenant shall be done in a good and workmanlike manner. Landlord shall under no circumstances be required to repair, replace, build or rebuild any improvements on any Facility, or to make any repairs, replacements, alterations, restorations or renewals of any nature or description to any Facility, whether ordinary or extraordinary, structural or non-structural, foreseen or unforeseen, or to make any expenditure whatsoever with respect thereto, or to maintain any Facility in any way. Tenant hereby waives, to the extent permitted by law or any equitable principle, the right to make repairs at the expense of Landlord pursuant to any law currently in effect or hereafter enacted.

6.2 Premises Condition Report. Landlord, may from time to time and at Tenant's sole expense (but, no more than once every twenty-four (24) months at Tenant's expense, and in no event at a cost to Tenant in excess of Two Thousand Five Hundred Dollars ($2,500) per inspection, with such amount to escalate annually during the Term and any Extension by the same method and at the same rate of increase as the Base Rent as set forth in Section 2.1), cause an engineer designated by Landlord, in its sole discretion, to inspect any Facility and issue a report (a "**Premises Condition Report**") with respect to such Facility's condition. Tenant shall, at its own expense, make any and all repairs or replacements that are recommended by such Premises Condition Report that relate to life safety or are otherwise required to be performed by Tenant under Section 6.1 above.

6.3 Notice of Non-Responsibility. Nothing contained in this Lease and no action or inaction by Landlord shall be construed as (a) constituting the consent or request of Landlord, expressed or implied, to any contractor, subcontractor, laborer, materialman or vendor to or for the performance of any labor or services or the furnishing of any materials or other property for the construction, alteration, addition, repair or demolition of or to any Facility or any part thereof; or (b) giving Tenant any right, power or permission

to contract for or permit the performance of any labor or services or the furnishing of any materials or other property in such fashion as would permit the making of any claim against Landlord in respect thereof or to make any agreement that may create, or in any way be the basis for, any right, title, interest, lien, claim or other encumbrance upon the estate of Landlord in any Facility or any portion thereof. Landlord may post, at Tenant's sole cost, such notices of non-responsibility upon, or of record against, any Facility to prevent the lien of any contractor, subcontractor, laborer, materialman or vendor providing work, services or supplies to Tenant from attaching against such Facility. Tenant agrees to promptly execute and record any such notice of non-responsibility at Tenant's sole cost.

6.4 Permitted Alterations. Without Landlord's prior written consent, which consent shall not be unreasonably withheld, Tenant shall not make any Capital Alterations or Material Alterations. Tenant may, without Landlord's consent, make any other Alterations provided the same (a) do not decrease the value of the applicable Facility, (b) do not adversely affect the exterior appearance of such Facility and (c) are consistent in terms of style, quality and workmanship to the original Leased Improvements and Fixtures of such Facility, and provided further that the same are constructed and performed in accordance with the following:

6.4.1 Such construction shall not commence until Tenant shall have procured and paid for all municipal and other governmental permits and authorizations required therefor (as well as any permits or approvals required in connection with any Permitted Encumbrance of such Facility); provided, however, that any Plans and Specifications required to be filed in connection with any such permits or authorizations that require the approval of Landlord shall have been so approved by Landlord.

6.4.2 During and following completion of such construction, the parking that is located on the Land of such Facility shall remain adequate for the operation of such Facility for its Primary Intended Use and in no event shall such parking be less than what is required by any applicable Legal Requirements or was located on such Land prior to such construction.

6.4.3 All work done in connection with such construction shall be done promptly and in a good and workmanlike manner using materials of appropriate grade and quality consistent with the existing materials and in conformity with all Legal Requirements.

6.4.4 If, by reason of the construction of any Alteration, a new or revised certificate of occupancy for any component of such Facility is required, Tenant shall obtain such certificate in compliance with all applicable Legal Requirements and furnish a copy of the same to Landlord promptly upon receipt thereof.

6.4.5 Upon completion of any Alteration, Tenant shall promptly deliver to Landlord final lien waivers from each and every general contractor and, with respect to Alterations costing in excess of One Hundred Thousand Dollars ($100,000), each and every subcontractor that provided goods or services costing in excess of One Hundred Thousand Dollars ($100,000) in connection with such Alterations indicating that such contractor or subcontractor has been paid in full for such goods or services, together with such other evidence as Landlord may reasonably require to satisfy Landlord that no liens have been or may be created in connection with such Alteration.

6.5 Capital and Material Alterations. If Landlord consents to the making of any Capital Alterations or Material Alterations, Landlord may impose commercially reasonable conditions thereon in connection with its approval thereof. In addition to any such imposed conditions, all such Alterations shall be constructed and performed in accordance with Sections 6.4.1 through 6.4.5 above, together with the following:

6.5.1 Prior to commencing any such Alterations, Tenant shall have submitted to Landlord a written proposal describing in reasonable detail such proposed Alteration and shall provide to Landlord for approval such plans and specifications, permits, licenses, construction budgets and other information (collectively, the "**Plans and Specifications**") as Landlord shall request, showing in reasonable detail the scope and nature of the proposed Alteration.

6.5.2 Such construction shall not, and prior to commencement of such construction Tenant's licensed architect or engineer (to the extent the services of a licensed architect or engineer are required in connection with such Alterations) shall certify to Landlord that such construction shall not, impair the structural strength of such Facility or overburden or impair the operating efficiency of the electrical, water, plumbing, HVAC or other building systems of such Facility.

6.5.3 Prior to commencing any such Alterations, Tenant's licensed architect or engineer (to the extent the services of a licensed architect or engineer are required in connection with such Alterations) shall certify to Landlord that the Plans and Specifications conform to and comply with all applicable Legal Requirements and Authorizations.

6.5.4 Promptly following the completion of the construction of any such Alterations, Tenant shall deliver to Landlord: (a) "as built" drawings of any such Alterations included therein, if applicable, certified as accurate by the licensed architect or engineer selected by Tenant to supervise such work; and (b) a certificate from Tenant's licensed architect or engineer certifying to Landlord that such Alterations have been completed in compliance with the Plans and Specifications and all applicable Legal Requirements.

6.6 Maintenance and Repairs.

6.6.1 With respect to each Facility, and without limiting Tenant's obligations to maintain the Premises under this Lease, within sixty (60) days following the end of each Lease Year, Tenant shall deliver to Landlord a report (a "**Maintenance Expenditures Report**"), certified as true, correct and complete by an officer of Tenant, summarizing and describing in reasonable detail all of the Maintenance Expenditures made by Tenant during the preceding Lease Year on each Facility, and such receipts and other information as Landlord may reasonably request relative to the Maintenance Expenditures made by Tenant during the applicable Lease Year, in form and content satisfactory to Landlord in the reasonable exercise of Landlord's discretion, confirming that Tenant has in such Lease Year spent, with respect to the Premises, at least an aggregate amount of Four Hundred Dollars ($400.00) per operational unit (the **"Minimum Aggregate Maintenance Amount"**), minus the Overage Amount (as hereinafter defined), for repair and maintenance of the Facilities excluding normal janitorial and cleaning but including such expenditures to the Facilities and replacements to Landlord's Personal Property at the Facilities as Tenant deems to be necessary in the exercise of its reasonable discretion. If Tenant fails in any Lease Year to expend the Minimum Aggregate Maintenance Amount minus the Overage Amount, and fails to either (i) cure such default within sixty (60) days after receipt of a written demand from Landlord, or (ii) obtain Landlord's written approval, in its reasonable discretion, of a repair and maintenance program satisfactory to cure such deficiency, then the same shall be deemed an Event of Default hereunder. As used herein "**Overage Amount**" means the sum of amounts expended by Tenant pursuant to this Section 6.6.1 in the two (2) immediately preceding Lease Years in excess, if any, of the Minimum Aggregate Maintenance Amount for such prior Lease Years (excluding any such amounts that are financed by Tenant and secured by a lien on the personal property relating thereto).

6.6.2 Tenant's obligation to deliver the Maintenance Expenditures Report applicable to the last Lease Year shall survive the expiration or termination of this Lease.

6.7 Additional Improvement Funds. In the event Tenant elects to make Capital Alterations at a Facility during a Lease Year in which Tenant has, for such Lease Year, made Maintenance Expenditures in excess of the applicable Minimum Aggregate Maintenance Amount minus the Overage Amount for such Facility, then Tenant may request, in writing, for Landlord to provide Tenant with funds (the "**Improvement Funds**") for the cost to complete the Alterations to which said additional Capital Alterations apply. Landlord shall provide Tenant with such Improvement Funds subject to the following terms and conditions:

6.7.1 Notwithstanding anything herein to the contrary, Landlord shall have no obligation to disburse Improvement Funds with respect to a Facility to the extent that disbursement of any such Improvement Funds would result in Landlord having disbursed Improvement Funds during the Term and with respect to such Facility in an aggregate amount exceeding the Facility Improvement Fund Cap applicable to such Facility.

6.7.2 In connection with any Alterations for which Improvement Funds are or may be requested by Tenant, Tenant shall comply with the provisions of Section 6.4 and, to the extent any such Alterations would constitute Capital Alterations or Material Alterations, Tenant shall comply with the provisions of Section 6.5. Prior to commencing any capital repairs or improvements for which Tenant will request disbursement of Improvement Funds, Tenant shall provide Landlord with such written documentation as may be reasonably requested by Landlord with respect to such capital repairs or improvements, which may include, without limitation, plans and specifications, budgets, a work completion schedule, copies of all permits required in connection with such capital repairs or improvements and the names of all contractors to be engaged by Tenant in connection therewith, together with evidence of insurance for each (in form, substance and amount reasonably required by Landlord), and Landlord shall have a reasonable period of time to review and approve the same. Landlord shall not be obligated to disburse the Improvement Funds for any Alterations until Landlord has approved such Alterations in writing, which approval: (i) with respect to any Alterations that are not Material Alterations or Capital Alterations, may not be unreasonably withheld, conditioned or delayed, and (ii) with respect to any Alterations which are Capital Alterations or Material Alterations, may be granted, withheld or conditioned in Landlord's sole and absolute discretion.

6.7.3 Tenant shall have the right to request disbursement of the Improvement Funds not more than once per calendar month, in increments of not less than Fifteen Thousand Dollars ($15,000) (unless the disbursement is the final one for a particular project, in which case the full amount of such disbursement may be requested). All such disbursement requests shall be in writing and in the form of the request for advance contained in Schedule 4 attached hereto ("**Request for Advance**") and shall be accompanied with (i) the following supporting documentation: (A) an itemized account of expenditures to be paid or reimbursed from the requested disbursement, certified by Tenant to be true and correct expenditures which have already been paid or are due and owing and for which no previous disbursement was made hereunder, and (B) copies of invoices or purchase orders from each payee with an identifying reference to the applicable vendor or supplier, which invoices or purchase orders shall support the full amount of costs contained in the requested disbursement; and (ii) mechanic's lien waivers (conditional and unconditional, as applicable), in form and substance reasonably satisfactory to Landlord, in connection with any repairs, renovations or improvements in excess of Five Thousand Dollars ($5,000) for which a mechanic's lien may be filed. Landlord shall have the right to make payment directly to any or all applicable vendors or suppliers if so desired by Landlord. No failure by Landlord to insist on Tenant's strict compliance with the provisions of this Section 6.7 with respect to any request for advance or disbursement of the Improvement Funds shall constitute a waiver or modification of such provisions with respect to any future or other request for advance or disbursement.

6.7.4 Landlord shall, within twenty (20) calendar days of Tenant's delivery of a Request for Advance and compliance with the conditions for disbursement set forth in this Section 6.7, make disbursements of the requested Improvement Funds to pay or reimburse Tenant for the costs of the applicable capital repairs or improvements.

6.7.5 No Event of Default or event which, with the giving of notice or the passage of time, or both, would constitute an Event of Default, including, without limitation, the recordation of any mechanic's or other lien against the Premises (or any portion thereof) in connection with the capital repairs or improvements to be funded by the Improvement Funds, shall have occurred and be continuing at the time of any request for disbursement (or the date of disbursement) of the Improvement Funds.

6.7.6 All repairs or improvements funded with the Improvement Funds shall be completed in a good, workmanlike and lien-free manner pursuant to Plans and Specifications or other similar documents provided to and approved by Landlord as set forth above, subject to change orders made in the ordinary course of a project of the size and scope of the applicable capital repair or improvement and approved by Landlord (with respect to change orders in excess of $10,000). If any of such repairs or improvements is completed in a manner not in compliance with this Section 6.7 and the other applicable provisions of this Lease, Tenant shall, promptly after obtaining knowledge thereof or Landlord's demand therefor, repair or remediate the applicable work to the extent necessary to attain such compliance at its sole cost and expense.

6.7.7 Each and every renovation or improvement funded by Landlord under this Section 6.7 shall immediately become a part of the Premises and shall belong to Landlord subject to the terms and conditions of this Lease.

6.7.8 No disbursement of the Improvement Funds shall be used to remedy any condition which constitutes a default by Tenant under the provisions of this Lease.

6.7.9 In connection with any request for Improvement Funds delivered to Landlord during the last five (5) years of the then Term, Landlord shall have no obligation to disburse any Improvement Funds with respect to any such request unless and until Tenant shall have delivered to Landlord an Extension Notice for the next applicable Extension Term, if any.

6.7.10 From and after the date of disbursement of any Improvement Funds by Landlord, the annual amount of Base Rent then payable under this Lease shall be increased by the product of: (i) the amount of the Improvement Funds disbursed by Landlord, and (ii) the then Improvement Fund Rate. Such increased Base Rent shall commence to be payable on the next Payment Date following disbursement of such Improvement Funds (together with any prorated portion of the Base Rent payable with respect to the month in which such Improvement Funds were advanced).

6.8 Encroachments. If any of the Leased Improvements of any Facility shall, at any time, encroach upon any property, street or right-of-way adjacent to such Facility, then, promptly upon the request of Landlord, Tenant shall, at its expense, subject to its right to contest the existence of any encroachment and, in such case, in the event of any adverse final determination, either (a) obtain valid waivers or settlements of all claims, liabilities and damages resulting from each such encroachment, whether the same shall affect Landlord or Tenant, or (b) make such changes in such Leased Improvements, and take such other actions, as Tenant, in the good faith exercise of its judgment, deems reasonably practicable, to remove such encroachment, including, if necessary, the alteration of any of such Leased Improvements, and in any event take all such actions as may be necessary to be able to continue the operation of such Leased Improvements for the Primary Intended Use of such Facility substantially in the manner and to the extent such Leased Improvements were operated prior to the assertion of such encroachment. Any such alteration shall be made in conformity with the applicable requirements of Sections 6.4 and 6.5.

ARTICLE VII
PERMITTED CONTESTS

Tenant, upon prior written notice to Landlord and at Tenant's expense, may contest, by appropriate legal proceedings conducted in good faith and with due diligence, the amount, validity or application, in whole or in part, of any licensure or certification decision, Imposition, Legal Requirement, Insurance Requirement, lien, attachment, levy, encumbrance, charge or claim; provided, however, that (a) in the case of an unpaid Imposition, lien, attachment, levy, encumbrance, charge, or claim, the commencement and continuation of such proceedings shall suspend the collection thereof from Landlord and from the applicable Facility, (b) neither the applicable Facility nor any Rent therefrom nor any part thereof or interest therein would be reasonably likely to be in danger of being sold, forfeited, attached or lost pending the outcome of such proceedings, (c) in the case of a Legal Requirement, neither Landlord nor Tenant would be in any danger of civil or criminal liability for failure to comply therewith pending the outcome of such proceedings; (d) Tenant shall give such security as may be demanded by Landlord to insure ultimate payment of, or compliance with, the same and to prevent any sale or forfeiture (or risk thereof) of the applicable Facility or the Rent by reason of such non-payment or non-compliance; (e) in the case of the contest of an Insurance Requirement, the coverage required by Article VIII shall be maintained, and (f) if such contest is resolved against Landlord or Tenant, Tenant shall pay to the appropriate payee the amount required to be paid, together with all interest and penalties accrued thereon, and otherwise comply with the applicable Legal Requirement or Insurance Requirement. Landlord, at Tenant's expense, shall execute and deliver to Tenant such authorizations and other documents as may reasonably be required in any such contest, and, if reasonably requested by Tenant or if Landlord so desires, shall join as a party therein. The provisions of this Article VII shall not be construed to permit Tenant to contest the payment of Rent or any other amount payable by Tenant to Landlord hereunder. Tenant shall indemnify, defend, protect and hold harmless Landlord from and against any Losses of any kind that may be imposed upon Landlord in connection with any such contest and any Losses resulting therefrom and the provisions of this Article VII shall survive the termination or expiration of this Lease.

ARTICLE VIII
INSURANCE

8.1 Required Policies. During the Term, Tenant shall maintain the following insurance with respect to each Facility at its sole cost and expense:

8.1.1 Fire and Extended Coverage against loss or damage by fire, vandalism and malicious mischief, extended coverage perils commonly known as "Special Risk," and all physical loss perils normally included in such Special Risk insurance, including but not limited to sprinkler leakage and windstorm, all with an aggregate loss limit per occurrence of not less than [_____] and coverage for flood (only if such Facility is located in whole or in part within a designated 100-year flood plain area and such coverage is available at commercially reasonable premiums) with an aggregate loss limit per occurrence of not less than [_____];

8.1.2 If such Facility contains steam boilers, pressure vessels or similar apparatus, insurance with an agreed amount endorsement (such that the insurance carrier has accepted the amount of coverage and has agreed that there will be no co-insurance penalty), covering the major components of the central heating, air conditioning and ventilating systems, boilers, other pressure vessels, high pressure piping and machinery, elevators and escalators, if any, and other similar equipment installed in such Facility, which policy shall insure against physical damage to and loss of occupancy and use of such Facility arising out of an accident, explosion, or breakdown covered thereunder all with an aggregate loss limit per occurrence of not less than [_____];

8.1.3 If there is any storage tank, whether above ground or below ground, located at such Facility, whether or not in use, Storage Tank Insurance affording the parties protection of not less than [_____] per occurrence and in the annual aggregate;

8.1.4 Business Interruption and Extra Expense Coverage for loss of business income on an actual loss sustained basis for no less than twelve (12) months, including either an agreed amount endorsement or a waiver of any co-insurance provisions, so as to prevent Tenant, Landlord and any other insured thereunder from being a co-insurer, and containing an extended period indemnity endorsement that provides that the continued loss of business income will be insured until such income returns to the same level it was prior to the loss or the expiration of not fewer than six (6) months after the date of the completed repairs all with an aggregate loss limit per occurrence of not less than [_____];

8.1.5 Commercial General Liability Coverage (including products and completed operations liability and broad form coverage, broad form property damage, blanket contractual liability, independent contractors liability, personal injury and advertising injury coverage) against claims for bodily injury, death, medical expenses, property damage occurring on, in or about such Facility, affording the parties protection of not less than [_____] per claim and [_____] in the annual aggregate;

8.1.6 Professional Liability Coverage for damages for injury, death, loss of service or otherwise on account of professional services rendered or which should have been rendered, in a minimum amount of [_____] per claim and [_____] in the annual aggregate;

8.1.7 Worker's Compensation Coverage for injuries sustained by Tenant's employees in the course of their employment and otherwise consistent with all applicable Legal Requirements and employer's liability coverage with limits of not less than [_____] each accident, [_____] bodily injury due to disease each employee and [_____] policy limit; and

8.1.8 During such time as Tenant is constructing any improvements, Tenant, at its sole cost and expense, shall carry, or cause to be carried (a) a completed operations endorsement to the commercial general liability insurance policy referred to above, (b) builder's risk insurance, completed value form, covering all physical loss, in an amount and subject to policy conditions satisfactory to Landlord, and (c) such other insurance, in such amounts, as Landlord deems necessary to protect Landlord's interest in the Premises from any act or omission of Tenant's contractors or subcontractors.

8.2 General Insurance Requirements.

8.2.1 All of the policies of insurance required to be maintained by Tenant under this Article VIII shall (a) be written in form satisfactory to Landlord and any Facility Mortgage and issued by insurance companies (i) with a policyholder and financial rating of not less than ["A-"/"X"] in the most recent version of Best's Key Rating Guide and (ii) authorized to do insurance business in the applicable Situs State; and (b) include a waiver of all rights of subrogation and recovery against Landlord.

8.2.2 All liability type policies (with the exception of Tenant's workers' compensation/employer's liability insurance and professional liability insurance) must name Landlord as an "additional insured." All property policies shall name Landlord as "loss payee." All business interruption policies shall name Landlord as "loss payee" with respect to Rent only. Losses shall be payable to Landlord and/or Tenant as provided herein. In addition, the policies, as appropriate, shall name as an "additional insured" or "loss payee" any Facility Mortgagee by way of a standard form of mortgagee's loss payable endorsement. Any loss adjustment shall require the written consent of Landlord, Tenant, and each Facility Mortgagee unless the amount of the loss is less than $100,000 in which event no consent shall be required.

8.2.3 Within ten (10) days of Landlord's request, Tenant shall provide Landlord copies of the original policies or a satisfactory ACORD evidencing the existence of the insurance required by this Lease and showing the interest of Landlord (and any Facility Mortgagee(s)). If Landlord is provided with an ACORD certificate, it may demand that Tenant provide a complete copy of the related policy within ten (10) days of the later of Landlord's written request or the date of the issuance of the policy.

8.2.4 Tenant's obligations to carry the insurance provided for herein may be brought within the coverage of a so-called "blanket" policy or policies of insurance carried and maintained by Tenant; provided, however, that the coverage afforded Landlord will not be reduced or diminished or otherwise be materially different from that which would exist under a separate policy meeting all other requirements hereof by reason of the use of the blanket policy, and provided further that the requirements of this Article VIII (including satisfaction of the Facility Mortgagee's requirements and the approval of the Facility Mortgagee) are otherwise satisfied, and provided further that Tenant maintains specific allocations acceptable to Landlord.

8.2.5 Each insurer under the insurance policies maintained by Tenant pursuant to this Article VIII shall agree, by endorsement on the policy or policies issued by it, or by independent instrument furnished to Landlord, that it will give to Landlord thirty (30) days' written notice before the policy or policies in question shall be altered or cancelled except in the event of nonpayment of premiums in which case each insurer shall provide ten (10) days' written notice before the policy or policies in question shall be altered or cancelled.

8.3 Replacement Costs. The term "replacement cost" shall mean the actual replacement cost of the insured property from time to time with new materials and workmanship of like kind and quality (including the cost of compliance with changes in zoning and building codes and other laws and regulations, demolition and debris removal and increased cost of construction). If Landlord believes that the replacement cost has increased at any time during the Term, it shall have the right to have such replacement cost redetermined by an impartial national insurance company reasonably acceptable to both parties (the "impartial appraiser"). The determination of the impartial appraiser shall be final and binding, and, as necessary, Tenant shall increase, but not decrease, the amount of the insurance carried pursuant to this Article VIII to the amount so determined by the impartial appraiser. Each party shall pay one-half (1/2) of the fee, if any, of the impartial appraiser. If Tenant has made Alterations, Landlord may at Tenant's expense have the replacement cost redetermined at any time after such Alterations are made.

8.4 Claims-Made Policies. If Tenant obtains and maintains the commercial general liability coverage and/or professional liability coverage described in Sections 8.1.5 and 8.1.6 above on a "claims-made" basis, Tenant shall provide continuous liability coverage for claims arising during the Term and providing for an extended reporting period reasonably acceptable to Landlord for a minimum of two (2) years after expiration of the Term. If such policy is canceled or not renewed for any reason whatsoever, Tenant must provide evidence of a replacement policy reflecting coverage with retroactive coverage back to the commencement date of the term and maintain such coverage for a period of at least two (2) years beyond the expiration of the Term or Tenant must obtain tail coverage for the length of the remaining term plus at least two (2) years beyond the expiration of the Term.

8.5 Non-Renewal. If Tenant fails to cause the insurance required under Article VIII to be issued in the names herein called for, fails to pay the premiums therefor or fails to deliver such policies or certificates thereof to Landlord, at the times required, Landlord shall be entitled, but shall have no obligation, to obtain such insurance and pay the premiums therefor, in which event the cost thereof, together with interest thereon at the Agreed Rate, shall be repayable to Landlord upon demand therefor.

8.6 Deductibles. Deductibles/self-insured retentions for the insurance policies required under this Article VIII shall not be greater than [_____].

8.7 Increase in Limits; Types of Coverages. If, from time to time after the Commencement Date, Landlord determines in the exercise of its commercially reasonable judgment that the limits of the insurance required to be maintained by Tenant hereunder are no longer commensurate to the limits being regularly required by institutional landlords of similar properties in the applicable Situs State or their institutional lenders or that a particular type of insurance coverage is being regularly required by institutional landlords of similar properties in the applicable Situs State or their institutional lenders and is not then required hereunder, Landlord may notify Tenant of the same, indicating the particular limit or type of coverage that Landlord has determined should be increased or carried by Tenant, as applicable. Unless Tenant, in the exercise of its commercially reasonable judgment, objects to Landlord's determination, then within thirty (30) days after the receipt of such notice, Tenant shall thereafter increase the particular limit or obtain the particular coverage, as applicable, unless and until further modified pursuant to the provisions of this Section 8.7. Notwithstanding anything herein to the contrary, Landlord shall not request a modification of the insurance requirements of this Lease more frequently than once every three (3) years. If Tenant, in the exercise of its commercially reasonable judgment, objects to Landlord's determination made under this Section 8.7 and Landlord and Tenant are unable to agree upon the matter within fifteen (15) days of Tenant's receipt of the applicable notice from Landlord, such determination shall be made by a reputable insurance company, consultant or expert (an "**Insurance Arbitrator**") with experience in the assisted living insurance industry as mutually identified by Landlord and Tenant in the exercise of their reasonable judgment. As a condition to a determination of commercial reasonableness with respect to any particular matter, the Insurance Arbitrator shall be capable of providing, procuring or identifying particular policies or coverages that would be available to Tenant and would satisfy the requirement in issue. The determinations made by any such experts shall be binding on Landlord and Tenant for purposes of this Section 8.7, and the costs, fees and expenses of the same shall be shared equally by Tenant and Landlord. If Tenant and Landlord are unable to mutually agree upon an Insurance Arbitrator, each party shall within ten (10) days after written demand by the other select one Insurance Arbitrator. Within ten (10) days of such selection, the Insurance Arbitrators so selected by the parties shall select a third (3rd) Insurance Arbitrator who shall be solely responsible for rendering a final determination with respect to the insurance requirement in issue. If either party fails to select an Insurance Arbitrator within the time period set forth above, the Insurance Arbitrator selected by the other party shall alone render the final determination with respect to the insurance requirement in issue in accordance with the foregoing provisions and such final determination shall be binding upon the parties. If the Insurance Arbitrators selected by the parties are unable to agree upon a third (3rd) Insurance Arbitrator within the time period set forth above, either party shall have the right to apply at Tenant's and Landlord's joint expense to the presiding judge of the court of original trial jurisdiction in the county in which any Facility is located to name the third (3rd) Insurance Arbitrator.

8.8 No Separate Insurance. Tenant shall not, on Tenant's own initiative or pursuant to the request or requirement of any third party, (a) take out separate insurance concurrent in form or contributing in the event of loss with that required in this Article VIII to be furnished by, or which may reasonably be required to be furnished by, Tenant or (b) increase the amounts of any then existing insurance by securing an additional policy or additional policies, unless all parties having an insurable interest in the subject matter of the insurance, including in all cases Landlord and all Facility Mortgagees, are included therein as additional insureds and the loss is payable under such insurance in the same manner as losses are payable under this Lease. Notwithstanding the foregoing, nothing herein shall prohibit Tenant from insuring against risks not required to be insured hereby, and as to such insurance, Landlord and any Facility Mortgagee need not be included therein as additional insureds, nor must the loss thereunder be payable in the same manner as losses are payable hereunder except to the extent required to avoid a default under the Facility Mortgage.

ARTICLE IX
REPRESENTATIONS AND WARRANTIES

9.1 General. Each party represents and warrants to the other that: (a) this Lease and all other documents executed or to be executed by it in connection herewith have been duly authorized and shall be binding upon it; (b) it is duly organized, validly existing and in good standing under the laws of the state of its formation and is duly authorized and qualified to perform this Lease within the applicable Situs State; and (c) neither this Lease nor any other document executed or to be executed in connection herewith violates the terms of any other agreement of such party.

9.2 Anti-Terrorism Representations.

9.2.1 Tenant hereby represents and warrants that neither Tenant, nor any persons or entities holding any legal or beneficial interest whatsoever in Tenant, are (a) the target of any sanctions program that is established by Executive Order of the President or published by the Office of Foreign Assets Control, U.S. Department of the Treasury ("**OFAC**"); (b) designated by the President or OFAC pursuant to the Trading with the Enemy Act, 50 U.S.C. App. § 5, the International Emergency Economic Powers Act, 50 U.S.C. §§ 1701-06, the Patriot Act, Public Law 107-56, Executive Order 13224 (September 23, 2001) or any Executive Order of the President issued pursuant to such statutes; or (c) named on the following list that is published by OFAC: "List of Specially Designated Nationals and Blocked Persons" (collectively, "**Prohibited Persons**"). Tenant hereby represents and warrants to Landlord that no funds tendered to Landlord by Tenant under the terms of this Lease are or will be directly or indirectly derived from activities that may contravene U.S. federal, state or international laws and regulations, including anti-money laundering laws. If the foregoing representations are untrue at any time during the Term, an Event of Default will be deemed to have occurred, without the necessity of notice to Tenant.

9.2.2 Tenant will not during the Term of this Lease engage in any transactions or dealings, or be otherwise associated with, any Prohibited Persons in connection with the use or occupancy of the Premises. A breach of the representations contained in this Section 9.2 by Tenant shall constitute a material breach of this Lease and shall entitle Landlord to any and all remedies available hereunder, or at law or in equity.

9.3 Additional Representations and Warranties. To induce Landlord to execute this Lease and perform its obligations hereunder, Tenant hereby represents and warrants to Lender that the following are true and correct as of the Commencement Date:

9.3.1 No consent or approval of, or filing, registration or qualification with any Governmental Authority or any other Person is required to be obtained or completed by Tenant or any Affiliate in connection with the execution, delivery, or performance of this Lease that has not already been obtained or completed.

9.3.2 The identity of the holders of the partnership or membership interests or shares of stock, as applicable, in Tenant and their respective percentage of ownership as of the Commencement Date are set forth on Schedule 3. No partnership or limited liability company interests, or shares of stock, in Tenant, other than those described above, are issued and outstanding. There are no preemptive or other outstanding rights, options, warrants, conversion rights or similar agreements or understandings for the purchase or acquisition from Tenant of any partnership or limited liability company interest of or shares of stock in Tenant except as may be set forth in Tenant's organizational and formation documents, complete, true and accurate copies of which have been provided to Landlord.

9.3.3 Neither Tenant nor Guarantor is insolvent and there has been no Bankruptcy Action by or against any of them. Tenant's assets do not constitute unreasonably small capital to carry out its business as conducted or as proposed to be conducted.

9.3.4 All financial statements and other documents and information previously furnished by or on behalf of any Tenant or Guarantor to Landlord in connection with the Facilities and this Lease are true, complete and correct in all material respects and fairly present on a consistent basis with the financial conditions of the subjects thereof for the immediately prior periods as of the respective dates thereof and do not fail to state any material fact necessary to make such statements or information not misleading, and no material adverse change with respect to any Facility, Tenant or Guarantor has occurred since the respective dates of such statements and information. Neither Tenant nor any Guarantor has any material liability, contingent or otherwise, not disclosed in such financial statements and which is required to be disclosed in such financial statements in accordance with GAAP.

9.3.5 Tenant has each Authorization and other rights from, and has made all declarations and filings with, all applicable Governmental Authorities, all self-regulatory authorities and all courts and other tribunals necessary to engage in the management and operation of the Facilities for the Primary Intended Use. No Governmental Authority is, to Tenant's knowledge, considering limiting, suspending or revoking any such Authorization. All such Authorizations are valid and in full force and effect and Tenant is in material compliance with the terms and conditions of all such Authorizations.

ARTICLE X
DAMAGE AND DESTRUCTION

10.1 Notice of Damage or Destruction. Tenant shall promptly notify Landlord of any damage or destruction of any Facility in excess of $250,000. Said notification shall include: (a) the date of the damage or destruction and the Facility or Facilities damaged, (b) the nature of the damage or destruction together with a description of the extent of such damage or destruction, (c) a preliminary estimate of the cost to repair, rebuild, restore or replace the Facility, and (d) a preliminary estimate of the schedule to complete the repair, rebuilding, restoration or replacement of the Facility. Damage or destruction shall not terminate this Lease.

10.2 Restoration. Tenant shall diligently repair or reconstruct any Facility that has been damaged or destroyed to a like or better condition than existed prior to such damage or destruction in accordance with Section 6.5; provided however, that in the event any Capital Alterations made and funded solely by Tenant are damaged or destroyed, Tenant shall have the option to either repair or replace such Capital Alterations or to remove the same and restore the Facility to substantially the same condition as existed prior to the making of such Capital Alterations. Any net insurance proceeds payable with respect to such damage or destruction shall be paid directly to Landlord and; provided Tenant is diligently performing the restoration and repair work with respect to such Facility and no Event of Default has occurred hereunder, shall be used for the repair or reconstruction of such Facility. Landlord shall disburse any such net insurance proceeds as and when required by Tenant in accordance with normal and customary practice for the payment of a general contractor in connection with construction projects similar in scope and nature to the work being performed by or on behalf of Tenant, including, without limitation, the withholding of ten percent (10%) of each disbursement until the required work is completed as evidenced by a certificate of occupancy or similar evidence issued upon an inspection by the applicable Governmental Authority and proof has been furnished to Landlord that no lien has attached or will attach to the applicable Facility in connection with the restoration and repair work.

10.3 Insufficient Proceeds. If the net insurance proceeds paid to Landlord in connection with any such damage or destruction are insufficient to restore the affected Facilit(ies), Tenant shall nevertheless remain responsible, at its sole cost and expense, to repair and reconstruct the applicable Facilit(ies) as required in this Article X and Tenant shall provide the required additional funds. Tenant expressly assumes all risk of loss in connection with any damage or destruction to a Facility, whether or not such damage or destruction is insurable or insured against. Tenant shall pay any insurance deductible and any other uninsured Losses. Proceeds of business interruption or similar insurance, if any, shall belong to Tenant, provided that such proceeds shall be used in the first instance to timely pay Base Rent and otherwise satisfy Tenant's obligations under this Lease, and notwithstanding anything in this Lease to the contrary, Tenant shall not have any right under this Lease, and hereby waives all rights under applicable law, to abate, reduce, or offset rent by reason of any damage or destruction of any Facility by reason of an insured or uninsured casualty.

10.4 Facility Mortgagee. Notwithstanding anything in this Lease to the contrary, Tenant hereby acknowledges and agrees that any Facility Mortgagee may retain and disburse any net insurance proceeds payable in connection with any damage or destruction to a Facility. In such event, Tenant shall comply with the requests and requirements of such Facility Mortgagee in connection with the performance of the repair and restoration work and the disbursement of the net insurance proceeds in connection therewith. If, in connection with any damage or destruction to a Facility that results in the loss of fifty percent (50%) or more of the units at the affected Facility or that would cost more than fifty percent (50%) of the value of such Facility to restore, any Facility Mortgagee elects to require that any net insurance proceeds payable in connection with such damage or destruction to a Facility be applied by Landlord to reduce the outstanding principal balance of any Facility Mortgage, Landlord may elect, in its sole discretion and by notice to Tenant delivered promptly after the receipt by Landlord of notice of such election from Facility Mortgagee, to terminate this Lease as to the affected Facility, in which event the current Rent shall be equitably abated as of the effective date of such termination based on the allocable share of Landlord's initial investment in the Premises to the affected Facility. Notwithstanding anything in this Lease to the contrary, Tenant shall remain liable for any uninsured portion of any damage or destruction if this Lease is so terminated as to the applicable Facility. If Landlord elects not to terminate this Lease as to the affected Facility (despite the applicable Facility Mortgagee having made the election to require that any net insurance proceeds payable in connection with such damage or destruction to a Facility be applied by Landlord to reduce the outstanding principal balance of such Facility Mortgage), Landlord's own funds shall be disbursed to Tenant from time to time as, when, and subject to the satisfaction of the same terms, conditions and requirements as would have governed the disbursement of net insurance proceeds that Landlord's funds replace.

10.5 Impossibility; Tenant's Obligations Following Casualty. Following a casualty loss, if Tenant cannot within a reasonable time after diligent efforts obtain the necessary government approvals needed to restore such Facility to substantially the same condition which existed prior to such damage (the **"Required Reconstruction Approvals"**), then Tenant shall pay to Landlord an amount (the **"Compensatory Payment"**) equal to the greater of (a) the sum of: (i) the Fair Market Value of the affected Facility immediately before such damage or destruction less (ii) the Fair Market Value of the affected Facility immediately after such damage or destruction (the **"Post-Casualty Facility"**) less (iii) any insurance proceeds received by Landlord, or (b) (i) 89.95% of the Fair Market Value of the Premises as of the Commencement Date less (B) the sum of the present value of (1) the Base Rent and (2) Additional Rent paid to Landlord and not passed through to a third party, received by Landlord as of the Occurrence Date (determined using a discount rate of six percent (6%) per annum) less (iii) any insurance proceeds received by Landlord. Unless, within nine (9) months following the date of any applicable casualty, Tenant has provided Landlord with satisfactory evidence that it has obtained, or is in the process of and continuing to diligently obtain, the Required Reconstruction Approvals, Tenant shall be deemed to be unable to secure the Required Reconstruction Approvals and to be obligated to make the Compensatory Payment to

Landlord (the **"Compensatory Payment Date"**). Landlord shall have a period of three (3) months after the Compensatory Payment Date to attempt to sell the affected Facility to an independent third party in an arms-length transaction and the gross purchase price payable to Landlord in connection with such transaction shall be deemed to be the Fair Market Value of the Post-Casualty Facility (a **"Casualty Sale"**). In the event a Casualty Sale occurs within such three (3) month period, Landlord shall provide Tenant with notice of the closing thereof and a written demand for the Compensatory Payment setting forth in reasonable detail the calculation thereof (the **"Compensatory Payment Statement"**). In the event a Casualty Sale does not occur within such three (3) month period, then the Fair Market Value of the Post-Casualty Facility shall be determined in the manner otherwise set forth in this Lease. The Compensatory Payment shall be due and payable thirty (30) days after the later of (i) Tenant's receipt of the Compensatory Payment Statement or (ii) the date of determination of the Fair Market Value of the Post-Casualty Facility. Upon Landlord's receipt of the Compensatory Payment (or upon the occurrence of a Casualty Sale, if earlier), this Lease shall terminate as to the affected Facility and Tenant shall have no further rights or obligations with respect thereto.

ARTICLE XI
CONDEMNATION

Except as provided to the contrary in this Article XI, a Condemnation of any Facility or any portion thereof shall not terminate this Lease, which shall remain in full force and effect, and Tenant hereby waives all rights under applicable law to abate, reduce or offset Rent by reason of any such Condemnation. Following a Complete Taking of any Facility, Tenant may at its election, made within thirty (30) days of the effective date of such Complete Taking, terminate this Lease with respect to such Facility and the current Rent shall be equitably abated as of the effective date of such termination based on the allocable share of Landlord's initial investment in the Premises to the Facility subject to the Complete Taking. Following a Partial Taking of any Facility, the Rent shall be abated to the same extent as the resulting diminution in the Fair Market Value of such Facility and, as necessary (as reasonably determined by Landlord), Tenant at its sole cost shall restore such Facility in accordance with Section 6.5. Landlord alone shall be entitled to receive and retain any award for a Condemnation other than a Temporary Taking; provided, however, Tenant shall be entitled to submit its own claim in the event of any such Condemnation with respect to the relocation costs incurred by Tenant as a result thereof. In the event of a Temporary Taking of any Facility, Tenant shall be entitled to receive and retain any and all awards for the Temporary Taking; provided, however, that Base Rent shall not be abated during the period of such Temporary Taking.

ARTICLE XII
DEFAULT

12.1 Events of Default. The occurrence of any of the following shall constitute an "**Event of Default**" and there shall be no cure period therefor except as otherwise expressly provided in this Section 12.1:

12.1.1 Tenant shall fail to pay any installment of Rent within five (5) calendar days of its Payment Date;

12.1.2 (a) The revocation or termination of any Authorization that would have a material adverse effect on the operation of any Facility for its Primary Intended Use; (b) except as permitted pursuant to the terms of Article X or Article XI in connection with a casualty or Condemnation, the voluntarily cessation of operations at any Facility for a period in excess of 30 days; (c) the sale or transfer of all or any portion of any Authorization; or (d) the use of any Facility other than for its Primary Intended Use;

12.1.3 Any material suspension, limitation or restriction placed upon Tenant, any Authorization, any Facility, the operations at any Facility or Tenant's ability to admit residents at the Premises (e.g., an admissions ban or non-payment for new admissions by any Thirty Party Payor Program resulting from an inspection survey); provided, however, if any such material suspension, limitation or restriction is curable by Tenant under the applicable Authorization or Legal Requirement, it shall not constitute an Event of Default if Tenant promptly commences to cure such breach and thereafter diligently pursues such cure to the completion thereof within the greater of: (a) the time period in which the applicable governmental agency has given Tenant to undertake corrective action, including the additional time allotted under any appeal right so long as (i) Tenant has duly and timely filed an appeal and preserved such appeal right, and (ii) any adverse governmental action is stayed pending appeal, up to the moment such appeal is granted, withdrawn or denied, or (b) thirty (30) days after the occurrence of any such material suspension, limitation or restriction;

12.1.4 an "Event of Default" (as defined in the applicable agreement) shall occur and is continuing under any other lease or agreement between Landlord or an Affiliate of Landlord and Tenant (or Guarantor) or an Affiliate of Tenant (or Guarantor) where the default is not cured within any applicable grace period set forth therein;

12.1.5 an "Event of Default" (as defined in the applicable agreement) shall occur and is continuing under any letter of credit, guaranty, mortgage, deed of trust, or other instrument executed by Tenant (or Guarantor) or an Affiliate of Tenant (or Guarantor) in favor of Landlord or an Affiliate of Landlord, in every case, whether now or hereafter existing, where the default is not cured within any applicable grace period set forth therein;

12.1.6 an "Event of Default" (as defined in the applicable agreement) by Tenant, any Guarantor or any Affiliate of Tenant or any Guarantor shall occur and is continuing under any material lease, guaranty, loan or financing agreement with any other party that is not cured within any applicable cure period provided for therein;

12.1.7 Tenant, any Guarantor, or any Affiliate of Tenant or any Guarantor shall (a) admit in writing its inability to pay its debts generally as they become due; (b) file a petition in bankruptcy or a petition to take advantage of any insolvency act; (c) make an assignment for the benefit of its creditors; (d) consent to the appointment of a receiver of itself or of the whole or any substantial part of its property; or (e) file a petition or answer seeking reorganization or arrangement under the Federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof;

12.1.8 Any petition is filed by or against any Tenant, any Guarantor, or any Affiliate of any Tenant or any Guarantor under federal bankruptcy laws, or any other proceeding is instituted by or against any Tenant, any Guarantor or any Affiliate of any Tenant or any Guarantor seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for any Tenant, any Guarantor or any Affiliate of any Tenant or any Guarantor, or for any substantial part of the property of any Tenant, any Guarantor or any Affiliate of any Tenant or any Guarantor, and Tenants fails to notify Landlord of such proceeding within three (3) Business Days of the institution thereof and such proceeding is not dismissed within sixty (60) days after institution thereof;

12.1.9 Any Tenant, any Guarantor or any Affiliate of any Tenant or any Guarantor shall take any action to authorize or effect any of the actions set forth above in the preceding Section 12.1.8, or fails thereafter to vigorously oppose such actions;

12.1.10 The estate or interest of Tenant in the Premises or any part thereof shall be levied upon or attached in any proceeding and the same shall not be vacated or discharged within the later of ninety (90) days after commencement thereof or thirty (30) days after receipt by Tenant of notice thereof from Landlord (unless, in either case, Tenant is in the process of contesting such lien in a good faith manner in accordance to Article VII); provided, however, that such notice shall be in lieu of and not in addition to any notice required under applicable law;

12.1.11 Tenant, any Guarantor or any Affiliate of Tenant or any Guarantor shall be liquidated or dissolved, or begins proceedings towards liquidation or dissolution, or has filed against it a petition or other proceeding to cause it to be liquidated or dissolved and the proceeding is not dismissed within thirty (30) days thereafter, or, in any manner, permits the sale or divestiture of substantially all of its assets except in connection with a dissolution or liquidation following or related to a merger or transfer of substantially all of the assets and liabilities of Tenant with or to its parent corporation or with or to another direct or indirect wholly owned subsidiary of its parent corporation;

12.1.12 Tenant fails to (a) maintain or protect the Premises and Landlord's interest therein as required under this Lease, including without limitation the obligations to maintain, repair and restore the Premises under this Lease, and any such failure in this clause (a) is not cured by Tenant within thirty (30) days after notice thereof from Landlord, (b) maintain in force at any time during the Term or any extensions thereof the insurance coverages required under Article VIII and any such failure in this clause (b) is not cured by Tenant within five (5) Business Days after notice thereof from Landlord, or (c) fails to return the Premises to Landlord or its designee at the expiration or earlier termination of the Lease, as required by Article XIII, whether or not such failure is due to a casualty and any such failure in this clause (c) is not cured by Tenant within thirty (30) days after notice thereof from Landlord;

12.1.13 Any of the representations or warranties made by Tenant in this Lease or by Guarantor in the Guaranty proves to be untrue when made that would result in a material adverse effect of Tenant's ability to perform its obligations under this Lease;

12.1.14 Tenant fails to observe or perform any term, covenant or other obligation of Tenant set forth in Section 5.7 and such failure is not cured within ten (10) days after receipt of notice of such failure from Landlord;

12.1.15 Any local, state or federal agency having jurisdiction over the operation of any Facility removes ten percent (10%) or more of the residents or licensed beds located in such Facility other than during any period of repair or restoration following damage, destruction or a Partial Taking;

12.1.16 Tenant fails to perform or comply with the provisions of Section 5.4.3, Section 5.5, Section 5.11, Section 5.12 or Article XVI, and any such failure is not cured by Tenant within thirty (30) days after notice thereof from Landlord;

12.1.17 Tenant fails to observe or perform Tenant's obligations under Article XV where the default is not cured within the shorter of (i) thirty (30) days after notice thereof from Landlord or the Facility Mortgagee and (ii) the any applicable grace period set forth in the Facility Mortgage Documents;

12.1.18 Tenant fails to observe or perform any other term, covenant or condition of this Lease not previously enumerated in this Section 12.1 and such failure is not cured by Tenant within thirty (30) days after notice thereof from Landlord, unless such failure cannot with due diligence be cured within a period of thirty (30) days or failure to cure after such thirty (30) day period will not have a material adverse effect upon the Facility, in which case such failure shall not be deemed to be an Event of Default if Tenant proceeds promptly and with due diligence to cure the failure and diligently completes the curing thereof; provided, however, that such notice shall be in lieu of and not in addition to any notice required under applicable law.

12.2 Remedies. Upon the occurrence of an Event of Default, Landlord may exercise all rights and remedies under this Lease and the laws of the applicable Situs State that are available to a lessor of real and personal property in the event of a default by its lessee, and as to the Lease Collateral, all remedies granted under the laws of the applicable Situs State to a secured party under its Uniform Commercial Code. Landlord shall have no duty to mitigate damages unless required by applicable law and shall not be responsible or liable for any failure to relet any Facility or to collect any rent due upon any such reletting. Tenant shall pay Landlord, immediately upon demand, all expenses incurred by it in obtaining possession and reletting any Facility, including fees, commissions and costs of attorneys, architects, agents and brokers.

12.2.1 Without limiting the foregoing, Landlord shall have the right (but not the obligation) to do any of the following upon an Event of Default: (a) sue for the specific performance of any covenant of Tenant as to which it is in breach, including without limitation a Limited Remedy Event of Default (as defined below); (b) enter upon any Facility, terminate this Lease, dispossess Tenant from any Facility and/or collect money damages by reason of Tenant's breach, including the acceleration of all Rent which would have accrued after such termination and all obligations and liabilities of Tenant under this Lease which survive the termination of the Term; (c) elect to leave this Lease in place and sue for Rent and other money damages as the same come due; (d) (before or after repossession of a Facility pursuant to clause (b) above and whether or not this Lease has been terminated) relet such Facility to such tenant, for such term (which may be greater or less than the remaining balance of the Term), rent, conditions (which may include concessions or free rent) and uses as it may determine in its sole discretion and collect and receive any rents payable by reason of such reletting; and (e) sell any Lease Collateral in a non-judicial foreclosure sale.

12.2.2 Upon the occurrence of an Event of Default, and upon commencement of proceedings to enforce the rights of Landlord hereunder, Landlord shall be entitled, as a matter of right, to appoint a receiver to take possession of the Premises, pending the outcome of such proceedings, to manage the operation of the Premises, to collect and disburse all rents, issues, profits and income generated thereby and to the extent applicable and possible, to preserve or replace any Authorization or to otherwise substitute the licensee or provider thereof. If a receiver is appointed pursuant hereto, the receiver shall be paid a reasonable fee for its services and all such fees and other expenses incurred by Landlord in connection with the appointment of the receiver shall be paid in addition to, and not in limitation of, the Rent otherwise due to Landlord hereunder. Tenant irrevocably consents to the appointment of a receiver following an Event of Default and thus stipulates to and agrees not to contest the appointment of a receiver under such circumstances and for such purposes.

12.2.3 If Tenant at any time shall fail to make any payment or perform any act on its part required to be made or performed under this Lease, then Landlord may, without waiving or releasing Tenant from any obligations or default hereunder, make such payment or perform such act for the account and at the expense of Tenant, and enter upon the applicable Facility for the purpose of taking all such action as may be reasonably necessary. No such entry shall be deemed an eviction of Tenant. All sums so paid by Landlord and all necessary and incidental costs and expenses (including reasonable attorneys' fees and expenses) incurred in connection with the performance of any such act by it, together with interest at the Agreed Rate from the date of the making of such payment or the incurring of such costs and expenses, shall be payable by Tenant to Landlord upon Landlord's written demand therefor.

12.2.4 No right or remedy herein conferred upon or reserved to Landlord is intended to be exclusive of any other right or remedy, and each and every right and remedy shall be cumulative and in addition to any other right or remedy given hereunder or now or hereafter existing at law or in equity. Any notice or cure period provided herein shall run concurrently with any provided by applicable law.

12.2.5 If Landlord initiates judicial proceedings or if this Lease is terminated by Landlord pursuant to this Article XII, Tenant waives, to the extent permitted by applicable law, (a) any right of redemption, re-entry, or repossession; and (b) the benefit of any laws now or hereafter in force exempting property from liability for rent or for debt.

12.2.6 Notwithstanding anything in this Lease to the contrary, and without limiting any of the other rights or remedies conferred upon Landlord under this Lease or at law or in equity, upon the occurrence of a Facility Default, Landlord may, at its option and by notice to Tenant, terminate this Lease immediately as to any one or more of the Facilities (selected in Landlord's discretion and by notice to Tenant) to which such Facility Default relates (a termination of this Lease as to less than all of the Facilities as provided in this Section 12.2.6 is herein referred to as a "**Limited Termination Election**") (the Facility or Facilities as to which Landlord elects to terminate this Lease as provided in this Section 12.2.6 are herein referred to as "**Terminated Facilities**"). Upon delivery of a termination notice as provided in this 12.2.6, Tenant shall have no right to cure the Facility Default in question, all rights of Tenant under this Lease shall cease as to the Terminated Facilities so specified and the provisions of this Section 12.2.6 shall apply. Without limitation of the foregoing, if Landlord makes a Limited Termination Election, the deletion of the applicable Terminated Facilities from this Lease shall be absolutely without limitation of each Tenant's continuing obligation (on a joint and several basis) for the damages and other amounts owing on account of the Event of Default giving rise to the deletion from this Lease of such Terminated Facilities or the termination of this Lease as to such Terminated Facilities.

(a) If this Lease is terminated as to one or more Terminated Facilities pursuant to this Section 12.2.6, then without necessity of any further action of the parties, this Lease shall terminate as to the Terminated Facility or Terminated Facilities, and the Terminated Facility or Terminated Facilities shall be separated and removed herefrom, at such time (such date, the "**Facility Removal Date**") as Landlord delivers notice to Tenant exercising its termination rights pursuant to this Section 12.2.6 (such notice, a "**Termination Notice**"). As of the applicable Facility Removal Date, this Lease shall be automatically and ipso facto amended to:

(i) Delete and eliminate the Terminated Facility or Terminated Facilities herefrom;

(ii) Exclude the applicable Terminated Facility or Terminated Facilities from the definition of "Premises"; and

(iii) The current Rent shall be equitably reduced as of the Facility Removal Date based on the allocable share of Landlord's initial investment in the Premises to the Terminated Facility or Terminated Facilities.

(b) Promptly (and in any event within ten (10) days after delivery of Landlord's request therefor, Tenant shall execute and deliver to Landlord such instrument(s) as Landlord may from time to time request reflecting the elimination of any Terminated Facility or Terminated Facilities herefrom on the terms described above.

(c) Notwithstanding the foregoing, if Landlord elects to make a Limited Termination Election, Tenant and Landlord hereby agree that the Base Rent shall be reduced in accordance with the following: (i) if Landlord re-leases the Terminated Facilities at a rent amount that is equal to or greater than the pro rata share of the Base Rent for such Terminated Facilities, net of all of Landlord expenses incurred (the "**Net Replacement Rent Amount**"), then the Base Rent shall be reduced by the difference between the Base Rent allocable to such Terminated Facilities and the Net Replacement Rent Amount for such Terminated Facilities, or (ii) if Landlord sells such Terminated Facilities, then the Base Rent shall be reduced by an amount equal to the Rent Offset.

12.3 ASC 840 Savings Clause; Limited Remedy Events of Default.

Subject to Section 12.2.1(a), notwithstanding anything to the contrary herein contained or in any other transaction document executed concurrently herewith, or any other provision of this Lease or any other concurrent transaction document, as amended or replaced from time to time (collectively the "Operating Lease Accounting Rules"), if Landlord is exercising remedies due solely to the Events of Default described in Sections 12.1.2(a), 12.1.3, 12.1.4, 12.1.5, 12.1.6, 12.1.8, 12.1.10, 12.1.13, 12.1.15, 12.1.17 or 12.1.18, or upon the occurrence, for reasons other than the acts or omissions of Tenant, any Guarantor or any Affiliate of any Tenant or any Guarantor, of an Event of Default under Section 12.1.11 (each a **"Limited Remedy Event of Default"**), the aggregate amount Tenant shall be required to pay to Landlord from and after the date of the occurrence of such Limited Remedy Event of Default (the **"Occurrence Date"**) shall be limited to the sum of (i) (A) 89.95% of the Fair Market Value of the Premises as of the Commencement Date less (B) the sum of the present value of (1) the Base Rent and (2) Additional Rent paid to Landlord and not passed through to a third party, received by Landlord as of the Occurrence Date (determined using a discount rate of six percent (6%) per annum), (ii) any Impositions, Other Charges and other sums which are due and payable or have accrued under this Lease through the Occurrence Date after any Limited Remedy Event of Default that relates to insurance, utilities, repairs, maintenance, environmental maintenance, remediation and compliance and other customary costs and expenses of operating and maintaining the Premises in substantial compliance with the terms of this Lease, and (iii) any amounts of Impositions, Other Charges and other sums due to third parties which are due and payable or have accrued under this Lease after the Occurrence Date while the Tenant remains in possession of the Premises after any Limited Remedy Event of Default that relates to insurance, utilities, repairs, maintenance, environmental maintenance, remediation and compliance and other customary costs and expenses of operating and maintaining the Premises in substantial compliance with the terms of this Lease (collectively, the **"LRED Damages"**). Landlord and Tenant hereby agree that the damages available to Landlord as a result of a Limited Remedy Event of Default shall be strictly limited to the LRED Damages and that nothing contained herein or in any other transaction document executed concurrently herewith shall entitle Landlord to additional reimbursement or monetary damages with respect to any such Limited Remedy Event of Default.

ARTICLE XIII
OBLIGATIONS OF TENANT ON EXPIRATION OR TERMINATION OF LEASE

13.1 Surrender. On the Expiration Date or earlier termination or cancellation of this Lease (or the earlier dispossession of Tenant from any Facility), Tenant shall deliver to Landlord or Landlord's designee (a) possession of each Facility in a neat and clean condition, with each Facility being fully operational as of such date and in compliance with all Authorizations, and (b) all business records (other than corporate financial records or proprietary materials), data, resident records and resident trust accounts, which may be necessary, desirable or advisable for the operation of each Facility for its Primary Intended Use. Tenant shall have no obligation to perform any Alterations necessitated by, or imposed in connection with, a change of ownership inspection survey for the transfer of operation of such Facility to Landlord or Landlord's designee unless such Alterations were previously required hereunder or by the applicable licensing authorities to be undertaken by Tenant prior to the Expiration Date (or earlier termination date or cancellation of this Lease or earlier dispossession of Tenant from any Facility) and Tenant failed to do so.

13.2 Transition.

13.2.1 In connection with the expiration or earlier termination of this Lease with respect to any Facility, or the earlier dispossession of Tenant from any Facility, Landlord shall have the right to require an Operational Transfer with respect to such Facility by delivery to Tenant of a Transition Notice (as defined below). As used in this Lease, "**Operational Transfer**" shall mean the transfer and transition, practically and legally, of the day-to-day operations of a Facility for the Primary Intended Use of such Facility to Landlord and/or Landlord's designee without interruption of the business activities therein, regulatory or otherwise. Landlord may exercise its right to require an Operational Transfer by delivering written notice to Tenant of Landlord's election to require an Operational Transfer (a "**Transition Notice**") at any time.

13.2.2 In connection with an Operational Transfer, or at the time of Tenant's surrender of a Facility to Landlord or its designee, Tenant shall cooperate fully with Landlord or its designee in transferring (or obtaining) all Authorizations and Governmental Payors' certifications and shall take all necessary actions, including, without limitation, filing such applications, petitions and transfer notices and making such assignments, conveyances and transfers as are necessary, desirable or advisable to accomplish an Operational Transfer. In connection therewith, Tenant shall transfer, to the extent permitted by applicable law, to Landlord or Landlord's designee all contracts, including contracts with Governmental Authorities, which may be necessary, desirable or advisable for the operation of each Facility for its Primary Intended Use. Subject to all applicable Legal Requirements, Tenant hereby assigns, effective upon the Expiration Date or earlier termination or cancellation of this Lease (or the earlier dispossession of Tenant from any Facility), all rights to operate the Facility to Landlord or its designee, including all required Authorizations and all rights to apply for or otherwise obtain them. In furtherance of the foregoing, Tenant agrees to enter into a commercially reasonable operations transfer agreement with Landlord or Landlord's designee, which agreement shall provide, *inter alia*, for the proration of operational revenues and liabilities based on when Landlord or its designee actually takes possession of the applicable Facility or Facilities.

13.2.3 Tenant agrees to enter into interim sublease agreements or management agreements as may be necessary to effect a transfer of the operations of the Facility or Facilities for their Primary Intended Use prior to the time that Landlord or its designee, as applicable, holds all Authorizations from all applicable Governmental Authorities necessary to so operate such Facility or Facilities. Tenant shall remain as licensee and participating provider in any payment programs with Governmental Payors or third party payors in which a Facility participates until such time as Landlord or its designee has received all Authorizations necessary to operate any Facility. Notwithstanding the foregoing, as a condition to Tenant remaining as licensee and participating provider as set forth above, Landlord or its designee shall, except in connection with a termination of this Lease resulting from an Event of Default (or the earlier dispossession of Tenant from any Facility as a result of an Event of Default), indemnify, defend, protect and hold harmless Tenant from and against any loss, damage, cost or expense incurred by Tenant on account of any third party claim to the extent directly caused by the acts or omissions of Landlord or its designee and during the period while relying on Tenant's status as licensee or participating provider in any payment programs with Governmental Payors or third party payment programs in which a Facility participates.

13.2.4 Notwithstanding anything in this Lease which may be construed to the contrary, if (i) Landlord delivers a Transition Notice as to a particular Facility or Facilities, (ii) the Term expires prior to the delivery of a Transition Notice but Landlord has not delivered a Closure Notice, or (iii) this Lease is terminated as a result of an Event of Default and Landlord has not delivered a Closure Notice, then in all

such cases Tenant shall thereafter continue to operate the Facility or Facilities in accordance with all of the requirements of this Lease until the earliest to occur of the following: (a) the date on which a successor operator assumes operation of such Facility, (b) the date that is one hundred eighty (180) days after the Expiration Date, or (c) the date on which such Facility is closed by Tenant in accordance with and pursuant to the requirements of this Lease and in connection with a Closure Notice delivered by Landlord.

13.2.5 If Tenant operates one or more Facilities after the Expiration Date or earlier termination of this Lease (either pursuant to Landlord's request or pursuant to Section 13.2.4, then, from and after the expiration of this Lease and until the earliest to occur of the dates described in Section 13.2.4 (the "**Reimbursement Period**"), (a) Landlord shall provide Tenant with an operating budget, (b) Landlord shall include in the aforesaid operating budget, and Tenant shall continue to pay during the Reimbursement Period, all Rent that would have been owing under this Lease if this Lease had not expired (equitably prorated if Tenant operates less than all of the Facilities), and (c) Landlord shall reimburse Tenant for any operating deficits that Tenant may be required to fund out-of-pocket on account of operating losses and expenses incurred by Tenant by reason of, or arising out of compliance with, such budget with respect to the Reimbursement Period. Any such reimbursement shall be due from Landlord to Tenant within thirty (30) days after request by Tenant, provided that Tenant shall furnish such documentation of any operating deficits, losses and expenses as Landlord may reasonably request.

13.2.6 Notwithstanding anything to the contrary contained in this Lease, Tenant shall not, prior to delivery of a Closure Notice by Landlord to Tenant, commence to wind up and terminate the operations of any Facility or relocate the residents or occupants of any Facility to any other healthcare or senior living facility (a "**Facility Termination**"). Notwithstanding the foregoing, if Landlord has not delivered a Closure Notice or a Transition Notice to Tenant prior to the day that is one hundred twenty (120) days following the Expiration Date, then Tenant may commence the Facility Termination as to such Facility or Facilities and, upon the closure of such Facility or Facilities in accordance with this Lease and all applicable Legal Requirements, Tenant shall vacate such Facility or Facilities and surrender possession thereof to Landlord in accordance with all applicable requirements of this Lease. If, prior to the day that is one hundred twenty (120) days following the Expiration Date, Landlord delivers a Transition Notice to Tenant; Tenant shall not commence or otherwise engage in a Facility Termination with respect to the applicable Facility or Facilities. If Landlord delivers a Closure Notice and elects to institute a Facility Termination, Tenant shall, upon the prior written approval of Landlord, take all commercially reasonable steps necessary, in compliance with all Legal Requirements and Authorizations, to timely effectuate the same, all at Tenant's sole cost and expense.

13.2.7 The terms of this Section 13.2 shall survive the expiration or sooner termination of this Lease.

13.3 Tenant Personal Property. Provided that no Event of Default then exists, in connection with the surrender of the Premises, Tenant may upon at least five (5) Business Days prior notice to Landlord remove from the Premises in a workmanlike manner all Tenant Personal Property, leaving the Premises in good and presentable condition and appearance, including repairing any damage caused by such removal; provided that Landlord shall have the right and option to purchase for itself or its designee the Tenant Personal Property for its then fair market value during such five (5) Business Day notice period, in which case Tenant shall so convey the Tenant Personal Property to Landlord or its designee by executing a bill of sale in a form reasonably required by Landlord. If there is any Event of Default then existing, Tenant will not remove any Tenant Personal Property from the Premises and instead will, on demand from Landlord, convey it to Landlord or its designee for no additional consideration by executing a bill of sale in a form reasonably required by Landlord. Title to any Tenant Personal Property which is not removed by Tenant as permitted above upon the expiration of the Term shall, at Landlord's election, vest in Landlord or its designee; provided, however, that Landlord may remove and store or dispose at Tenant's expense any or all of such Tenant Personal Property which is not so removed by Tenant without obligation or accounting to Tenant.

13.4 Facility Trade Name. If this Lease is terminated by reason of an Event of Default or Landlord exercises its option to purchase or is otherwise entitled to retain the Tenant Personal Property pursuant to Section 13.3 above, Landlord or its designee shall be permitted to use the name under which each Facility has done business during the Term in connection with the continued operation of such Facility for its Primary Intended Use, but for no other use and not in connection with any other property or facility.

13.5 Holding Over. If Tenant shall for any reason remain in possession of any Facility after the Expiration Date, such possession shall be a month-to-month tenancy during which time Tenant shall pay as rental on the first (1st) Business Day of each month one and one-half (1½) times the total of the monthly Base Rent payable with respect to the last Lease Year, plus all Additional Rent accruing during the month and all other sums, if any, payable by Tenant pursuant to this Lease. Nothing contained herein shall constitute the consent, express or implied, of Landlord to the holding over of Tenant after the Expiration Date, nor shall anything contained herein be deemed to limit Landlord's remedies.

ARTICLE XIV
INDEMNIFICATION

In addition to the other indemnities contained in this Lease, and notwithstanding the existence of any insurance carried by or for the benefit of Landlord or Tenant, and without regard to the policy limits of any such insurance, Tenant shall protect, indemnify, save harmless and defend Landlord and the Landlord Indemnified Parties from and against all Losses imposed upon or incurred by or asserted against Landlord or any Landlord Indemnified Parties by reason of: (a) any accident, injury to or death of Persons or loss of or damage to property occurring on or about any Facility; (b) any use, misuse, non-use, condition, maintenance or repair of any Facility by Tenant; (c) any failure on the part of Tenant to perform or comply with any of the terms of this Lease or the breach of any representation or warranty made by Tenant herein; and (d) any claim for malpractice, negligence or misconduct committed by any Person on or working from any Facility. Any amounts which become payable by Tenant under this Article XIV shall be paid within ten (10) days after demand by Landlord, and if not timely paid, shall bear interest at the Agreed Rate from the date of such demand until paid. Tenant, at its expense, shall contest, resist and defend any such claim, action or proceeding asserted or instituted against Landlord or any Landlord Indemnified Parties with counsel acceptable to Landlord in its sole discretion and shall not, under any circumstances, compromise or otherwise dispose of any suit, action or proceeding without obtaining Landlord's written consent. Landlord, at its election and sole cost and expense, shall have the right, but not the obligation, to participate in the defense of any claim for which Landlord or any Landlord Indemnified Parties are indemnified hereunder. If Tenant does not act promptly and completely to satisfy its indemnification obligations hereunder, Landlord may resist and defend any such claims or causes of action against Landlord or any Landlord Indemnified Party at Tenant's sole cost. The terms of this Article XIV shall survive the expiration or sooner termination of this Lease. For purposes of this Article XIV, any acts or omissions of Tenant, or by employees, agents, assignees, contractors, subcontractors or others acting for or on behalf of Tenant (whether or not they are negligent, intentional, willful or unlawful), shall be strictly attributable to Tenant.

ARTICLE XV
LANDLORD'S FINANCING

15.1 Grant Lien. Without the consent of Tenant, Landlord may from time to time, directly or indirectly, create or otherwise cause to exist any Facility Mortgage upon any Facility or interest therein. This Lease is and at all times shall be subject and subordinate to any such Facility Mortgage which may now or hereafter affect any Facility or interest therein and to all renewals, modifications, consolidations,

replacements, restatements and extensions thereof or any parts or portions thereof; provided, however, so long as no Event of Default has occurred, no Facility Mortgagee shall have the right to disturb Tenant's leasehold interest or possession of any Facility or interfere with any other rights of Tenant accorded by the terms of this Lease. This provision shall be self-operative and no further instrument of subordination shall be required to give it full force and effect; provided, however, that in confirmation of such subordination, Tenant shall execute promptly any certificate or document that Landlord or any Facility Mortgagee may request for such purposes so long as the same contains commercially reasonable non-disturbance and attornment provisions.

15.2 Attornment. If Landlord's interest in any Facility or interest therein is sold, conveyed or terminated upon the exercise of any remedy provided for in any Facility Mortgage Documents (or in lieu of such exercise), or otherwise by operation of law: (a) at the request and option of the new owner or superior lessor, as the case may be, Tenant shall attorn to and recognize the new owner or superior lessor as Tenant's "landlord" under this Lease or enter into a new lease substantially in the form of this Lease with the new owner or superior lessor, and Tenant shall take such actions to confirm the foregoing within ten (10) days after request; and (b) the new owner or superior lessor shall not be (i) liable for any act or omission of Landlord under this Lease occurring prior to such sale, conveyance or termination; (ii) subject to any offset, abatement or reduction of rent because of any default of Landlord under this Lease occurring prior to such sale, conveyance or termination; (iii) bound by any previous modification or amendment to this Lease or any previous prepayment of more than one month's rent, unless such modification, amendment or prepayment shall have been approved in writing by such Facility Mortgagee or, in the case of such prepayment, such prepayment of rent has actually been delivered to such new owner or superior lessor; or (iv) liable for any security deposit or other collateral deposited or delivered to Landlord pursuant to this Lease unless such security deposit or other collateral has actually been delivered to such new owner or superior lessor.

15.3 Cooperation; Modifications. Notwithstanding anything in this Lease to the contrary, Tenant hereby agrees that in connection with obtaining any Facility Mortgage for any Facility or interest therein, including, without limitation, where the Facility Mortgagee is an Agency Lender, Tenant shall: (i) execute and deliver to such Agency Lender or other Facility Mortgagee (on the form required by such Agency Lender or other Facility Mortgagee) any tenant regulatory agreements (including, without limitation, the form of regulatory agreement typically required by Agency Lenders), subordination agreements (including, without limitation, the form of subordination, assignment and security agreement typically required by Agency Lenders), or other similar agreements customarily required by Agency Lenders and other Facility Mortgagees in connection with a mortgage relating to a senior living facility, and (ii) modify this Lease as necessary to incorporate the provisions and requirements generally imposed by an Agency Lender or other Facility Mortgagee in connection with a facility lease relating to a senior living facility encumbered with a Facility Mortgage by an Agency Lender or other Facility Mortgagee, provided however this section shall not be deemed to **(A)** impose on Tenant obligations which **(i)** increase Tenant's monetary obligations under this Lease, **(ii)** materially and adversely increase Tenant's non-monetary obligations under this Lease or **(B)** diminish Tenant's rights under this Lease; provided further that any regulatory agreement or intercreditor agreement related to Tenant's accounts receivables required by any Agency Lender or other Facility Mortgagee shall be deemed not to impose any material monetary or non-monetary obligations on Tenant, and Tenant shall make commercially reasonable efforts to cause its lenders to agree to any customary and commercially reasonable intercreditor agreement. For purposes of the foregoing, any proposed implementation of new occupancy or financial covenants or requirements with respect to payor mix shall be deemed to materially diminish Tenant's rights under this Lease. Tenant hereby acknowledges and agrees, however, that an obligation under the applicable Facility Mortgage Documents to post impounds for property taxes with respect to any period not more than one (1) month in advance (whether now existing or later created) shall not be deemed or construed to increase Tenant's monetary obligations under this Lease. If any new Facility Mortgage Documents to be executed by

Landlord or any Affiliate of Landlord would impose on Tenant any obligations under this Section, Landlord shall provide copies of the same to Tenant for informational purposes (but not for Tenant's approval) prior to the execution and delivery thereof by Landlord or any Affiliate of Landlord. In the event any Agency Lender or other Facility Mortgagee requires, as a condition to making a Facility Mortgage, an intercreditor agreement with any receivables lender of Tenant, Tenant shall enter into any such intercreditor agreement and shall take all commercially reasonable efforts to cause said receivables lender to enter into such intercreditor agreement with said Agency Lender or other Facility Mortgagee on terms acceptable to Tenant, Tenant's receivables lender, said Agency Lender or other Facility Mortgagee.

15.4 Compliance with Facility Mortgage Documents. Tenant acknowledges that any Facility Mortgage Documents executed by Landlord or any Affiliate of Landlord may impose certain obligations on the "borrower" or other counterparty thereunder to comply with or cause the operator and/or lessee of any Facility to comply with all representations, covenants and warranties contained therein relating to such Facility and the operator and/or lessee of such Facility, including, covenants relating to (a) the maintenance and repair of such Facility; (b) maintenance and submission of financial records and accounts of the operation of such Facility and related financial and other information regarding the operator and/or lessee of such Facility and such Facility itself; (c) the procurement of insurance policies with respect to such Facility; (d) periodic inspection and access rights in favor of the Facility Mortgagee; and (e) without limiting the foregoing, compliance with all applicable Legal Requirements relating to such Facility and the operations thereof. For so long as any Facility Mortgages encumber any Facility or interest therein, Tenant covenants and agrees, at its sole cost and expense and for the express benefit of Landlord, to operate such Facility in strict compliance with the terms and conditions of the Facility Mortgage Documents (other than payment of any indebtedness evidenced or secured thereby) and to timely perform all of the obligations of Landlord relating thereto, or to the extent that any of such duties and obligations may not properly be performed by Tenant, Tenant shall cooperate with and assist Landlord in the performance thereof (other than payment of any indebtedness evidenced or secured thereby); provided however this section shall not be deemed to **(A)** impose on Tenant obligations which **(i)** increase Tenant's monetary obligations under this Lease, **(ii)** materially and adversely increase Tenant's non-monetary obligations under this Lease or **(B)** diminish Tenant's rights under this Lease. If any new Facility Mortgage Documents to be executed by Landlord or any Affiliate of Landlord would impose on Tenant any obligations under this Section 15.4, Landlord shall provide copies of the same to Tenant for informational purposes (but not for Tenant's approval) prior to the execution and delivery thereof by Landlord or any Affiliate of Landlord.

15.5 Limitations. Without limiting or expanding Tenant's obligations pursuant to Sections 15.3 and 15.4, during the Term of this Lease, Tenant acknowledges and agrees that, except as expressly provided elsewhere in this Lease, it shall undertake at its own cost and expense the performance of any and all repairs, replacements, capital improvements, maintenance items and all other requirements relating to the condition of a Facility that are required by any Facility Mortgage Documents or by Facility Mortgagee; provided, however, this Section 15.5 shall not (i) increase Tenant's monetary obligations under this Lease, (ii) materially and adversely increase Tenant's non-monetary obligations under this Lease, or (iii) diminish Tenant's rights under this Lease, except to the extent that, with respect to any Facility, such obligations were provided for in a Facility Mortgage, or otherwise required by the Facility Mortgagee, secured by such Facility on the Commencement Date; and provided, further, that any amounts which Tenant is required to fund into a Facility Mortgage Reserve Account with respect to satisfying any repair or replacement reserve requirements imposed by a Facility Mortgagee shall be credited on a dollar-for-dollar basis against the mandatory expenditure obligations of Tenant for such applicable Facility(ies) under Section 6.6. During the Term of this Lease and provided that no Event of Default shall have occurred and be continuing hereunder, Tenant shall, subject to the terms and conditions of such Facility Mortgage Reserve Account and the requirements of the Facility Mortgagee(s) thereunder, have access to and the right to apply or use (including for reimbursement), to the same extent as Landlord, all monies held in each such Facility

Mortgage Reserve Account for the purposes and subject to the limitations for which such Facility Mortgage Reserve Account is maintained, and Landlord agrees to reasonably cooperate with Tenant in connection therewith. Landlord hereby acknowledges that funds deposited by Tenant in any Facility Mortgage Reserve Account are the property of Tenant and Landlord is obligated to return the portion of such funds not previously released to Tenant within fifteen (15) days following the earlier of (x) the expiration or earlier termination of this Lease with respect to such applicable Facility, (y) the maturity or earlier prepayment of the applicable Facility Mortgage, or (z) an involuntary prepayment or deemed prepayment arising out of the acceleration of the amounts due to a Facility Mortgagee as a result of the exercise of its remedies under the applicable Facility Mortgage; provided, however, that the foregoing shall not be deemed or construed to limit or prohibit Landlord's right to bring any damage claim against Tenant for any breach of its obligations under this Lease that may have resulted in the loss of any impound funds held by a Facility Mortgagee.

ARTICLE XVI
ASSIGNMENT AND SUBLETTING

16.1 Prohibition. Without the prior written consent of Landlord, which may be withheld or conditioned in its sole and absolute discretion, Tenant shall not suffer or permit any Transfer (including, without limitation, a Transfer of this Lease or any interest herein) other than a Transfer that is expressly permitted pursuant to the terms of this Lease. Any such purported Transfer without Landlord's prior written consent (each an "**Unapproved Transfer**") shall be void and shall, at Landlord's sole option, constitute an Event of Default giving rise to Landlord's right, among other things, to terminate this Lease. If Landlord elects to waive its right to terminate this Lease as a result of any such Unapproved Transfer, this Lease shall continue in full force and effect; provided, however, that as of the date of such Unapproved Transfer, the Base Rent shall be increased by five percent (5%).

16.2 Landlord Consent. If Landlord consents to a Transfer, such Transfer shall not be effective and valid unless and until the applicable transferee executes and delivers to Landlord any and all documentation reasonably required by Landlord. Any consent by Landlord to a particular Transfer shall not constitute consent or approval of any subsequent Transfer, and Landlord's written consent shall be required in all such instances. No consent by Landlord to any Transfer shall be deemed to release Tenant from its obligations hereunder and Tenant shall remain fully liable for payment and performance of all obligations under this Lease. Without limiting the generality of the foregoing, in connection with any sublease arrangement that has been approved by Landlord, as a condition precedent to any such approval, any such sublease agreement shall include provisions required by Landlord pertaining to protecting its status as a real estate investment trust.

16.3 Transfers to Affiliates. Notwithstanding Section 16.1 to the contrary, but subject to the rights of any Facility Mortgagee, Tenant may, without Landlord's prior written consent, assign this Lease or sublease any Facility to an Affiliate of Tenant or Guarantor if all of the following are first satisfied: (a) such Affiliate fully assumes Tenant's obligations hereunder; (b) Tenant remains fully liable hereunder and Guarantor remains fully liable under the Guaranty; (c) the use of such Facility remains unchanged; (d) Landlord in its reasonable discretion shall have approved the form and content of all documents for such assignment or sublease and received an executed counterpart thereof; (e) Tenant delivers evidence to Landlord that such assignment or subletting is permissible under all applicable Authorizations or that all necessary consents have been obtained to consummate such assignment or subletting; and (f) Tenant and/or such Affiliate executes and delivers such other documents as may be reasonably required by Landlord to effectuate the assignment and continue the security interests and other rights of Landlord pursuant to this Lease or any other documents executed in connection herewith.

16.4 Permitted Occupancy Agreements. Notwithstanding Section 16.1 to the contrary, Tenant may enter into an occupancy agreement with residents of each Facility without the prior written consent of Landlord provided that (a) the agreement does not provide for life care services; and (b) all residents of each Facility are accurately shown in accounting records for such Facility. Without the prior written consent of Landlord, Tenant shall not materially change the form of resident occupancy agreement that was submitted to Landlord prior to the Commencement Date; provided, however, no consent will be required for changes required by applicable law, including applicable licensure laws, but all changes to the form of resident occupancy agreement will be provided to Landlord as and when such changes are made.

16.5 Costs. Tenant shall reimburse Landlord for Landlord's reasonable costs and expenses incurred in conjunction with the processing and documentation of any assignment, master subletting or management arrangement, including reasonable attorneys' or other consultants' fees whether or not such assignment, master sublease or management agreement is ultimately consummated or executed.

ARTICLE XVII
CERTAIN RIGHTS OF LANDLORD

17.1 Right of Entry. Landlord and its representatives may enter on any Facility at any reasonable time after reasonable notice to Tenant to inspect such Facility for compliance to this Lease, to exhibit such Facility for sale, lease or mortgaging, or for any other reason; provided, however, that no such notice shall be required in the event of an emergency, upon an Event of Default or to post notices of non-responsibility under any mechanic's or materialman's lien law. No such entry shall unreasonably interfere with residents, resident care or the operations of such Facility.

17.2 Conveyance by Landlord. If Landlord or any successor owner of any Facility shall convey such Facility other than as security for a debt, Landlord or such successor owner, as the case may be, shall thereupon be released from all future liabilities and obligations of the Landlord under this Lease arising or accruing from and after the date of such conveyance or other transfer and, subject to Section 15.2, all such future liabilities and obligations shall thereupon be binding upon the new owner.

17.3 Granting of Easements, etc. Landlord may, from time to time, with respect to each Facility: (a) grant easements, covenants and restrictions, and other rights in the nature of easements, covenants and restrictions, (b) release existing easements, covenants and restrictions, or other rights in the nature of easements, covenants or restrictions, that are for the benefit of such Facility, (c) dedicate or transfer unimproved portions of such Facility for road, highway or other public purposes, (d) execute petitions to have such Facility annexed to any municipal corporation or utility district, (e) execute amendments to any easements, covenants and restrictions affecting such Facility and (f) execute and deliver to any Person any instrument appropriate to confirm or effect such grants, releases, dedications and transfers (to the extent of its interests in such Facility) without the necessity of obtaining Tenant's consent provided that such easement or other instrument or action contemplated by this Section 17.3 does not unreasonably interfere with Tenant's operations at such Facility.

ARTICLE XVIII
ENVIRONMENTAL MATTERS

18.1 Hazardous Materials. Tenant shall not allow any Hazardous Materials to be located in, on, under or about any Facility or incorporated in any Facility; provided, however, that Hazardous Materials may be brought, kept, used or disposed of in, on or about a Facility in quantities and for purposes similar to those brought, kept, used or disposed of in, on or about similar facilities used for purposes similar to such Facility's Primary Intended Use and which are brought, kept, used and disposed of in strict compliance with all Hazardous Materials Laws.

18.2 Notices. Tenant shall immediately advise Landlord in writing of (a) any Environmental Activities in violation of any Hazardous Materials Laws; (b) any Hazardous Materials Claims against Tenant or any Facility; (c) any remedial action taken by Tenant in response to any Hazardous Materials Claims or any Hazardous Materials on, under or about any Facility in violation of any Hazardous Materials Laws; (d) Tenant's discovery of any occurrence or condition on or in the vicinity of any Facility that materially increase the risk that such Facility will be exposed to Hazardous Materials; and (e) all communications to or from Tenant, any governmental authority or any other Person relating to Hazardous Materials Laws or Hazardous Materials Claims with respect to any Facility, including copies thereof.

18.3 Remediation. If Tenant becomes aware of a violation of any Hazardous Materials Laws relating to any Hazardous Materials in, on, under or about any Facility or any adjacent property, or if Tenant, Landlord or any Facility becomes subject to any order of any federal, state or local agency to repair, close, detoxify, decontaminate or otherwise remediate any Facility or any property adjacent thereto, Tenant shall immediately notify Landlord of such event and, at its sole cost and expense, cure such violation or effect such repair, closure, detoxification, decontamination or other remediation in accordance with all applicable Legal Requirements and subject to Landlord's prior approval as to scope, process, content and standard for completion. If Tenant fails to implement and diligently pursue any such cure, repair, closure, detoxification, decontamination or other remediation, Landlord shall have the right, but not the obligation, to carry out such action and to recover from Tenant all of Landlord's costs and expenses incurred in connection therewith.

18.4 Indemnity. Tenant shall indemnify, defend, protect, save, hold harmless and reimburse Landlord for, from and against any and all Losses and Environmental Costs (whether or not arising out of third-party claims and regardless of whether liability without fault is imposed, or sought to be imposed, on Landlord) incurred in connection with, arising out of, resulting from or incident to, directly or indirectly, before or during (but not after) the Term, (a) Environmental Activities, including the effects of such Environmental Activities on any Person or property within or outside the boundaries of the Land of any Facility, (b) the presence of any Hazardous Materials in, on, under or about any Facility and (c) the violation of any Hazardous Material Laws.

18.5 Environmental Inspections. Landlord shall have the right, from time to time, during normal business hours and upon not less than five (5) days written notice to Tenant, except in the case of an emergency in which event no notice shall be required, to conduct an inspection of any Facility to determine Tenant's compliance with this Article XVIII. Such inspection may include such testing, sampling and analyses as Landlord deems reasonably necessary and may be performed by experts retained by Landlord. All costs and expenses incurred by Landlord under this 18.5 shall be paid on demand by Tenant; provided, however, absent reasonable grounds to suspect Tenant's breach of its obligations under this Article XVIII, Tenant shall not be required to pay for more than one (1) such inspection in any two (2) year period with respect to each Facility. The obligations set forth in this Article XVIII shall survive the expiration or earlier termination of this Lease.

ARTICLE XIX
LANDLORD'S SECURITY INTEREST

19.1 Grant of Security Interest. For the purpose of securing the payment and performance obligations of Tenant hereunder and in accordance with the terms of the Intercreditor Agreement, Tenant, as debtor, hereby grants to Landlord, as secured party, a security interest in and an express contractual lien upon, all of Tenant's right, title and interest in and to the Property Collateral, Accounts Collateral and Authorization Collateral (collectively, the "**Lease Collateral**"). This Lease constitutes a security agreement covering all such Lease Collateral. Lessor agrees to subordinate its security interest in the Lease Collateral to the administrative agent acting on behalf of Tenant's lenders, pursuant to the Intercreditor

Agreement. This security interest and agreement shall survive the termination of this Lease resulting from an Event of Default. Tenant shall pay all of Landlord's filing and reasonable record search fees and other costs for such additional security agreements, financing statements, fixture filings and other documents as Landlord may reasonably require to perfect or continue the perfection of its security interest. Additionally, Tenant shall promptly execute such other separate security agreements with respect to the Lease Collateral as Landlord may request from time to time to further evidence the security interest in the Lease Collateral created by this Lease. Upon the occurrence of an Event of Default, Landlord shall be entitled to exercise any and all rights or remedies available to a secured party under the Uniform Commercial Code, or available to a lessor under applicable state laws, with respect to the Lease Collateral, including the right to sell the same at public or private sale.

19.2 Certain Changes. In no way waiving or modifying the provisions of Article XVI above, Tenant shall give Landlord at least thirty (30) days' prior written notice of any change in Tenant's principal place of business, name, identity, jurisdiction of organization or corporate structure.

ARTICLE XX
QUIET ENJOYMENT

So long as Tenant shall pay the Rent as the same becomes due and shall fully comply with all of the terms of this Lease and fully perform its obligations hereunder, Tenant shall peaceably and quietly have, hold and enjoy each Facility for the Term, free of any claim or other action by Landlord or anyone claiming by, through or under Landlord, but subject to all liens and encumbrances of record as of the Commencement Date or thereafter provided for in this Lease or consented to by Tenant.

ARTICLE XXI
REIT RESTRICTIONS

21.1 General REIT Provisions. Tenant understands that, in order for Landlord's Affiliate, Landlord Parent, or any successor Affiliate that is a real estate investment trust to qualify as a real estate investment trust, certain requirements must be satisfied, including the provisions of Section 856 of the Code. Accordingly, Tenant agrees, and agrees to cause its Affiliates, permitted subtenants, if any, and any other parties subject to its control by ownership or contract, to reasonably cooperate with Landlord to ensure that such requirements are satisfied, including providing Landlord or any of its Affiliates with information about the ownership of Tenant and its Affiliates. Tenant agrees, and agrees to cause its Affiliates, upon request by Landlord or any of its Affiliates, to take all action reasonably necessary to ensure compliance with such requirements.

21.2 Characterization of Rents. The parties hereto intend that Rent and other amounts paid by Tenant hereunder will qualify as "rents from real property" within the meaning of Section 856(d) of the Code, or any similar or successor provision thereto and this Agreement shall be interpreted consistent with this intent.

21.3 Prohibited Transactions. Notwithstanding anything to the contrary herein, Tenant shall not (a) sublet, assign or enter into a management arrangement for any Facility on any basis such that the rental or other amounts to be paid by the subtenant, assignee or manager thereunder would be based, in whole or in part, on either (x) the income or profits derived by the business activities of the subtenant, assignee or manager or (y) any other formula such that any portion of any amount received by Landlord would fail to qualify as "rents from real property" within the meaning of Section 856(d) of the Code, or any similar or successor provision thereto; (b) furnish or render any services to the subtenant, assignee or manager or manage or operate any Facility so subleased, assigned or managed; (c) sublet, assign or enter into a management arrangement for any Facility to any Person (other than a taxable REIT subsidiary of

Landlord) in which Tenant or Landlord owns an interest, directly or indirectly (by applying constructive ownership rules set forth in Section 856(d)(5) of the Code); or (d) sublet, assign or enter into a management arrangement for any Facility in any other manner which could cause any portion of the amounts received by Landlord pursuant to this Lease or any sublease to fail to qualify as "rents from real property" within the meaning of Section 856(d) of the Code, or any similar or successor provision thereto, or which could cause any other income of Landlord to fail to qualify as income described in Section 856(c)(2) of the Code. The requirements of this Section 21.3 shall likewise apply to any further subleasing by any subtenant.

21.4 Personal Property REIT Requirements. Notwithstanding anything to the contrary herein, upon request of Landlord, Tenant shall cooperate with Landlord in good faith and provide such documentation and/or information as may be in Tenant's possession or under Tenant's control and otherwise readily available to Tenant regarding the valuation of the Premises to assist Landlord in its determination that Rent allocable for purposes of Section 856 of the Code to the Landlord Personal Property at the beginning and end of a calendar year does not exceed 15% of the total Rent due hereunder (the "**Personal Property REIT Requirement**"). Tenant shall take such reasonable action as may be requested by Landlord from time to time to ensure compliance with the Personal Property REIT Requirement as long as such compliance does not (a) increase Tenant's monetary obligations under this Lease, (b) materially and adversely increase Tenant's non-monetary obligations under this Lease or (c) materially diminish Tenant's rights under this Lease. Accordingly, if requested by Landlord and at Landlord's expense, Tenant shall cooperate with Landlord as may be necessary from time to time to more specifically identify and/or value the Landlord Personal Property in connection with the compliance with the Personal Property REIT Requirement.

ARTICLE XXII
NOTICES

All notices and demands, certificates, requests, consents, approvals and other similar instruments under this Lease shall be in writing and sent by personal delivery, U. S. certified or registered mail (return receipt requested, postage prepaid) or FedEx or similar generally recognized overnight carrier regularly providing proof of delivery, addressed as follows:

If to Tenant:

c/o Pennant Services, Inc.
1675 Riverside Dr., Suite 150
Eagle, Idaho 83616
Attention: General Counsel
Email: legal@pennantservices.com

If to Landlord:

c/o Ensign Services, Inc.
29222 Rancho Viejo Rd., Suite 127
San Juan Capistrano, CA 92675
Attn: General Counsel
Email: legal@ensignservices.net

A party may designate a different address by notice as provided above. Any notice or other instrument so delivered (whether accepted or refused) shall be deemed to have been given and received on the date of delivery established by U.S. Post Office return receipt or the carrier's proof of delivery or, if not so delivered, upon its receipt. Delivery to any officer, general partner or principal of a party shall be deemed delivery to such party. Notice to any one co-Tenant shall be deemed notice to all co-Tenants.

ARTICLE XXIII
DISPUTE RESOLUTION

The provisions of Article X of that certain Master Separation Agreement, dated as of the date hereof (the "**Separation Agreement**"), entered into by and between Landlord Parent and Guarantor, shall apply, mutatis mutandis, to all disputes, controversies or claims (whether arising in contract, tort or otherwise) that may arise out of or relate to, or arise under or in connection with this Lease or the transactions contemplated hereby.

ARTICLE XXIV
RESERVED

ARTICLE XXV
TENANT RIGHT OF FIRST OFFER

25.1 Right of First Offer. Except as otherwise specifically provided herein, in the event Landlord determines that it desires to sell any or all of the Premises at any time during the Term, Landlord shall first, in writing, offer to enter into negotiations for such sale with the applicable Tenant or any Affiliate of such Tenant (a "**Seller's Notice**"). If the applicable Tenant or an Affiliate thereof ("**Buyer**") shall within five (5) Business Days from receipt of a Seller's Notice give Landlord notice that it wishes to enter into good faith negotiations for the purchase of the applicable Premises (a "**Notice of Interest**") within the above-described five (5) Business Day period, Landlord and Buyer shall enter into good faith negotiations for a period of ten (10) days from Landlord's receipt of the Notice of Interest (the "**Sale Negotiation Period**") for the sale and purchase of the applicable Facility or Facilities. If during the Sale Negotiation Period a written agreement with respect to the purchase and sale of the applicable Facility or Facilities (a "**Purchase Agreement**") is executed by Landlord and Buyer, Landlord shall sell and Buyer shall purchase the applicable Facility or Facilities on the terms and conditions set forth in the Purchase Agreement.

25.2 Landlord's Right to Market. If (i) a Notice of Interest is not given as set forth above, and Landlord in its sole discretion continues to desire to sell the applicable Facility or Facilities then, for a period of one (1) year after the expiration of the time within which a Notice of Interest was required to be given, or (ii) a Notice of Interest is given but Landlord and Buyer do not execute a Purchase Agreement during the Sale Negotiation Period, and Landlord in its sole discretion continues to desire to sell the applicable Facility or Facilities, then for a period of one (1) year from the expiration of the Sale Negotiation Period, Landlord shall be free to sell applicable Facility or Facilities to any third party free from any claim of any right to purchase the applicable Facility or Facilities by Buyer, Guarantor or any Affiliate of Buyer or Guarantor (including, without limitation, any subsequent rights under this Article XXV with respect to the applicable Facility or Facilities, which shall be of no further force or effect). If the applicable Facility or Facilities are not sold within such one (1) year period, before entering into negotiations with any third party for the sale of the applicable Facility or Facilities Landlord shall first offer to enter into negotiations for the sale thereof to Buyer pursuant to the process described above.

25.3 Limitations on Right of First Offer. The foregoing right of first offer (i) is not assignable by Tenant except to an Affiliate of Tenant, (ii) shall simultaneously and automatically terminate upon termination of this Lease, (iii) shall not under any circumstances be extended, modified or in any way altered except by a writing executed by Landlord and Tenant and (iv) shall not apply in the event of (A) a merger transaction or sale by Landlord Parent involving all or substantially all of the assets of it and its subsidiaries, (B) collateral security transfers in connection with any debt or equity financing, or transfers pursuant to a foreclosure or a deed in lieu thereof, (C) a sale or transfer to an Affiliate of Landlord Parent or a joint venture entity in which Landlord Parent or its Affiliate is the managing member or partner, or (D) an Excluded Portfolio Sale (as hereinafter defined) by Landlord Parent and/or its Affiliates. For purposes hereof, an "**Excluded Portfolio Sale"** shall mean a sale by Landlord Parent and/or its Affiliates in a single transaction or series of related transactions of more than ten facilities where less than fifty percent (50%) of the facilities included therein are leased to Tenant under the terms of this Lease. Tenant's right hereunder to receive a Seller Notice and to otherwise acquire any or all of the Premises pursuant to this Article XXV shall be conditioned on no Event of Default having occurred and then be continuing, and each Purchase Agreement shall include as a closing condition in favor of Landlord that no uncured Event of Default exists as of the closing date thereunder.

25.4 Continuing Right. Except as otherwise specifically set forth in Section 25.2, any sale by Landlord of all or any portion of the Premises to a party other than Buyer, Guarantor or any Affiliate of Buyer or Guarantor pursuant to this Article XXV shall be subject in each instance to all of the rights of Tenant under this Lease, including the rights granted to Tenant under this Article XXV.

ARTICLE XXIV
MISCELLANEOUS

24.1 Memorandum of Lease. Landlord and Tenant shall, promptly upon the request of either, enter into a short form memorandum of this Lease, in form suitable for recording under the laws of the applicable Situs State. Tenant shall pay all costs and expenses of recording any such memorandum and shall fully cooperate with Landlord in removing from record any such memorandum upon the expiration or earlier termination of the Term.

24.2 No Merger. There shall be no merger of this Lease or of the leasehold estate created hereby by reason of the fact that the same Person may acquire, own or hold, directly or indirectly, (a) this Lease or the leasehold estate created hereby or any interest in this Lease or such leasehold estate and (b) the fee estate in the Premises.

24.3 No Waiver. No failure by Landlord to insist upon the strict performance of any term hereof or to exercise any right, power or remedy hereunder and no acceptance of full or partial payment of Rent during the continuance of any Event of Default shall constitute a waiver of any such breach or of any such term. No waiver of any breach shall affect or alter this Lease, which shall continue in full force and effect with respect to any other then existing or subsequent breach.

24.4 Acceptance of Surrender. No surrender to Landlord of this Lease or any Facility, or of any interest therein, shall be valid or effective unless agreed to and accepted in writing by Landlord, and no act by Landlord or any representative or agent of Landlord, other than such a written acceptance by Landlord, shall constitute an acceptance of any such surrender.

24.5 Attorneys' Fees. If Landlord or Tenant brings an action or other proceeding against the other to enforce any of the terms, covenants or conditions hereof or any instrument executed pursuant to this Lease, or by reason of any breach or default hereunder or thereunder, the party prevailing in any such action or proceeding and any appeal thereupon shall be paid all of its costs and reasonable outside attorneys' fees incurred therein.

24.6 Brokers. Landlord and Tenant each warrants to the other that it has not had any contact or dealings with any Person which would give rise to the payment of any fee or brokerage commission in connection with this Lease, and each shall indemnify, protect, hold harmless and defend the other from and against any liability for any fee or brokerage commission arising out of any act or omission of such indemnifying party.

24.7 Severability. If any term or provision of this Lease or any application thereof shall be held invalid or unenforceable, the remainder of this Lease and any other application of such term or provision shall not be affected thereby.

24.8 Non-Recourse. Tenant specifically agrees to look solely to the Premises for recovery of any judgment from Landlord; provided, however, the foregoing is not intended to, and shall not, limit any right that Tenant might otherwise have to obtain injunctive relief against Landlord, or any action not involving the personal liability of Landlord. Furthermore, in no event shall Landlord be liable to Tenant for any indirect or consequential damages suffered by Tenant from whatever cause.

24.9 Successors and Assigns. This Lease shall be binding upon Landlord and its successors and assigns and, subject to the provisions of Article XVI, upon Tenant and its successors and assigns.

24.10 Governing Law; Jury Waiver. This Lease shall be governed by and construed and enforced in accordance with the internal laws of New York, without regard to the conflict of laws rules thereof; provided that that the law of the applicable Situs State shall govern procedures for enforcing, in the respective Situs State, provisional and other remedies directly related to such Facility and related personal property as may be required pursuant to the law of such Situs State, including without limitation the appointment of a receiver; and, further provided that the law of the Situs State also applies to the extent, but only to the extent, necessary to create, perfect and foreclose the security interests and liens created under this Lease. EACH PARTY HEREBY WAIVES ANY RIGHTS TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER PARTY AGAINST THE OTHER IN CONNECTION WITH ANY MATTER WHATSOEVER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS LEASE, INCLUDING RELATIONSHIP OF THE PARTIES, TENANT'S USE AND OCCUPANCY OF THE PREMISES, OR ANY CLAIM OF INJURY OR DAMAGE RELATING TO THE FOREGOING OR THE ENFORCEMENT OF ANY REMEDY.

24.11 Entire Agreement. This Lease constitutes the entire agreement of the parties with respect to the subject matter hereof, and may not be changed or modified except by an agreement in writing signed by the parties. Landlord and Tenant hereby agree that all prior or contemporaneous oral understandings, agreements or negotiations relative to the leasing of the Premises are merged into and revoked by this Lease. All exhibits and schedules to this Lease are hereby incorporated herein by this reference. This Lease is an Ancillary Agreement under the Separation Agreement and shall be interpreted in accordance therewith.

24.12 Headings. All titles and headings to sections, articles or other subdivisions of this Lease are for convenience of reference only and shall not in any way affect the meaning or construction of any provision.

24.13 Counterparts. This Lease may be executed in any number of counterparts, each of which shall be a valid and binding original, but all of which together shall constitute one and the same instrument. Executed copies hereof may be delivered by telecopier, email or other electronic means and upon receipt will be deemed originals and binding upon the parties hereto, regardless of whether originals are delivered thereafter.

24.14 Joint and Several. If more than one Person is the Tenant under this Lease, the liability of such Persons under this Lease shall be joint and several.

24.15 Interpretation. Both Landlord and Tenant have been represented by counsel and this Lease and every provision hereof has been freely and fairly negotiated. Consequently, all provisions of this Lease shall be interpreted according to their fair meaning and shall not be strictly construed against any party. Whenever the words "including", "include" or "includes" are used in this Lease, they shall be interpreted in a non-exclusive manner as though the words "without limitation" immediately followed. Whenever the words "herein," "hereof" and "hereunder" and other words of similar import are used in this Lease, they shall be interpreted to refer to this Lease as a whole and not to any particular article, section or other subdivision. Whenever the words "day" or "days" are used in this Lease, they shall mean "calendar day" or "calendar days" unless expressly provided to the contrary. All references in this Lease to designated "Articles," "Sections" and other subdivisions are to the designated Articles, Sections and other subdivisions of this Lease.

24.16 Time of Essence. Time is of the essence of this Lease and each provision hereof in which time of performance is established and whenever action must be taken (including the giving of notice or the delivery of documents) hereunder during a certain period of time or by a particular date that ends or occurs on a day that is not a Business Day, then such period or date shall be extended until the immediately following Business Day.

24.17 Further Assurances. The parties agree to promptly sign all documents reasonably requested by the other party to give effect to the provisions of this Lease.

24.18 Certain Changes. In no way waiving or modifying the provisions of Article XVI above, Tenant shall give Landlord at least thirty (30) days' prior written notice of any change in Tenant's principal place of business, name, identity, jurisdiction of organization or corporate structure.

24.19 California Specific Provisions.

24.19.1 In addition to and not in limitation of any other waiver contained herein, Tenant hereby voluntarily waives the provisions of California Civil Code §§1941 and 1942 and all other provisions of law now in force or that become in force hereafter that provide Tenant the right to make repairs at Landlord's expense and to deduct the expense of such repairs from Rent owing hereunder.

24.19.2 In addition to and not in limitation of any other waiver contained herein, Tenant hereby voluntarily waives any and all rights that Tenant may have under Legal Requirements to terminate this Lease prior to the Expiration Date, including, without limitation:

(a) the provisions of California Civil Code §1932(1) and all other provisions of law now in force or that become in force hereafter that provide Tenant the right to terminate this Lease if Landlord breaches its obligation, if any, as to placing and securing Tenant in the quiet possession of the Premises, putting the Premises in good condition or repairing the Premises;

(b) the provisions of California Civil Code §§1932(2) and 1933(4) and all other provisions of law now in force or that become in force hereafter that would permit or cause a termination of this Lease or an abatement of Rent upon damage to or destruction of the Premises, it being agreed and acknowledged that Article X constitutes an express agreement between Landlord and Tenant that applies in the event of any such damage to or destruction of the Premises; and

(c) the provisions of California Code of Civil Procedure §1265.130 and all other provisions of law now in force or that become in force hereafter that would allow Tenant to petition the courts to terminate this Lease in the event of a Partial Taking.

24.19.3 Landlord and Tenant hereby agree and acknowledge that Article XI provides for Landlord's and Tenant's respective rights and obligations in the event of a Condemnation of any Facility and, in addition to and not in limitation of any other waiver contained herein, each hereby voluntarily waives the application of the provisions of California Code of Civil Procedure §§1265.110-1265.160 to this Lease.

24.19.4 In addition to and not in limitation of any other waiver contained herein, Tenant hereby voluntarily waives the provisions of any and all rights conferred by California Civil Code §3275 and California Code of Civil Procedure §§473, 1174 and 1179 and all other provisions of law now in force or that become in force hereafter that provide Tenant the right to redeem, reinstate or restore this Lease following its termination by reason of Tenant's breach.

24.19.5 Landlord and Tenant hereby agree that when this Lease requires service of a notice, that notice shall replace rather than supplement any equivalent or similar statutory notice, including any notices required by California Code of Civil Procedure §1161 or any similar or successor statute. When a statute requires service of a notice in a particular manner, service of that notice (or a similar notice required by this Lease) in the manner required by Article XXII shall replace and satisfy the statutory service-of-notice procedures, including those required by California Code of Civil Procedure §1162 or any similar or successor statute.

24.19.6 In addition to, and not in substitution of, any of the remedies otherwise available to Landlord under this Lease following the occurrence of an Event of Default, Landlord shall have the remedy described in California Civil Code §1951.4, which provides that Landlord may continue this Lease in full force and effect after Tenant's breach and abandonment and enforce all of its rights and remedies under this Lease, including the right to recover Rent as it becomes due. Notwithstanding Landlord's exercise of the remedy described in California Civil Code §1951.4, Landlord may thereafter elect, in its sole discretion, to exercise any other remedy provided for in this Lease, including, without limitation, the right to terminate this Lease as provided in Section 12.2.1 above.

24.19.7 If Landlord elects to terminate this Lease pursuant to Section 12.2.1 above following the occurrence of an Event of Default, then, notwithstanding anything to the contrary herein, Landlord shall be entitled to recover from Tenant all of the following:

(a) The worth at the time of award (defined below) of the unpaid Rent earned at the time of such termination;

(b) The worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss which Tenant proves could have been reasonably avoided;

(c) The worth at the time of award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of such rental loss that Tenant proves could reasonably be avoided;

(d) Any other amount necessary to compensate Landlord for all detriment proximately caused by Tenant's failure to perform its obligations under this Lease, or which, in the ordinary course of things, would likely result therefrom, including brokers' commission, cost of tenant improvements, and attorneys' fees; and

(e) Any other amounts, in addition to or in lieu of those listed above, that may be permitted under the applicable Legal Requirements.

The "worth at the time of the award" of the amount(s) referred to in (x) Sections 24.19.7(a) and 24.19.7(b) shall be computed by allowing interest at the Agreed Rate and (y) Section 24.19.7(c) shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award, *plus* one percent (1%).

24.19.8 As of the date of this Lease, no Facility has undergone inspection by a "Certified Access Specialist" in connection with California Civil Code §1938.

24.19.9 Tenant agrees to reasonably cooperate with Landlord in connection with any energy usage reporting requirements to which Landlord is subject under applicable Legal Requirements with respect to the Facilities.

24.19.10 In connection with any Alterations or other modifications, capital repairs, or improvements made by or on behalf of Tenant to any Facility, Tenant shall (and all such Alterations, modifications, capital repairs, or improvements shall) comply with all permitting, preapproval, standards, rules, regulations, and requirements imposed by the Office of Statewide Health Planning and Development ("**OSHPD**") together with all other Legal Requirements imposed by OSHPD or any other Governmental Authority. Tenant shall indemnify, defend, protect and hold harmless Landlord from and against any Losses of any kind that may be imposed upon Landlord in connection with Tenant's failure to comply with any rules, regulations, permits or other approvals of OSHPD or any other Governmental Authority in connection with any Alterations, modifications, capital repairs, or improvements made by or on behalf of Tenant to any Facility.

[Signature page follows]

IN WITNESS WHEREOF, this Lease has been executed by Landlord and Tenant as of the date first written above.

TENANT:

[_____],
a Nevada [_____]

By: _____
Name: _____
Title: _____

[_____],
a Nevada [_____]

By: _____
Name: _____
Title: _____

[_____],
a Nevada [_____]

By: _____
Name: _____
Title: _____

[_____],
a Nevada [_____]

By: _____
Name: _____
Title: _____

[Signatures continue on next page]

[_____],
a Nevada [_____]

By: _____
Name: _____
Title: _____

[_____],
a Nevada [_____]

By: _____
Name: _____
Title: _____

[_____],
a Nevada [_____]

By: _____
Name: _____
Title: _____

[_____],
a Nevada [_____]

By: _____
Name: _____
Title: _____

[_____],
a Nevada [_____]

By: _____
Name: _____
Title: _____

[Signatures continue on next page]

[_____],
a Nevada [_____]

By: _____
Name: _____
Title: _____

[_____],
a Nevada [_____]

By: _____
Name: _____
Title: _____

[_____],
a Nevada [_____]

By: _____
Name: _____
Title: _____

[Signatures continue on next page]

LANDLORD:

[_____]

By: _____
Name: _____
Title: _____

[_____]

By: _____
Name: _____
Title: _____

[_____]

By: _____
Name: _____
Title: _____

[_____]

By: _____
Name: _____
Title: _____

[Signatures continue on next page]

JOINDER

The Pennant Group, Inc., a Delaware corporation, hereby joins in this Lease for the limited purpose of assuming and agreeing to be bound by the obligations contained in Section 5.5.

THE PENNANT GROUP, INC.,
a Delaware corporation

By: _____
Name: _____
Title: _____

EXHIBIT A

DEFINED TERMS

For all purposes of this Lease, except as otherwise expressly provided in the Lease or unless the context otherwise requires, the following terms have the meanings assigned to them in this exhibit and include the plural as well as the singular:

"**Accounts Collateral**" means, collectively, all of the following: (i) all of the accounts, accounts receivable, payment intangibles, health-care-insurance receivables and any other right to the payment of money in whatever form, of any of the Tenant Sublessees, or any other indebtedness of any Person owing to any of the Tenant Sublessees (whether constituting an account, chattel paper, document, instrument or general intangible), whether presently owned or hereafter acquired, arising from the provision of merchandise, goods or services by any Tenant Sublessee, or from the operations of any Tenant Sublessee at each Facility, including, without limitation, the right to payment of any interest or finance charges and other obligations with respect thereto; (ii) all of the rights, titles and interests of any of the Tenant Sublessees in, to and under all supporting obligations and all other liens and property subject thereto from time to time securing or purporting to secure any such accounts, accounts receivable, payment intangibles, health-care insurance receivables or other indebtedness owing to any of the Tenant Sublessees; (iii) all of the rights, titles and interests of any of the Tenant Sublessees in, to and under all guarantees, indemnities and warranties, letter-of-credit rights, supporting obligations, insurance policies, financing statements and other agreements or arrangements of whatever character from time to time supporting or securing payment of any such accounts, accounts receivable, payment intangibles, health-care insurance receivables or other indebtedness owing to any of the Tenant Sublessees; (iv) all of the now owned or hereafter acquired deposits of any of the Tenant Sublessees representing proceeds from accounts and any deposit account into which the same may be deposited, all other cash collections and other proceeds of the foregoing accounts, accounts receivable, payment intangibles, health-care insurance receivables or other indebtedness (including, without limitation, late charges, fees and interest arising thereon, and all recoveries with respect thereto that have been written off as uncollectible), and all deposit accounts into which the same are deposited; (v) all proceeds (whether constituting accounts, chattel paper, documents, instruments or general intangibles) with respect to the foregoing; and (vi) all books and records with respect to any of the foregoing.

"**Additional Rent**" has the meaning set forth in Section 2.2.

"**Adjusted CPI Increase**" means the actual CPI Increase as of the date of determination, not to exceed two and one-half percent (2.5%). In no event shall the CPI Increase be a negative number.

"**Affiliate**" means with respect to any Person, any other Person which Controls, is Controlled by or is under common Control with the first Person.

"**Agency Lender**" means any of: (i) the U.S. Department of Housing and Urban Development, (ii) the Federal National Mortgage Association (Fannie Mae), or (iii) the Federal Home Loan Mortgage Corporation (Freddie Mac), or any designees, agents, originators, or servicers of any of the foregoing.

"**Agreed Rate**" means, on any date, a rate equal to [____] ([__]%) per annum above the Prime Rate, but in no event greater than the maximum rate then permitted under applicable law. Interest at the aforesaid rates shall be determined for actual days elapsed based upon a 360 day year.

"**Alterations**" means, with respect to each Facility, any alteration, improvement, exchange, replacement, modification or expansion of the Leased Improvements or Fixtures at such Facility.

"**Authorization**" means, with respect to each Facility, any and all licenses, permits, certifications, accreditations, Provider Agreements, CONs, certificates of exemption, approvals, waivers, variances and other governmental or "quasi-governmental" authorizations necessary or advisable for the use of such Facility for its Primary Intended Use and receipt of reimbursement or other payments under any Third Party Payor Program in which such Facility participates.

"**Authorization Collateral**" means any Authorizations issued or licensed to, or leased or held by, Tenant.

"**Bankruptcy Action**" means, with respect to any Person, (i) such Person filing a voluntary petition under the Bankruptcy Code or any other federal or state bankruptcy or insolvency law; (ii) the filing of an involuntary petition against such Person under the Bankruptcy Code or any other federal or state bankruptcy or insolvency law which is not dismissed within sixty (60) days of the filing thereof, or soliciting or causing to be solicited petitioning creditors for any involuntary petition against such Person; (iii) such Person filing an answer consenting to or otherwise acquiescing in or joining in any involuntary petition filed against it, by any other Person under the Bankruptcy Code or any other federal or state bankruptcy or insolvency law, or soliciting or causing to be solicited petitioning creditors for any involuntary petition from any Person; (iv) such Person seeking, consenting to or acquiescing in or joining in an application for the appointment of a custodian, receiver, trustee, or examiner for such Person or any portion of the Facility; (v) such Person making an assignment for the benefit of creditors; or (vi) such Person taking any action in furtherance of any of the foregoing.

"**Bankruptcy Code**" means 11 U.S.C. § 101 *et seq*., as the same may be amended from time to time.

"**Base Rent**" has the meaning set forth in Section 2.1.

"**Business Day**" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which national banks in the City of New York, New York, are authorized, or obligated, by law or executive order, to close.

"**Capital Alterations**" means any Alteration for which the budgeted cost exceeds [_____] ($[____]).

"**Cash Flow**" shall mean the aggregate net income of Tenant attributable to the operation of the Facilities as reflected on the income statement of Tenant, plus (i) the provision for depreciation and amortization in such income statement, plus (ii) the provision for management fees in such income statement, plus (iii) the provision for income taxes in such income statement, plus (iv) the provision for Base Rent payments and interest and lease payments, if any, relating to the Facilities in such income statement, plus (v) the provision for any other non-operating items in such income statement, and minus (vi) an imputed management fee equal to five percent (5%) of gross revenues of the Facilities (net of contractual allowances).

"Casualty Sale" has the meaning set forth in Section 10.5.

"**Change in Control**" means, as applied to any Person, a change in the Person that ultimately exerts effective Control over the first Person.

"**Closure Notice**" means a written notice delivered by Landlord to Tenant pursuant to which Landlord notifies Tenant that Tenant may commence a Facility Termination as to a particular Facility or Facilities.

"**CMS**" means the United States Department of Health, Centers for Medicare and Medicaid Services or any successor agency thereto.

"**Code**" means the Internal Revenue Code of 1986 and, to the extent applicable, the Treasury Regulations promulgated thereunder, each as amended from time to time.

"**Commencement Date**" has the meaning set forth in Section 1.4.

"Compensatory Payment" has the meaning set forth in Section 10.5.

"Compensatory Payment Date" has the meaning set forth in Section 10.5.

"Compensatory Payment Statement" has the meaning set forth in Section 10.5.

"**Complete Taking**" means the Condemnation of all or substantially all of a Facility or a Condemnation that results in a Facility no longer being capable of being operated for its Primary Intended Use.

"**CON**" means, with respect to each Facility, a certificate of need or similar permit or approval (not including conventional building permits) from a Governmental Authority related to (i) the construction and/or operation of such Facility for the use of a specified number of beds in an assisted living facility or senior independent living facility, or (ii) the alteration of such Facility or (iii) the modification of the services provided at such Facility.

"**Condemnation**" means the exercise of any governmental power, whether by legal proceedings or otherwise, by a Condemnor or a voluntary sale or transfer by Landlord to any Condemnor, either under threat of condemnation or while legal proceedings for condemnation are pending.

"**Condemnor**" means any public or quasi-public authority, or private corporation or individual, having the power of condemnation.

"**Contingent Obligation**" means any direct or indirect liability of Tenant: (i) with respect to any Debt of another Person; (ii) with respect to any undrawn portion of any letter of credit issued for the account of Tenant as to which Tenant is otherwise liable for the reimbursement of any drawing; (iii) to make take-or-pay or similar payments if required regardless of nonperformance by any other party or parties to an agreement; (iv) claims, liabilities and damages arising in the Ordinary Course of Business; or (v) for any obligations of another Person pursuant to any guaranty or pursuant to any agreement to purchase, repurchase or otherwise acquire any obligation or any property constituting security therefor, to provide funds for the payment or discharge of such obligation or to preserve the solvency, financial condition or level of income of another Person. The amount of any Contingent Obligation shall be equal to the amount of the obligation so guarantied or otherwise supported or, if not a fixed and determinable amount, the maximum amount so guarantied or otherwise supported.

"**Control**", together with the correlative terms "**Controlled**" and "**Controls**," means, as applied to any Person, the possession, directly or indirectly, of the power to direct the management and policies of that Person, whether through ownership, voting control, by contract or otherwise.

"**CPI**" means the United States Department of Labor, Bureau of Labor Statistics Consumer Price Index for All Urban Wage Earners and Clerical Workers, United States Average, Subgroup "All Items" (1982 - 1984 = 100). If the foregoing index is discontinued or revised during the Term, the governmental index or computation with which it is replaced shall be used to obtain substantially the same result as if such index had not been discontinued or revised.

"**CPI Increase**" means the percentage increase (but not decrease) in (i) the CPI published for the beginning of each Lease Year, over (ii) the CPI published for the beginning of the immediately preceding Lease Year.

"**Debt**" For any Person, without duplication: (i) all indebtedness of such Person for borrowed money, for amounts drawn under a letter of credit or for the deferred purchase price of property for which such Person or its assets is liable; (ii) all unfunded amounts under a loan agreement, letter of credit or other credit facility for which such Person would be liable if such amounts were advanced thereunder; (iii) all amounts required to be paid by such Person as a guaranteed payment to partners or a preferred or special dividend, including any mandatory redemption of shares or interests; (iv) all indebtedness guaranteed by such Person, directly or indirectly; (v) all obligations under leases that constitute capital leases for which such Person is liable; (vi) all obligations of such Person under interest rate swaps, caps, floors, collars and other interest hedge agreements, in each case whether such Person is liable contingently or otherwise, as obligor, guarantor or otherwise, or in respect of which obligations such Person otherwise assures a creditor against loss; (vii) off-balance sheet liabilities of such Person; and (viii) obligations arising under bonus, deferred compensation, incentive compensation or similar arrangements, other than those arising in the Ordinary Course of Business.

"**Environmental Activities**" mean, with respect to each Facility, the use, generation, transportation, handling, discharge, production, treatment, storage, release or disposal of any Hazardous Materials at any time to or from such Facility or located on or present on or under such Facility.

"Environmental Costs" include interest, costs of response, removal, remedial action, containment, cleanup, investigation, design, engineering and construction, damages (including actual and consequential damages) for personal injuries and for injury to, destruction of or loss of property or natural resources, relocation or replacement costs, penalties, fines, charges or expenses, attorney's fees, expert fees, consultation fees, and court costs, and all amounts paid in investigating, defending or settling any of the foregoing.

"**Event of Default**" has the meaning set forth in Section 12.1.

"**Excess Capital Expenditures Amount**" has the meaning set forth in Section 6.6.

"**Expiration Date**" means the Initial Expiration Date, as may be extended pursuant to Section 1.4.

"**Extension Notice**" has the meaning set forth in Section 1.4.

"**Extension Term**" has the meaning set forth in Section 1.4.

"**Facility**" means each healthcare facility located on the Premises, as identified on Schedule 2 attached hereto, including, where the context requires, the Land, Leased Improvements, Intangibles and Landlord Personal Property associated with such healthcare facility.

"**Facility Default**" means an Event of Default that relates directly to one or more of the Facilities (such as, for example only and without limitation, an Event of Default arising from a failure to maintain or repair, or to operate for the Primary Intended Use, or to maintain the required Authorizations for, one or more of the Facilities), as opposed to an Event of Default that, by its nature, does not relate directly to any of the Facilities.

"**Facility Improvement Fund Cap**" means, with respect to any Facility, the amount equal to the product of: (i) the amount of Landlord's initial investment in such Facility, and (ii) twenty percent (20%).

"**Facility Mortgage**" means any mortgage, deed of trust or other security agreement or lien encumbering any Facility and securing an indebtedness of Landlord or any Affiliate of Landlord or any ground, building or similar lease or other title retention agreement to which any Facility are subject from time to time.

"**Facility Mortgage Documents**" means with respect to each Facility Mortgage and Facility Mortgagee, the applicable Facility Mortgage, loan or credit agreement, lease, note, collateral assignment instruments, guarantees, indemnity agreements and other documents or instruments evidencing, securing or otherwise relating to the loan made, credit extended, lease or other financing vehicle pursuant thereto. Facility Mortgage Documents shall also include, without limitation, any documents typically required by any Agency Lender in connection with a Facility Mortgage, including, but not limited to: (i) tenant regulatory agreements, (ii) intercreditor agreements with any receivables lender of Tenant, and (iii) any subordination, assignment, and security agreements.

"**Facility Mortgagee**" means the holder or beneficiary of a Facility Mortgage and any other rights of the lender, credit party or lessor under the applicable Facility Mortgage Documents, including, without limitation, any Agency Lender.

"**Facility Removal Date**" has the meaning set forth in Section 12.2.6.

"**Facility Termination**" has the meaning set forth in Section 13.2.6.

"**Fair Market Value**" means the fair market value of a Facility as determined pursuant to Exhibit E.

"**Fixtures**" means all equipment, machinery, fixtures and other items of real and/or personal property, including all components thereof, now and hereafter located in, on, or used in connection with and permanently affixed to or incorporated into the Leased Improvements, including all furnaces, boilers, heaters, electrical equipment, heating, plumbing, lighting, ventilating, refrigerating, incineration, air and water pollution control, waste disposal, air-cooling and air-conditioning systems, apparatus, sprinkler systems, fire and theft protection equipment and built-in oxygen and vacuum systems, all of which, to the greatest extent permitted by law, are hereby deemed to constitute real estate, together with all replacements, modifications, alterations and additions thereto.

"**GAAP**" means generally accepted accounting principles, consistently applied.

"**Governmental Authority**" means any court, board, agency, commission, bureau, office or authority or any governmental unit (federal, state, county, district, municipal, city or otherwise) and any regulatory, administrative or other subdivision, department or branch of the foregoing, whether now or hereafter in existence, including, without limitation, CMS, the United States Department of Health and Human Services, any state licensing agency or any accreditation agency or other quasi-governmental authority.

"**Governmental Payor**" means any state or federal health care program providing medical assistance, health care insurance or other coverage of health care items or services for eligible individuals, including but not limited to the Medicare program more fully described in Title XVIII of the Social Security Act (42 U.S.C. §§ 1395 *et seq.*) and the Medicaid program more fully described in Title XIX of the Social Security Act (42 U.S.C. §§ 1396 *et seq.*) and the regulations promulgated thereunder.

"**Guarantor**" has the meaning set forth in Section 2.5, together with any and all permitted successors and assigns of the Guarantor originally named herein and any additional Person that guaranties the obligations of Tenant hereunder, from time to time.

"**Guaranty**" has the meaning set forth in the Recitals to this Agreement.

"**Hazardous Materials**" mean (i) any petroleum products and/or by-products (including any fraction thereof), flammable substances, explosives, radioactive materials, hazardous or toxic wastes, substances or materials, known carcinogens or any other materials, contaminants or pollutants which pose a hazard to any Facility or to Persons on or about any Facility or cause any Facility to be in violation of any Hazardous Materials Laws; (ii) asbestos in any form which is friable; (iii) urea formaldehyde in foam insulation or any other form; (iv) transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls in excess of fifty (50) parts per million or any other more restrictive standard then prevailing; (v) medical wastes and biohazards; (vi) radon gas; and (vii) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or may or could pose a hazard to the health and safety of the occupants of any Facility or the owners and/or occupants of property adjacent to or surrounding any Facility, including, without limitation, any materials or substances that are listed in the United States Department of Transportation Hazardous Materials Table (49 CFR 172.101) as amended from time to time.

"**Hazardous Materials Laws**" mean any laws, ordinances, regulations, rules, orders, guidelines or policies relating to the environment, health and safety, Environmental Activities, Hazardous Materials, air and water quality, waste disposal and other environmental matters.

"**Hazardous Materials Claims**" mean any and all enforcement, clean-up, removal or other governmental or regulatory actions or orders threatened, instituted or completed pursuant to any Hazardous Material Laws, together with all claims made or threatened by any third party against any Facility, Landlord or Tenant relating to damage, contribution, cost recovery compensation, loss or injury resulting from any Hazardous Materials.

"**Impositions**" means any property (real and personal) and other taxes and assessments levied or assessed with respect to this Lease, any Facility, Tenant's interest therein or Landlord, with respect to any Facility, including, without limitation, any state or county occupation tax, transaction privilege, franchise taxes, margin taxes, business privilege, rental tax or other excise taxes. Notwithstanding the foregoing, Impositions shall not include any local, state or federal income tax based upon the net income of Landlord and any transfer tax or stamps arising from Landlord's transfer of any interest in any Facility.

"**Improvement Funds**" has the meaning set forth in Section 6.7.

"**Improvement Funds Rate**" means a percentage rate equal to the lesser of (A) the sum of (i) Landlord Parent's Weighted Average Cost of Capital on the date of determination, plus (ii) a market supported minimum spread reasonably and mutually acceptable to both Landlord and Tenant, and (B) [_____]%.

"**Initial Expiration Date**" has the meaning set forth in Section 1.4.

"**Initial Term**" has the meaning set forth in Section 1.4.

"**Insurance Requirements**" mean all terms of any insurance policy required by this Lease and all requirements of the issuer of any such policy, together with all fire underwriters' regulations promulgated from time to time.

"**Intangibles**" means the interest, if any, of Landlord in and to any of the following intangible property owned by Landlord in connection with the Land and the Leased Improvements: (i) the identity or business of each Facility as a going concern, including, without limitation, any names or trade names by which each Facility may be known, and all registrations for such names, if any; (ii) to the extent assignable or transferable, the interest, if any, of Landlord in and to each and every guaranty and warranty concerning the Leased Improvements or Fixtures, including, without limitation, any roofing, air conditioning, heating, elevator and other guaranty or warranty relating to the construction, maintenance or repair of the Leased Improvements or Fixtures; and (iii) the interest, if any, of Landlord in and to all Authorizations to the extent the same can be assigned or transferred in accordance with applicable law; provided, however, that the foregoing shall not include any CON issued to or held by Landlord which shall only be licensed to Tenant on a temporary basis, which license shall be revocable at any time by Landlord.

"**Intercreditor Agreement**" means an intercreditor agreement substantially in the form attached hereto as Exhibit F and to be entered into by and between Lessor and the administrative agent acting on behalf of Tenant's lenders.

"**Land**" means, individually and collectively, the real property described in Exhibit B attached to this Lease.

"**Landlord**" has the meaning set forth in the opening preamble, together with any and all successors and assigns of the Landlord originally named herein.

"**Landlord Indemnified Parties**" means Landlord's Affiliates and Landlord's and its Affiliates' agents, employees, owners, partners, members, managers, contractors, representatives, consultants, attorneys, auditors, officers and directors.

"**Landlord Parent**" means The Ensign Group, Inc., a Delaware corporation.

"**Landlord Parent Weighted Average Cost of Capital**" means the weighted average cost of the debt and equity capital of Landlord Parent for the ninety (90) day period immediately preceding the date of determination. Such weighted average cost of capital shall be determined by taking into account the proportional relevance of each of the following components based upon the targeted capital structure of Landlord Parent as of the date of determination: (i) the cost of common equity, which is equal to the twelve (12) month forward funds from operation per share consensus estimate divided by the average common stock price for the period of determination, divided by ninety-five percent (95%); (ii) the cost of preferred equity, which is equal to the weighted average dividend yield of all outstanding series of preferred stock; (iii) the cost of debt, which is equal to the ten (10) year Treasury Rate plus a spread equal to the indicative spread on Landlord Parent's largest outstanding note plus thirty (30) basis points; and (iv) the cost of internally generated cash, which is equal to the all-in drawn rate on Landlord Parent's revolving credit facility.

"**Landlord Personal Property**" means the machinery, equipment, furniture and other personal property described in Exhibit C attached to this Lease, together with all replacements, modifications, alterations and substitutes thereof (whether or not constituting an upgrade).

"**Landlord's Representatives**" means Landlord's agents, employees, contractors, consultants, attorneys, auditors, architects and other representatives.

"**Lease**" has the meaning set forth in the opening preamble.

"**Lease Year**" means each successive period of twelve (12) calendar months during the Term, commencing as of the same day and month (but not year, except in the case of the first (1st) Lease Year) as the Commencement Date.

"**Leased Improvements**" means all buildings, structures and other improvements of every kind now or hereafter located on the Land including, alleyways and connecting tunnels, sidewalks, utility pipes, conduits, and lines (on-site and off-site to the extent Landlord has obtained any interest in the same), parking areas and roadways appurtenant to such buildings and structures.

"**Legal Requirements**" means all federal, state, county, municipal and other governmental statutes, laws (including common law and Hazardous Materials Laws), rules, policies, guidance, codes, orders, regulations, ordinances, permits, licenses, covenants, conditions, restrictions, judgments, decrees and injunctions applicable to Tenant or affecting any Facility or the applicable Tenant Personal Property or the maintenance, construction, use, condition, operation or alteration thereof, whether now or hereafter enacted and in force, including, any and all of the foregoing that relate to the use of each Facility for its Primary Intended Use.

"**Licensing Impairment**" means, with respect to each Facility, (i) the revocation, suspension or non-renewal of any Authorization, (ii) any material withholding, non-payment, reduction or other adverse change respecting any Provider Agreement, (iii) any admissions hold under any Provider Agreement, or (iv) any other act or outcome similar to the foregoing that would have a material adverse effect on Tenant's ability to continue to operate such Facility for its Primary Intended Use or to receive any rents or profits therefrom.

"Limited Remedy Event of Default" has the meaning set forth in Section 12.2.6.

"**Limited Termination Election**" has the meaning set forth in Section 12.2.6.

"**Losses**" mean all claims, demands, expenses, actions, judgments, damages, penalties, fines, liabilities, losses of every kind and nature (including without limitation losses of use or economic benefit or diminution in value), suits, administrative proceedings, costs and fees, including, without limitation, reasonable attorneys' and reasonable consultants' fees and expenses.

"LRED Damages" has the meaning set forth in Section 12.2.6.

"**Material Alterations**" mean any Alterations that (i) would materially enlarge or reduce the size of the applicable Facility, (ii) would tie in or connect with any improvements on property adjacent to the applicable Land, or (iii) would affect the structural components of the applicable Facility or the main electrical, mechanical, plumbing, elevator or ventilating and air conditioning systems for such Facility in any material respect.

"**Maintenance Expenditures**" means, with respect to each Facility, repairs, replacements and improvements to such Facility (other than the Landlord Personal Property) that have been completed in a good, workmanlike and lien free fashion and in compliance with all Legal Requirements and the terms of Sections 6.4 and 6.5 applicable to any Alterations.

"**Maintenance Expenditures Report**" has the meaning set forth in Section 6.6.1.

"**Minimum Aggregate Maintenance Amount**" has the meaning set forth in Section 6.6.1.

"**Net Replacement Rent Amount**" has the meaning set forth in Section 12.2.6.

"**Nonsolicitation Period**" means the period commencing on the date this lease is terminated and ending the date that is six (6) months following the expiration of the Term.

"Occurrence Date" has the meaning set forth in Section 12.2.6.

"**OFAC**" has the meaning set forth in Section 9.2.1.

"**Operational Transfer**" has the meaning set forth in Section 13.2.1.

"**Ordinary Course of Business**" means in respect of any transaction involving Tenant, the ordinary course of business of Tenant, as conducted by Tenant in accordance with past practices. In respect of any transaction involving a Facility or the operations thereof, the ordinary course of operations for such Facility, as conducted by Tenant in accordance with past practices.

"**Overage Amount**" has the meaning set forth in Section 6.6.1.

"**Partial Taking**" means any Condemnation of a Facility or any portion thereof that is not a Complete Taking.

"**Payment Date**" means any due date for the payment of the installments of Base Rent or any other sums payable under this Lease.

"**Permitted Contingent Obligations**" means each of the following: (i) Contingent Obligations arising in respect of Tenant's obligations under this Lease; (ii) Contingent Obligations resulting from endorsements for collection or deposit in the Ordinary Course of Business; (iii) Contingent Obligations incurred in the Ordinary Course of Business, including, without limitation, Contingent Obligations with respect to debt financing issued or incurred by the Guarantor; (iv) Contingent Obligations arising with respect to customary indemnification obligations in favor of purchasers in connection with dispositions of personal property assets permitted under this Lease; and (v) other Contingent Obligations not permitted by clauses (i) through (iv) above, not to exceed, with respect to each Tenant, $100,000 in the aggregate at any time outstanding.

"**Permitted Debt**" means of the following: (i) the obligations of Tenant under this Lease, and (ii), any financing arising and paid on a timely basis in the Ordinary Course of Business other than leasehold financing, including, without limitation, Permitted Contingent Obligations.

"**Permitted Encumbrances**" means, with respect to each Facility, collectively, (i) all easements, covenants, conditions, restrictions, agreements and other matters with respect to such Facility that (a) are of record as of the Commencement Date, (b) Landlord entered into after the Commencement Date (subject to the terms hereof); or (c) are specifically consented to in writing by Landlord, (ii) any liens for Impositions that are not yet due and payable; (iii) occupancy rights of residents of such Facility; and (iv) liens of mechanics, laborers, materialman, suppliers or vendors for sums not yet due, provided that such reserve or other appropriate provisions as shall be required by law or GAAP or pursuant to prudent commercial practices shall have been made therefor.

"**Person**" means any individual, partnership, association, corporation, limited liability company or other entity.

"**Plans and Specifications**" has the meaning set forth in Section 6.5.1.

"Post-Casualty Facility" has the meaning set forth in Section 10.5.

"**Premises**" means, collectively, the Land, Leased Improvements, Related Rights, Fixtures, Intangibles and Landlord Personal Property.

"**Premises Condition Report**" has the meaning set forth in Section 6.2.

"**Primary Intended Use**" means, as to each Facility, the type of healthcare facility corresponding to such Facility as shown on Schedule 2 attached hereto, with no less than the number of licensed beds as shown on Schedule 2 and for ancillary services relating thereto.

"**Prime Rate**" means, on any date, a rate equal to the annual rate on such date reported in *The Wall Street Journal* to be the "prime rate."

"**Prohibited Persons**" has the meanings set forth in Section 9.2.1.

"**Property Collateral**" means all of Tenant's right, title and interest in and to the Tenant Personal Property and any and all products, rents, proceeds and profits thereof in which Tenant now owns or hereafter acquires an interest or right.

"**Provider Agreements**" means any agreements issued to or held by Tenant pursuant to which any Facility is licensed, certified, approved or eligible to receive reimbursement under any Third Party Payor Program.

"**Real Property Impositions**" mean any real property Impositions secured by a lien encumbering any Facility or any portion thereof.

"**Reimbursement Period**" has the meaning set forth in Section 13.2.5.

"**Related Rights**" means all easements, rights and appurtenances relating to the Land and the Leased Improvements.

"**Rent**" means, collectively, Base Rent and Additional Rent.

"**Rent Offset**" means, in the event Landlord elects to sell any Terminated Facilities pursuant to Section 12.2.6, for any given time, an amount determined by the following formula:

$$RO = (SP \times (1 + LY)_{n)} \times LY$$

Where:

RO is the amount by which Base Rent shall be reduced

SP equals the value of all consideration received by Landlord from the sale of such Terminated Facilities, net of any applicable Landlord expenses, including without limitation broker fees, sales taxes and closing costs

n equals the years remaining until the Initial Expiration Date

LY is a lease yield equal to %

"**Request for Advance**" has the meaning set forth in Section 6.7.

"**Required Per Bed Annual Capital Expenditures Amount**" means an amount per licensed bed per Lease Year that Tenant is required to expend on Capital Expenditures with respect to each Facility, which amount shall be Four Hundred Dollars ($400).

"Required Reconstruction Approvals" has the meaning set forth in Section 10.5.

"**Situs State**" means the state or commonwealth where a Facility is located.

"**Temporary Taking**" means any Condemnation of a Facility or any portion thereof, whether the same would constitute a Complete Taking or a Partial Taking, where the Condemnor or its designee uses or occupies such Facility, or any portion thereof, for no more than twelve consecutive (12) months.

"**Tenant**" has the meaning set forth in the opening preamble, together with any and all permitted successors and assigns of the Tenant originally named herein.

"**Tenant Personal Property**" shall have the meaning set forth in Section 5.1.

"**Tenant Sublessees**" mean Tenant, and any direct or indirect subtenants or operator of any Facility, together with their successors and assigns and any additions thereto or replacements thereof.

"**Term**" means the Initial Term, plus any duly authorized Extension Terms.

"**Terminated Facilities**" has the meaning set forth in Section 12.2.6.

"**Termination Notice**" has the meaning set forth in Section 12.2.6.

"**Third Party Payor Programs**" shall mean any third party payor programs pursuant to which healthcare facilities qualify for payment or reimbursement for medical or therapeutic care or other goods or services rendered, supplied or administered to any admittee, occupant or resident by or from any Governmental Authority, Governmental Payor, bureau, corporation, agency, commercial insurer, non-public entity, "HMO," "PPO" or other comparable party.

"**Transfer**" means any of the following, whether effectuated directly or indirectly, through one or more step transactions or tiered transactions, voluntarily or by operation of law, (i) assigning, conveying, selling, pledging, mortgaging, hypothecating or otherwise encumbering, transferring or disposing of all or any part of this Lease or Tenant's leasehold estate hereunder, (ii) subletting of all or any part of any Facility; (iii) engaging the services of any Person for the management or operation of all or any part of any Facility; (iv) conveying, selling, assigning, transferring, pledging, hypothecating, encumbering or otherwise disposing of any stock, partnership, membership or other interests (whether equity or otherwise) in Tenant, Guarantor or any Person that Controls Tenant or any Guarantor, if such conveyance, sale, assignment, transfer, pledge, hypothecation, encumbrance or disposition results, directly or indirectly, in a Change in Control of Tenant or Guarantor (or of such controlling Person); (v) merging or consolidating Tenant, Guarantor, or any Person that Controls Tenant or Guarantor with or into any other Person, if such merger or consolidation, directly or indirectly, results in a Change in Control of Tenant or Guarantor (or in such controlling Person); (vi) dissolving Tenant or Guarantor or any Person that Controls Tenant or Guarantor; (vii) selling, conveying, assigning, or otherwise transferring all or substantially all of the assets of Tenant, Guarantor or any Person that Controls Tenant or Guarantor; (viii) selling, conveying, assigning or otherwise transferring any of the assets of Tenant or Guarantor, if the consolidated net worth of Tenant or Guarantor immediately following such transaction is not at least equal to the consolidated net worth of Tenant or Guarantor, as applicable, as of the Commencement Date; (ix) assigning, conveying, selling, pledging, mortgaging, hypothecating or otherwise encumbering, transferring or disposing of any Authorization; or (ix) entering into or permitting to be entered into any agreement or arrangement to do any of the foregoing or granting any option or other right to any Person to do any of the foregoing, other than to Landlord under this Lease. For purposes hereof, Guarantor shall be deemed a Person that Controls Tenant, whether or not the same is true.

"**Transition Notice**" shall have the meaning set forth in Section 13.2.1.

EXHIBIT B

DESCRIPTION OF THE LAND

[to be added]

EXHIBIT C

THE LANDLORD PERSONAL PROPERTY

All machinery, equipment, furniture and other personal property located at or about any Facility and that is necessary to own, operate or maintain any Facility in accordance with the terms of this Lease, together with all replacements, modifications, alterations and substitutes thereof (whether or not constituting an upgrade) but excluding the following:

(a) all office supplies, medical supplies, food supplies, housekeeping supplies, laundry supplies, and inventories and supplies physically on hand at the Facility;

(b) all customer lists, resident files, and records related to residents (subject to confidentiality privileges) and all books and records with respect to the operation of the Facility;

(c) all employee time recording devices, proprietary software and discs used in connection with the operation of the Facility by Tenant or any Person who manages the operations of any Facility, all employee pagers, employee manuals, training materials, policies, procedures, and materials related thereto with respect to the operation of the Facilities; and

(d) all telephone numbers, brochures, pamphlets, flyers, mailers, and other promotional materials related to the marketing and advertising of the Tenant’s business at the Facility.

EXHIBIT D

FINANCIAL, MANAGEMENT AND REGULATORY REPORTS

FINANCIAL REPORTING

- *Quarterly Financial Reporting*:
  - No later than 60 days after the end of each fiscal quarter of Tenant, Tenant shall deliver to Landlord, presented on a consolidated, quarterly and year-to-date unaudited financial statements prepared for the applicable quarter with respect to Guarantor. Such reports shall include:
    - A consolidated balance sheet as of the end of such fiscal quarter;
    - Related consolidated statements of income;
    - A consolidating Facility-by-Facility basis statement of income and related operating status (including occupancy).
  - Together with its delivery to Landlord of the quarterly financial reports and statements required hereunder, Tenant shall deliver, or cause to be delivered, to Landlord, an Officer's Certificate (for Tenant and a separate Officer's Certificate (from an officer of any Guarantor) for any financial reports of statements of Guarantor) certifying that the foregoing statements and reports are true and correct and were prepared in accordance with GAAP, applied on a consistent basis, subject to changes resulting from audit adjustments.
- *Annual Financial Reporting*: As soon as available, and in any event within 90 days after the close of each fiscal year of Tenant, Tenant shall deliver to Landlord, presented on a consolidated basis, financial statements prepared for such fiscal year with respect to Guarantor, including a balance sheet and operating statement as of the end of such fiscal year, together with related statements of income and members', partners', or owners' capital for such fiscal year.
  - The annual financial statements delivered by Guarantor hereunder, shall have been audited by an independent certified public accounting firm reasonably satisfactory to Landlord, whose opinion shall be to the effect that such financial statements have been prepared in accordance with GAAP, applied on a consistent basis, and shall not be qualified as to the scope of the audit or as to the status of any Tenant or Guarantor as a going concern.
- *Audit and Other Inspection Rights*: Without limitation of Tenant's other obligations as set forth in this Lease or this Exhibit D, Landlord shall have the right, from time to time and at its expense (unless an Event of Default exists, in which case Tenant shall, within ten (10) days after demand therefor, reimburse Landlord for any and all costs and expenses incurred by Landlord in connection with exercising its rights under this paragraph), to audit and inspect the books, records and accounts of Tenant or any Guarantor and/or relative to any Facility(ies) designated by Landlord from time to time, provided, however, that, (a) if no Event of Default exists, Landlord shall give Tenant not less than thirty (30) days advance written notice of the commencement of any such inspection and (b) Landlord shall not require or perform any act that would cause Tenant or any Guarantor to violate any laws, regulations or ordinances relating to employment records or that protect the privacy rights of Tenant's or Guarantor's employees or residents. Tenant shall reasonably cooperate (and shall cause its independent accountants and other financial advisors to reasonably cooperate) with all such inspections. Such inspections shall be conducted in a manner that does not materially interfere with Tenant's business operations or the business operations relative to any affected Facility(ies). Unless otherwise agreed in writing by Landlord and Tenant, such inspections shall occur during normal business hours.

- *Method of Delivery*: All financial statements, reports, data and other information required to be delivered by Tenant (or Guarantor) pursuant hereto shall be delivered via email to such email address as Landlord may designate from time to time and shall be in the format and otherwise in the form required pursuant to Section 5.7; provided that the timely filing of any such reports with the SEC shall be deemed delivery to Landlord hereunder.

REGULATORY REPORTING

- *Regulatory Reports with respect to each Facility*: Within thirty (30) days after Tenant's receipt, Tenant shall deliver to Landlord by written notice the following regulatory reports with respect to each Facility:
    - If applicable, and upon request of Landlord, any Medicaid reports for the Facility within ten days after filing of the report with the State agency, and with respect to surveys with a material statement of deficiency, any State and federal health care survey and inspection reports, inspector exit interview notes and report, plans of correction, re-survey reports, evidence of annual license renewal, HIPDB adverse action report, notice of any investigation, inspection or survey by licensing authorities, notice of licensure deficiencies or admissions ban, issuance of a provisional or temporary license and all correspondence regarding any of the foregoing for each Facility – within thirty (30) days after receipt by Tenant.
- *Reports of Regulatory Violations*: Within two (2) Business Days after Tenant's receipt of any of the following, Tenant shall deliver to Landlord by written notice copies of the same along with all related documentation:
    - Any suspension, termination or restriction (including immediate jeopardy) placed upon Tenant (or Guarantor) or any Facility, the operation of any Facility or the ability to admit residents; or

EXHIBIT E

FAIR MARKET VALUE

If it becomes necessary to determine the Fair Market Value of the Premises or any individual Facility for any purpose under this Lease, Landlord and Tenant shall first attempt to agree on such Fair Market Value. If Landlord and Tenant are unable to so agree within a reasonable period of time not to exceed thirty (30) days, then Landlord and Tenant shall have twenty (20) days to attempt to agree upon a single Appraiser to make such determination. If the parties so agree upon a single Appraiser, such Appraiser shall, within forty-five (45) days of being engaged, determine the Fair Market Value as of the relevant date (giving effect to the impact, if any, of inflation from the date of its decision to the relevant date), and such determination shall be final and binding upon the parties.

If Landlord and Tenant are unable to agree upon a single Appraiser within such twenty (20) days, then each party shall have ten (10) days in which to provide the other with the name of a person selected to act as Appraiser on its behalf. Each such Appraiser shall, within forty-five (45) days of being engaged, determine the Fair Market Value as of the relevant date (giving effect to the impact, if any, of inflation from the date of its decision to the relevant date). If the difference between the amounts so determined does not exceed ten percent (10%) of the lesser of such amounts, then the Fair Market Value shall be the average of the amounts so determined, and such average shall be final and binding upon the parties. If the difference between the amounts so determined exceeds ten percent (10%) of the lesser of such amounts, then such two Appraisers shall have twenty (20) days to appoint a third Appraiser. If the first Appraisers fail to appoint a third Appraiser within such twenty (20) days, either Landlord or Tenant may apply to any court having jurisdiction to have such appointment made by such court. Such third Appraiser, shall, within forty-five (45) days of being selected or appointed, determine the Fair Market Value as of the relevant date (giving effect to the impact, if any, of inflation from the date of its decision to the relevant date). The determination of the Appraiser which differs most in terms of dollar amount from the determinations of the other two Appraisers shall be excluded, and the Fair Market Value shall be the average of the amounts of the two remaining determinations, and such average shall be final and binding upon the parties.

If either party fails to select an Appraiser within such ten (10) days or a selected Appraiser fails to make its determination within such forty-five (45) days, the Appraiser selected by the other party or the Appraiser that makes its determination with such forty-five (45) days, as applicable, shall alone determine the Fair Market Value as of the relevant date (giving effect to the impact, if any, of inflation from the date of its decision to the relevant date) and such determination shall be final and binding upon the parties.

Landlord and Tenant shall each pay the fees and expenses of the Appraiser appointed by it and each shall pay one-half (½) of the fees and expenses of the third Appraiser.

For purposes of determining the Fair Market Value, the Premises or the applicable Facility, as applicable, shall be valued at its highest and best use which shall be presumed to be as a fully-permitted facility operated in accordance with the provisions of this Lease. In addition, the following specific matters shall be factored in or out, as appropriate, in determining the Fair Market Value:

1. The negative value of (a) any deferred maintenance or other items of repair or replacement of the Premises or the applicable Facility, (b) any then current or prior licensure or certification violations and/or admissions holds and (c) any other breach or failure of Tenant to perform or observe its obligations hereunder shall not be taken into account; rather, the Premises or the applicable Facility, and every part thereof shall be deemed to be in the condition required by this Lease (i.e., in good order and repair and fully licensed) and Tenant shall at all times be deemed to have operated the same in compliance with and to have performed all obligations of the Tenant under this Lease.

2. The occupancy level of the Premises shall be deemed to be the average occupancy during the period commencing on that date which is eighteen (18) months prior to the date of the initial request for the determination of the Fair Market Value, and ending on the date which is six (6) months prior to the date of the initial request for the determination of the Fair Market Value, as the case may be.

As used herein, "**Appraiser**" means an appraiser licensed or otherwise qualified to do business in the applicable Situs State and who has substantial experience in performing appraisals of facilities similar to the Premises and holds the Appraisal Institute's MAI designation, or, if such organization no longer exists or certifies appraisers, such successor organization or such other organization as is approved by Landlord.

EXHIBIT F

INTERCREDITOR AGREEMENT

Exhibit F-1

SCHEDULE 1

LANDLORD ENTITIES

[_____]

SCHEDULE 2

TENANT ENTITIES; FACILITY INFORMATION

Tenant	Facility Name	Facility Address	Primary Intended Use	No. of Units

SCHEDULE 3

TENANT OWNERSHIP STRUCTURE

[_____]

SCHEDULE 4

FORM OF REQUEST FOR ADVANCE

Request for Advance

c/o [**LANDLORD ENTITY NAME**]

_____

_____

Attention: Lease Administration

Reference: [**TENANT NAME**]; Improvement Funds

To Whom It May Concern:

Reference is hereby made to that certain Master Lease dated effective as of [_____], by and among [_____], as "**Tenant**", and [_____], as "**Landlord**"(as amended, modified or revised, the "**Lease**"). Capitalized terms used but not otherwise defined herein shall have the meanings given them in the Lease.

1. Pursuant to Section 6.7 of the Lease, Tenant hereby submits this request for advance ("**Request for Advance**") and requests that Landlord make an advance (an "**Advance**") to Tenant of the Improvement Funds in an amount equal to $_____.

2. Tenant requests that such Advance be made available on _____, 201_.

3. The aggregate amount of all outstanding Advances as of the date hereof and as of the date of the making of the requested Advance (after taking into account the amount of such Advance) does not exceed the Facility Improvement Fund Cap for the applicable Facility.

4. Attached hereto are true, correct, and complete copies of the items required pursuant to Section 6.7 of the Lease to be submitted by Tenant to Landlord in connection with the requested Advance.

5. Tenant hereby certifies to Landlord as of the date hereof and as of the date of making of the requested Advance (after taking into effect such Advance) that:

(A) No Event of Default exists or will exist under the Lease and no default beyond any applicable cure period exists or will exist under any of the documents executed by Tenant in connection with the Lease.

(B) Tenant has complied in all material respects with all duties and obligations required to date to be carried out and performed by it pursuant to the terms of the Section 6.7 of the Lease. All conditions precedent set forth in Section 6.7 to the making of the Advance have been satisfied.

(C) All Advances previously disbursed have been used for the purposes set forth in Section 6.7 of the Lease and in the Request for Advance applicable to any such Advance.

(D) All outstanding claims for labor, materials, and/or services furnished prior to the period covered by this Request for Advance have been paid or will be paid from the proceeds of this Advance, except to the extent the same are being duly contested in accordance with the terms of the Lease.

(E) The Advance requested hereby will be used solely for the purpose of paying costs of the Capital Alterations as shown on the attached report and no portion of the Advance requested hereunder has been the basis for any prior Advance.

(F) There are no liens outstanding against the Premises (or any portion thereof) or its equipment other than liens, if any, which have been disclosed in writing to Landlord that are being duly contested in accordance with the terms of the Lease.

(G) All representations and warranties of Tenant contained in the Lease are true and correct in all material respects as of the date hereof.

The undersigned certifies that the statements made in this Request for Advance and any documents submitted herewith are true and correct.

TENANT:

_____,

a(n) _____

By: _____
Name: _____
Title: _____

THE PENNANT GROUP, INC.
2019 OMNIBUS INCENTIVE PLAN

Section 1. Purpose

The purpose of the Plan is to promote the interests of the Company and its stockholders by aiding the Company in attracting and retaining officers, consultants, independent contractors and Directors capable of assuring the future success of the Company and to attract and retain officers, employees and independent contractors and directors for its Affiliates, to offer Eligible Persons incentives to continue in the Company's, or its Affiliates' employ or service, as applicable, and to afford Eligible Persons an opportunity to acquire a proprietary interest, or otherwise increase their proprietary interest, in the Company.

Section 2. Definitions

As used in the Plan, the following terms shall have the meanings set forth below:

(a) "*Affiliate*" shall mean (i) any entity that, directly or indirectly through one or more intermediaries, is controlled by the Company and (ii) any entity in which the Company has a significant equity interest, in each case as determined by the Committee.

(b) "*Annual Meeting*" shall mean the Company's regular annual meeting of stockholders

(c) "*Automatic Stock Grant Program*" shall mean the Directors' Automatic Stock Grant Program described in Section 6(i) of the Plan.

(d) "*Award*" shall mean any Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Performance Award, Dividend Equivalent, Other Stock Grant, or Other Stock-Based Award granted under the Plan.

(e) "*Award Agreement*" shall mean any written agreement, contract or other instrument or document evidencing an Award granted under the Plan. Each Award Agreement shall be subject to the applicable terms and conditions of the Plan and any other terms and conditions (not inconsistent with the Plan) determined by the Committee.

(f) "*Board*" shall mean the Board of Directors of the Company.

(g) "*Cause*" shall mean the occurrence of any of the following: (i) Participant's personal dishonesty, willful misconduct, or breach of fiduciary duty involving personal profit, (ii) Participant's continuing intentional or habitual failure to perform stated duties, (iii) Participant's violation of any law (other than minor traffic violations or similar misdemeanor offenses not involving moral turpitude), (iv) Participant's material breach of any provision of an employment or independent contractor agreement with the Company, or (v) any other act or omission by a Participant that, in the opinion of the Committee, could reasonably be expected to adversely affect the Company's business, financial condition, prospects and/or reputation. In each of the foregoing subclauses (i) through (v), whether or not a "Cause" event has occurred will be determined by the Committee in its sole discretion or, in the case of Participants who are Directors or officers or persons subject to Section 16 of the Exchange Act, the Board, each of whose determination shall be final, conclusive and binding. A Participant's Service shall be deemed to have terminated for Cause if, after the Participant's Service has terminated, facts and circumstances are discovered that would have justified a termination for Cause, including, without limitation, violation of material Company policies or breach of noncompetition, confidentiality or other restrictive covenants that may apply to the Participant.

(h) "*Change in Control*" shall mean a change in ownership or control of the Company effected through the consummation of any of the following transactions: (i) a merger, consolidation or other reorganization unless securities representing more than 50% of the total combined voting power of the voting securities of the successor corporation (or its ultimate parent company) are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the Persons who beneficially owned the Company's outstanding voting securities immediately prior to such transaction; (ii) a sale, transfer or other disposition of all or substantially all of

the Company's assets; (iii) the acquisition, directly or indirectly, by any Person or related group of Persons (other than the Company or a Person that directly or indirectly controls, is controlled by, or is under common control with, the Company), of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than 50% of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholders or (iv) a majority of the members of the Board are replaced during any 12-month period by board of directors whose appointment or election is not endorsed by a majority of the member of the Board before the date of appointment or election. To the extent necessary to comply with Section 409A, a Change in Control must also constitute a Section 409A "change in control event".

(i) "*Code*" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

(j) "*Committee*" shall mean a committee of Directors designated by the Board to administer the Plan, which shall initially be the Compensation Committee. The Committee shall be comprised of at least two Directors but not less than such number of Directors as shall be required to permit Awards granted under the Plan to qualify under Rule 16b-3, and each member of the Committee shall be a Rule 16b-3 "*Non-Employee Director*."

(k) "*Company*" shall mean The Pennant Group, Inc., a Delaware corporation, and any successor corporation.

(l) "*Compensation Committee*" shall mean the compensation committee of the Board.

(m) "*Director*" shall mean a member of the Board, including any Non-Employee Director.

(n) "*Dividend Equivalent*" shall mean any right granted under Section 6(e) of the Plan.

(o) "*Eligible Person*" shall mean any Person who/that is an employee, officer, consultant, independent contractor or Director providing Services to the Company or any Affiliate who the Committee determines to be an Eligible Person.

(p) "*Equity Restructuring*" shall mean a dividend or other distribution (whether in the form of cash, Shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company or other similar corporate transaction or event that affects the Shares such that an adjustment is necessary in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

(q) "*Exchange Act*" shall mean the Securities Exchange Act of 1934, as amended.

(r) "*Fair Market Value*" shall mean, with respect to any property (including, without limitation, any Shares or other securities), the fair market value of such property determined by the Committee pursuant to such methods or procedures as shall be established from time to time by the Committee. Notwithstanding the foregoing and unless otherwise determined by the Committee, the Fair Market Value of a Share as of a given date shall be the closing sale price of one Share as reported on the Nasdaq Stock Market or such other principal United States securities market for such Shares on the date as of which Fair Market Value is being determined, if the Shares are then listed on the Nasdaq Stock Market or another principal United States securities market for such Shares.

(s) "*Fiscal Year*" shall mean the Company's fiscal year.

(t) "*Full Value Award*" shall mean any Award of Shares under this Plan or an Award payable in Shares, other than an Option, a Stock Appreciation Right or other purchase right for which the Participant pays fair market value for the Shares measured as of the date of grant.

(u) "*Incentive Stock Option*" shall mean an option granted under Section 6(a) of the Plan that is intended to qualify as an "incentive stock option" in accordance with the terms of Section 422 of the Code or any successor provision.

(v) "*Non-Employee Director*" shall mean any Director who is not also an employee of the Company or an Affiliate within the meaning of Rule 16b-3 (which term "Non-Employee Director" is defined in this paragraph for purposes of the definition of "Committee" only and is not intended to define such term as used elsewhere in the Plan).

(w) "*Non-Qualified Stock Option*" shall mean an option granted under Section 6(a) of the Plan that is not an Incentive Stock Option.

(x) "*Option*" shall mean an Incentive Stock Option or a Non-Qualified Stock Option.

(y) "*Other Stock Grant*" shall mean any right granted under Section 6(f) of the Plan.

(z) "*Other Stock-Based Award*" shall mean any right granted under Section 6(g) of the Plan.

(aa) "*Participant*" shall mean an Eligible Person designated to be granted an Award under the Plan.

(bb) "*Performance Award*" shall mean any right granted under Section 6(d) of the Plan.

(cc) "*Performance Goal*" shall mean a performance goal selected by the Committee, which may include one or more of the following performance goals, either individually, alternatively or in any combination, applied on a corporate, subsidiary or business unit basis: revenue, cash flow, gross profit, earnings before interest and taxes, earnings before interest, taxes, depreciation and amortization and net earnings, earnings per share, margins (including one or more of gross, operating and net income margins), returns (including one or more of return on assets, equity, investment, capital and revenue and total stockholder return), stock price, economic value added, working capital, market share, cost reductions, workforce satisfaction and diversity goals, employee retention, customer satisfaction, completion of key projects and strategic plan development and implementation. Such goals may reflect absolute entity or business unit performance or a relative comparison to the performance of a peer group of entities or other external measure of the selected performance criteria. The Committee shall establish the Performance Goals for a Performance Award on or before the 90th day of the applicable performance period for which Performance Goals are established and in no event after 25% of the applicable performance period has elapsed and in any event when the achievement of the applicable Performance Goals remains substantially uncertain. The Committee may appropriately adjust any evaluation of performance under such Performance Goals to exclude the effect of certain events, including without limitation any of the following events: asset write-downs; litigation or claim judgments or settlements; changes in tax law, accounting principles or other such laws or provisions affecting reported results; severance, contract termination and other costs related to exiting certain business activities; and gains or losses from the disposition of businesses or assets, from the early extinguishment of debt or items incorporated in the Company's reporting.

(dd) "*Person*" shall mean any individual or entity, including a corporation, partnership, limited liability company, association, joint venture or trust.

(ee) "*Plan*" shall mean The Pennant Group, Inc. 2019 Omnibus Incentive Plan, as amended from time to time, the provisions of which are set forth herein.

(ff) "*Restricted Stock*" shall mean any Share granted under Section 6(c) of the Plan (or any Share issued pursuant to an Option that is early exercised).

(gg) "*Restricted Stock Unit*" shall mean any unit granted under Section 6(c) of the Plan evidencing the right to receive a Share (or evidencing the right to receive a cash payment equal to the Fair Market Value of a Share if explicitly so provided in the Award Agreement) at some future date.

(hh) "*Rule 16b-3*" shall mean Rule 16b-3 promulgated by the Securities and Exchange Commission under the Exchange Act, or any successor rule or regulation.

(ii) "*Section 409A*" shall mean Section 409A of the Code and the applicable Treasury Regulations promulgated thereunder.

(jj) "*Securities Act*" shall mean the Securities Act of 1933, as amended.

(kk) "*Separation From Service*" has the meaning provided to such term under Section 409A and the regulations promulgated thereunder.

(ll) "*Service*" shall mean the Participant's performance of services for the Company (or any Affiliate) in the capacity of an employee, officer, consultant, independent contractor or Director.

(mm) "*Share*" or "*Shares*" shall mean a share or shares of common stock, $0.001 par value per share, of the Company or such other securities or property as may become subject to Awards pursuant to an adjustment made under Section 4(c) of the Plan.

(nn) "*Specified Employee*" has the meaning provided to such term under Section 409A and the regulations promulgated thereunder.

(oo) "*Stock Appreciation Right*" shall mean any right granted under Section 6(b) of the Plan.

(pp) "*Substitute Awards*" shall mean the Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, in each case by a company acquired by the Company or any Affiliate or with which the Company or any Affiliate combines.

Section 3. Administration

(a) *Power and Authority of the Committee.* The Plan shall be administered by the Committee. Any Awards made solely to members of the Committee, however, should also be authorized by a disinterested majority of the Board. Subject to the express provisions of the Plan and to applicable law, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to each Participant under the Plan; (iii) determine the number of Shares to be covered by (or the method by which payments or other rights are to be determined in connection with) each Award; (iv) determine the terms and conditions of any Award or Award Agreement; (v) modify or amend the terms and conditions of any Award or Award Agreement and accelerate the exercisability of any Option or waive any restrictions relating to any Award or extending the period of exercisability for an Award; (vi) determine whether, to what extent and under what circumstances Awards may be exercised in cash, Shares, other securities, other Awards or other property, or canceled, forfeited or suspended; (vii) interpret and administer the Plan and any instrument or agreement, including an Award Agreement, relating to the Plan; (viii) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; (ix) include in an Award Agreement a requirement that, under certain circumstances, acceleration of vesting (or compensation payable) with respect to such Award shall be reduced (or eliminated) to the extent that such reduction (or elimination) would, after taking into account any other payments in the nature of compensation to which the Participant would have a right to receive from the Company and any other Person contingent upon the occurrence of a Change in Control, prevent the occurrence of a "parachute payment" as defined under Code Section 280G; (x) granting Awards to Eligible Persons who are foreign nationals on such terms and conditions different from those specified in the Plan, which may be necessary or desirable to foster and promote achievement of the purposes of the Plan, and adopting such modifications, procedures, and/or subplans (with any such subplans attached as appendices to the Plan) and the like as may be necessary or desirable to comply with provisions of the laws or regulations of other countries or jurisdictions to ensure the viability of the benefits from Awards granted to Participants employed in such countries or jurisdictions, or to meet the requirements that permit the Plan to operate in a qualified or tax efficient manner, and/or comply with applicable foreign laws or regulations; and (xi) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations and other decisions under or with respect to the Plan or any Award or Award Agreement shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive and binding upon any Eligible Person and

any holder or beneficiary of any Award and shall receive the maximum deference permitted under applicable law. The administration of the Automatic Stock Grant Program, however, shall be self-executing in accordance with the terms of that program so that neither the Board nor any Committee shall exercise any discretionary functions with respect to any Awards made under that program. If at any time (including after a notice of exercise has been delivered) the Committee (or the Board), reasonably believes that a Participant has committed an act of Cause (which includes a failure to act), the Committee (or Board) may suspend the Participant's right to exercise any Award (or vesting or settlement of any Award) pending a determination of whether there was in fact an act of Cause. If the Committee (or the Board) determines a Participant has committed an act of Cause, neither the Participant nor his or her estate shall be entitled to exercise any outstanding Award whatsoever and all of Participant's outstanding Awards shall then terminate without consideration. The expenses of the Plan shall be borne by the Company.

Section 4. Shares Available for Awards

(a) *Shares Available.* Subject to adjustment as provided in Section 4(c) of the Plan, a maximum number of [ ] shares may be issued pursuant to the Plan (the "*Share Limit*"). Such Shares may be in whole or in part authorized and unissued or held by the Company as treasury shares.

(b) *Accounting for Awards.* To the extent that (i) Options or Stock Appreciation Rights granted under the Plan shall expire unexercised, are cancelled, forfeited, terminated or are not distributed, or (ii) Shares subject to Awards under the Plan shall be, cancelled, forfeited, terminated or are settled in cash in lieu of Shares, such Shares shall immediately become available for grant under the Plan, as applicable, and shall increase the number of Shares available for purposes of the Plan. To the extent that Options, Stock Appreciation Rights or Shares awarded under this Plan shall be cancelled, forfeited or terminated (or are settled in cash in lieu of Shares), such Shares shall be added back to the Plan on the same basis and subject to the same ratio that applied when they were granted and shall increase the number of Shares available for purposes of the Plan. Shares delivered in payment of the purchase price in connection with the exercise of any Award, Shares repurchased on the open market with proceeds received by the Company from stock exercises, Shares delivered or withheld to pay tax withholding obligations or otherwise under the Plan and Shares not issued upon the net settlement or net exercise of Stock Appreciation Rights shall be added to and shall increase the number of Shares available for purposes of the Plan. Stock Appreciation Rights to be settled in Shares shall be counted in full against the number of Shares available for award under the Plan regardless of the number of Shares issued upon settlement of the Stock Appreciation Rights.

(c) *Adjustments.* In the event of any Equity Restructuring, the number and type of Shares (or other securities or other property) subject to outstanding Awards, and the purchase price or exercise price with respect to any Award will be proportionately adjusted; *provided, however*, that the number of Shares covered by any Award or to which such Award relates shall always be rounded down to the nearest whole number. The adjustments provided under this Section 4(c) shall be nondiscretionary and shall be final and binding on the affected Participant and the Company. The Committee shall make such proportionate adjustments, if any, as the Committee in its discretion may deem appropriate to reflect such Equity Restructuring with respect to the Share Limit, the ISO Limit, the aggregate number and kind of shares that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Sections 4(a), 4(b) and 6(d) hereof, the Limitations and Director Grant Limits as each are defined below, and the automatic grant figures set forth in Section 6(i)).

(d) *Substitute Awards*. Substitute Awards shall not count toward the Share Limit (or the other limits in Section 4(a)), nor shall Shares subject to a Substitute Award again be available for Awards under the Plan as provided in Section 4(a). Additionally, in the event that a company acquired by the Company or any Affiliate or with which the Company or any Affiliate combines has shares available under a pre-existing plan approved by stockholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not count toward the Share Limit; provided that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not Employees or Board members prior to such acquisition or combination.

Section 5. Eligibility

Participation in the Plan shall be limited to Eligible Persons. In determining which Eligible Persons shall receive an Award and the terms of any Award, the Committee may take into account the nature of the services rendered by the respective Eligible Persons, their present and potential contributions to the success of the Company or such other factors as the Committee, in its discretion, shall deem relevant. Notwithstanding the foregoing, an Incentive Stock Option may only be granted to full-time or part-time employees (which term as used herein includes, without limitation, officers and Directors who are also employees), and an Incentive Stock Option shall not be granted to an employee of an Affiliate unless such Affiliate is also a "subsidiary corporation" of the Company within the meaning of Section 424(f) of the Code or any successor provision.

Notwithstanding anything to the contrary, the maximum grant date fair value of any Award granted to any Non-Employee Director during any calendar year will not exceed $500,000, such limit which, for the avoidance of doubt, applies to Awards granted under the Plan only and does not include Shares granted in lieu of all or any portion of such Non-Employee Director's cash retainer fees.

Section 6. Awards

(a) *Options.* The Committee is hereby authorized to grant Options to Eligible Persons with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) *Exercise Price*. The purchase price per Share purchasable under an Option shall be determined by the Committee; *provided*, *however*, that such purchase price shall not be less than 100% of the Fair Market Value of a Share on the date of grant of such Option unless the Committee expressly acknowledges in its granting resolutions that such Option has been structured to be exempt from or compliant with the requirements of Section 409A.

(ii) *Option Term*. The term of each Option shall be fixed by the Committee at the time of grant, but shall not be longer than 10 years from the date of grant.

(iii) *Time and Method of Exercise*. The Committee shall determine the time or times at which an Option may be exercised in whole or in part and the method or methods by which, and the form or forms (including, without limitation, cash, Shares, other securities, other Awards or other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the applicable exercise price) in which payment of the exercise price with respect thereto may be made or deemed to have been made.

(iv) *Incentive Stock Options*. Notwithstanding anything in the Plan to the contrary, the following additional provisions shall apply to the grant of stock options which are intended to qualify as Incentive Stock Options:

(A) The Committee will not grant Incentive Stock Options in which the aggregate Fair Market Value (determined as of the time the option is granted) of the Shares with respect to which Incentive Stock Options are exercisable for the first time by any Participant during any calendar year (under this Plan and all other plans of the Company and its Affiliates) shall exceed $100,000.

(B) All Incentive Stock Options must be granted within ten years from the earlier of the date on which this Plan was adopted by the Board or the date this Plan was approved by the stockholders of the Company.

(C) Unless sooner exercised, all Incentive Stock Options shall expire and no longer be exercisable no later than 10 years after the date of grant; *provided*, *however*, that in the case of a grant of an Incentive Stock Option to a Participant who, at the time such Option is granted, owns (within the meaning of Section 422 of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its Affiliate, such Incentive Stock Option shall expire and no longer be exercisable no later than 5 years from the date of grant.

(D) The purchase price per Share for an Incentive Stock Option shall be not less than 100% of the Fair Market Value of a Share on the date of grant of the Incentive Stock Option; *provided*, *however*, that, in the case of the grant of an Incentive Stock Option to a Participant who, at the time such Option is granted, owns (within the meaning of Section 422 of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its Affiliate, the purchase price per Share purchasable under an Incentive Stock Option shall be not less than 110% of the Fair Market Value of a Share on the date of grant of the Incentive Stock Option.

(E) Any Incentive Stock Option authorized under the Plan shall contain such other provisions as the Committee shall deem advisable, but shall in all events be consistent with and contain all provisions required in order to qualify the Option as an Incentive Stock Option.

(F) Subject to adjustment as provided in Section 4(c), the maximum aggregate number of Shares that may be issued pursuant to the exercise of Incentive Stock Options granted under this Plan shall not exceed [ ] Shares (the "*ISO Limit*").

(b) *Stock Appreciation Rights.* The Committee is hereby authorized to grant Stock Appreciation Rights to Eligible Persons subject to the terms of the Plan and any applicable Award Agreement. Each Stock Appreciation Right granted under the Plan shall confer on the holder upon exercise the right to receive a whole number of Shares equal to the excess of (a) the Fair Market Value of one Share on the date of exercise (or, if the Committee shall so determine, at any time during a specified period before or after the date of exercise) over (b) the grant price of the Stock Appreciation Right as determined by the Committee, which grant price shall not be less than 100% of the Fair Market Value of one Share on the date of grant of the Stock Appreciation Right. The term of any Stock Appreciation Right shall not exceed 10 years.

(c) *Restricted Stock and Restricted Stock Units.* The Committee is hereby authorized to grant Restricted Stock and Restricted Stock Units to Eligible Persons with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) *Restrictions*. Shares of Restricted Stock and Restricted Stock Units shall be subject to such restrictions as the Committee may impose (including, without limitation, a restriction on or prohibition against the right to receive any dividend or other right or property with respect thereto), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise as the Committee may deem appropriate.

(ii) *Issuance of Shares*. Any Restricted Stock granted under the Plan may be evidenced in such manner as the Board may deem appropriate, including book-entry registration or issuance of a stock certificate or certificates, which certificate or certificates shall be held by the Company. Such certificate or certificates shall be registered in the name of the Participant and shall bear an appropriate legend referring to the restrictions and possible forfeiture applicable to such Restricted Stock, as set forth in the Award Agreement.

(iii) *Dividends*. Dividends payable to holders of Restricted Stock and Restricted Stock Units shall be handled pursuant to Section 9(s) of the Plan.

(iv) *Forfeiture*. Except as otherwise determined by the Committee, upon a Participant's termination of Service (as determined under criteria established by the Committee) during the applicable restriction period, all applicable Shares of Restricted Stock and Restricted Stock Units at such time subject to restriction shall be forfeited and with Shares of Restricted Stock reacquired by the Company; *provided, however*, that the Committee may, when it finds that a waiver would be in the best interest of the Company, waive in whole or in part any or all remaining restrictions with respect to Shares of Restricted Stock or Restricted Stock Units.

(d) *Performance Awards.* The Committee is hereby authorized to grant Performance Awards to Eligible Persons subject to the terms of the Plan. A Performance Award granted under the Plan (i) may be denominated or payable in cash, Shares (including, without limitation, Restricted Stock and Restricted Stock Units), other securities, other Awards or other property and (ii) shall confer on the holder thereof the right to receive payments, in whole or in part, upon the achievement of such Performance Goals during such performance periods as the Committee shall establish. Subject to the terms of the Plan, the Performance Goals to be achieved during any performance period, the length of any performance period, the amount of any Performance Award granted, the amount of any payment or transfer to be made pursuant to any Performance Award and any other terms and conditions of any Performance Award shall be determined by the Committee.

(e) *Dividend Equivalents.* The Committee is hereby authorized to grant Dividend Equivalents to Eligible Persons under which the Participant shall be entitled to receive payments (in cash, Shares, other securities, other Awards or other property as determined in the discretion of the Committee) equivalent to the amount of cash dividends paid by the Company to holders of Shares with respect to a number of Shares determined by the Committee. Subject to the terms of the Plan, such Dividend Equivalents may have such terms and conditions as the Committee shall determine except that all Dividend Equivalents shall be subject to the same vesting conditions as to the underlying Award to which they are attached.

(f) *Other Stock Grants.* The Committee is hereby authorized, subject to the terms of the Plan, to grant to Eligible Persons Shares without restrictions thereon as are deemed by the Committee to be consistent with the purpose of the Plan. Subject to the terms of the Plan and any applicable Award Agreement, such Other Stock Grant may have such terms and conditions as the Committee shall determine.

(g) *Other Stock-Based Awards.* The Committee is hereby authorized to grant to Eligible Persons, subject to the terms of the Plan, such other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible into Shares), as are deemed by the Committee to be consistent with the purpose of the Plan. Shares or other securities delivered pursuant to a purchase right granted under this Section 6(g) shall be purchased for such consideration, which may be paid by such method or methods and in such form or forms (including, without limitation, cash, Shares, other securities, other Awards or other property or any combination thereof), as the Committee shall determine, the value of which consideration, as established by the Committee, shall not be less than 100% of the Fair Market Value of such Shares or other securities as of the date such purchase right is granted unless the Committee expressly acknowledges in its granting resolutions that such Other Stock-Based Award has been structured to be exempt from or compliant with the requirements of Section 409A.

(h) *General*.

(i) *Consideration for Awards*. Awards may be granted for no cash consideration or for any cash or other consideration as determined by the Committee and required by applicable law.

(ii) *Awards May Be Granted Separately or Together*. Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with or in substitution for any other Award or any award granted under any plan of the Company or any Affiliate. Awards granted in addition to or in tandem with other Awards or in addition to or in tandem with awards granted under any such other plan of the Company or any Affiliate may be granted either at the same time as or at a different time from the grant of such other Awards or awards.

(iii) *Forms of Payment under Awards*. Subject to the terms of the Plan and of any applicable Award Agreement, payments or transfers to be made by the Company or an Affiliate upon the grant, exercise or payment of an Award may be made in such form or forms as the Committee shall determine (including, without limitation, cash, Shares, other securities, other Awards or other property or any combination thereof), and may be made in a single payment or transfer, in installments or on a deferred basis, in each case in accordance with rules and procedures established by the Committee. Such rules and procedures may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments or the grant or crediting of Dividend Equivalents with respect to installment or deferred payments.

(iv) *Limits on Transfer of Awards*. No Award (other than Other Stock Grants) and no right under any such Award shall be transferable by a Participant other than by will or by the laws of descent and distribution and the Company shall not be required to recognize any attempted assignment of such rights by any Participant; *provided*, *however*, that, if so determined by the Committee, a Participant may, in the manner established by the Committee, designate a beneficiary or beneficiaries to exercise the rights of the Participant and receive any property distributable with respect to any Award upon the death of the Participant; *provided*, *further*, that, if so determined by the Committee, a Participant may, at any time that such Participant holds such Option, transfer a Non-Qualified Stock Option to any "*Family Member*" (as such term is defined in the General Instructions to Form S-8 (or any successor to such Instructions or such Form) under the Securities Act), *provided* that the Participant may not receive any consideration for such transfer, the Family Member may not make any subsequent transfers other than by will or by the laws of descent and distribution and the Company receives written notice of such transfer. Except as otherwise determined by the Committee, each Award (other than an Incentive Stock Option) or right under any such Award shall be exercisable during the Participant's lifetime only by the Participant or, if permissible under applicable law, by the Participant's guardian or legal representative. Except as otherwise determined by the Committee, no Award (other than an Incentive Stock Option) or right under any such Award may be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or other encumbrance thereof shall be void and unenforceable against the Company or any Affiliate.

(v) *Term of Awards*. Subject to Section 6(a)(iv)(C), the term of each Award shall be fixed by the Committee at the time of grant, but shall not be longer than 10 years from the date of grant.

(vi) *Restrictions; Securities Exchange Listing*. All Shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan, applicable federal or state securities laws and regulatory requirements, and the Committee may direct appropriate stop transfer orders and cause other legends to be placed on the certificates for such Shares or other securities to reflect such restrictions. If the Shares or other securities are traded on a securities exchange, the Company shall not be required, and shall have no liability for failure, to deliver any Shares or other securities covered by an Award unless and until such Shares or other securities have been and continue to be admitted for trading on such securities exchange. No Shares or other assets shall be issued or delivered pursuant to the Plan, and the Company shall have no liability for failure to issue or deliver Shares under the Plan, unless and until there shall have been compliance with all applicable requirements of applicable securities laws, including the filing and effectiveness of the Form S-8 registration statement for the Shares issuable pursuant to the Plan, and all applicable listing requirements of any stock exchange or trading system, including the Nasdaq Stock Market, on which Common Stock is then traded. No Shares shall be issued or delivered pursuant to the Plan, and the Company shall have no liability for failure to issue or deliver Shares under the Plan, if doing so would violate any internal policies of the Company.

(vii) *Prohibition on Repricing*. Except as provided in Section 4(c) of the Plan, no Option or Stock Appreciation Right may be amended to reduce its initial exercise or grant price and no Option or Stock Appreciation Right shall be canceled and replaced with either cash or Shares or with Options or Stock Appreciation Rights having a lower exercise or grant price, without the approval of the stockholders of the Company. In addition, no re-load Options may be granted without the approval of the stockholders of the Company.

(i) *Directors' Automatic Stock Grant Program*.

(i) *Automatic Quarterly Restricted Stock Awards*. Beginning with the Adoption Date, each Non-Employee Director serving as a duly elected or appointed Class I, Class II, or Class III Director on the first day of each fiscal quarter shall receive 750 Shares for each fiscal quarter of service. Shares granted pursuant to the Automatic Stock Grant Program shall vest in accordance with the schedule designated by the Committee as set forth in the Award Agreement. There shall be no limit on the number of Shares any one Non-Employee Director may receive over his or her period of Board service pursuant to the Automatic Stock Grant Program, and Non-Employee Directors who have previously been employees of the Company (or any Affiliate) or who have received one or more Awards from the Company prior to becoming a Non-Employee Director shall nevertheless be eligible to receive Shares pursuant to the Automatic Stock Grant Program over their period of continued Board service. Non-Employee Directors must be serving as a member of the Board on the first day of the fiscal quarter in question to be eligible to receive an Award under this subsection. If a Non-Employee Director ceases to serve as a member of the Board for any reason, such Non-Employee Director shall no longer be eligible or entitled to receive any Awards contemplated by this subsection. Non-Employee Directors elected to fill less than a three-year term will receive a pro rata stock award

(ii) *Timing of Awards*. Awards made pursuant to the Automatic Stock Grant Program shall be granted on the fifteenth (15th) day of the first month of the fiscal quarter for which the Non-Employee Director qualifies for such Award, provided that such day is not a Saturday, Sunday or holiday observed by the NASDAQ Stock Market. In the event that the fifteenth (15th) day of the first month of the fiscal quarter is a Saturday, Sunday or holiday observed by the NASDAQ Stock Market, the Shares shall be issued on the next regular business and trading day following the fifteenth (15th) day of the first month of the fiscal quarter.

Section 7. Amendment and Termination; Adjustments

(a) *Amendments to the Plan.* The Board may amend, alter, suspend, discontinue or terminate the Plan at any time; *provided, however*, that, notwithstanding any other provision of the Plan or any Award Agreement, without the approval of the stockholders of the Company, no such amendment, alteration, suspension, discontinuation or termination shall be made that, absent such approval:

(i) violates the rules or regulations of the National Association of Securities Dealers, Inc. or any other securities exchange that are applicable to the Company;

(ii) causes the Company to be unable, under the Code, to grant Incentive Stock Options under the Plan;

(iii) increases the number of shares authorized under the Plan as specified in Section 4(a); or

(iv) permits the award of Options or Stock Appreciation Rights at a price less than 100% of the Fair Market Value of a Share on the date of grant of such Option or Stock Appreciation Right, as prohibited by Sections 6(a)(i) and 6(b) of the Plan or the repricing of Options or Stock Appreciation Rights, as prohibited by Section 6(h)(vii) of the Plan.

(b) *Amendments to Awards.* The Committee may waive any conditions of or rights of the Company under any outstanding Award, prospectively or retroactively. Except as otherwise provided herein or in an Award Agreement, the Committee may not amend, alter, suspend, discontinue or terminate any outstanding Award, prospectively or retroactively, if such action would adversely affect the rights of the holder of such Award, without the consent of the Participant or holder or beneficiary thereof.

(c) *Correction of Defects, Omissions and Inconsistencies.* The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any Award or Award Agreement in the manner and to the extent it shall deem desirable to implement or maintain the effectiveness of the Plan.

Section 8. Income Tax Withholding

In order to comply with all applicable federal, state or local income tax laws or regulations, the Company may take such action as it deems appropriate to ensure that all applicable federal, state or local payroll, withholding, income or other taxes, which are the sole and absolute responsibility of a Participant, are withheld or collected from such Participant. In order to assist a Participant in paying all or a portion of the federal, state and local taxes to be withheld or collected upon exercise or receipt of (or the lapse of restrictions relating to) an Award, the Committee, in its discretion and subject to such additional terms and conditions as it may adopt, may permit the Participant to satisfy such tax obligation by (i) electing to have the Company withhold a portion of the Shares otherwise to be delivered upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes (but only up to the maximum amount permitted to be withheld under applicable laws or regulations or financial accounting rules and without causing the Award to be classified as a liability under financial accounting rules) or (ii) delivering to the Company Shares other than Shares issuable upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes (but only up to the maximum amount permitted to be withheld under applicable laws or regulations or financial accounting rules and without causing the Award to be classified as a liability under financial accounting rules). The election, if any, must be made on or before the date that the amount of tax to be withheld is determined.

Section 9. General Provisions

(a) *No Rights to Awards.* No Eligible Person or other Person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Eligible Persons or holders or beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to any Participant or with respect to different Participants. A grant of any type made hereunder in any one year to an Eligible Person shall neither guarantee nor preclude a further grant of that or any other type of Award to such Eligible Person in that year or subsequent years.

(b) *Award Agreements.* No Participant will have rights under an Award granted to such Participant unless and until an Award Agreement shall have been duly executed on behalf of the Company and, if requested by the Company, signed by the Participant.

(c) *Plan Provisions Control.* In the event that any provision of an Award Agreement conflicts with or is inconsistent in any respect with the terms of the Plan as set forth herein or subsequently amended, the terms of the Plan shall control.

(d) *No Rights of Stockholders.* Except with respect to Shares of Restricted Stock as to which the Participant has been granted the right to vote, neither a Participant nor the Participant's legal representative shall be, or have any of the rights and privileges of, a stockholder of the Company with respect to any Shares issuable to such Participant upon the exercise or payment of any Award, in whole or in part, unless and until such Shares have been issued in the name of such Participant or such Participant's legal representative without restrictions thereto.

(e) *No Limit on Other Compensation Arrangements.* Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting or continuing in effect other or additional compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

(f) *No Right to Employment.* The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ, or as giving a Director of the Company or an Affiliate the right to continue as a Director or an Affiliate of the Company or any Affiliate, nor will it affect in any way the right of the Company or an Affiliate to terminate a Participant's employment or Service at any time, with or without cause. In addition, the Company or an Affiliate may at any time dismiss a Participant from employment, or terminate the term of a Director of the Company or an Affiliate, free from any liability or any claim under the Plan or any Award, unless otherwise expressly provided in the Plan or in any Award Agreement. Nothing in this Plan shall confer on any Participant any legal or equitable right against the Company or any Affiliate, directly or indirectly, or give rise to any cause of action at law or in equity against the Company or an Affiliate. The Awards granted hereunder shall not form any part of the wages or salary of any Eligible Person for purposes of severance pay or termination indemnities, irrespective of the reason for termination of employment. Under no circumstances shall any Participant ceasing to

be an employee of the Company or any Affiliate be entitled to any compensation for any loss of any right or benefit under the Plan which such employee might otherwise have enjoyed but for termination of employment, whether such compensation is claimed by way of damages for wrongful or unfair dismissal, breach of contract or otherwise. By participating in the Plan, each Participant shall be deemed to have accepted all the conditions of the Plan and the terms and conditions of any rules and regulations adopted by the Committee and shall be fully bound thereby.

(g) *Transferability*. Unless the Committee determines otherwise, no Award granted under the Plan shall be transferable by a Participant other than by will or the laws of descent and distribution or, with respect to such grants other than grants of Incentive Stock Options, to a Participant's Family Member by gift or a qualified domestic relations order as defined by the Code. Unless the Committee determines otherwise, an Option or SAR may be exercised only by the Participant thereof; by his or her Family Member if such person has acquired the Option or SAR by gift or qualified domestic relations order; by his or her executor or administrator or the executor or administrator of the estate of any of the foregoing or any person to whom the Option is transferred by will or the laws of descent and distribution; or by his or her guardian or legal representative or the guardian or legal representative of any of the foregoing; provided that Incentive Stock Options may be exercised by any Family Member, guardian or legal representative only if permitted by the Code and any regulations thereunder. All provisions of the Plan shall in any event continue to apply to any Award granted under the Plan and transferred as permitted by this Section 9(g), and any transferee of any such Award shall be bound by all provisions of the Plan as and to the same extent as the applicable original Participant.

(h) *Governing Law.* The validity, construction and effect of the Plan or any Award, and any rules and regulations relating to the Plan or any Award, shall be determined in accordance with the internal laws, and not the law of conflicts, of the State of Delaware.

(i) *Severability.* If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the purpose or intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction or Award, and the remainder of the Plan or any such Award shall remain in full force and effect.

(j) *No Trust or Fund Created.* Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and an Eligible Person or Participant. To the extent that a Participant acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company or any Affiliate.

(k) *Other Benefits.* No compensation or benefit awarded to or realized by any Participant under the Plan shall be included for the purpose of computing such Participant's compensation under any compensation-based retirement, disability, or similar plan of the Company unless required by law or otherwise provided by such other plan.

(l) *No Fractional Shares.* No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash shall be paid in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated or otherwise eliminated.

(m) *Headings.* Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

(n) *Section 16 Compliance*. The Plan is intended to comply in all respects with Rule 16b-3 or any successor provision, as in effect from time to time, and in all events the Plan shall be construed in accordance with the requirements of Rule 16b-3. If any Plan provision does not comply with Rule 16b-3 as hereafter amended or interpreted, the provision shall be deemed inoperative. The Board, in its absolute discretion, may bifurcate the Plan so as to restrict, limit or condition the use of any provision of the Plan with respect to persons who are officers or Directors subject to Section 16 of the Exchange Act without so restricting, limiting or conditioning the Plan with respect to other Eligible Persons.

(o) *Conditions Precedent to Issuance of Shares.* Shares shall not be issued, and the Company shall not have any liability for failure to issue Shares, pursuant to the exercise or payment of the purchase price relating to an Award unless such exercise or payment and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act, the Exchange Act, the rules and regulations promulgated thereunder, the requirements of any applicable Stock Exchange and the Delaware General Corporation Law. As a condition to the exercise or payment of the purchase price relating to such Award, the Company may require that the Participant exercising or paying the purchase price represent and warrant that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation and warranty is required by law.

(p) *Section 409A.* Notwithstanding anything in the Plan to the contrary, the Plan and Awards granted hereunder are intended to be exempt from or comply with the requirements of Section 409A and shall be interpreted in a manner consistent with such intention. In the event that any provision of the Plan or an Award Agreement is determined by the Committee to not comply with the applicable requirements of Section 409A or the applicable regulations and other guidance issued thereunder, the Committee shall have the authority (but without an affirmative obligation) to take such actions and to make such changes to the Plan or an Award Agreement as the Committee deems necessary to comply with such requirements. Any payment made pursuant to any Award shall be considered a separate payment and not one of a series of payments for purposes of Section 409A. Notwithstanding the foregoing or anything elsewhere in the Plan or an Award Agreement to the contrary, if upon a Participant's Separation From Service he/she is then a Specified Employee, then solely to the extent necessary to comply with Section 409A and avoid the imposition of taxes under Section 409A, the Company shall defer payment of "nonqualified deferred compensation" subject to Section 409A payable as a result of and within six (6) months following such Separation From Service under this Plan until the earlier of (i) the first business day of the seventh month following the Participant's Separation From Service, or (ii) twenty (20) days after the Company receives written confirmation of the Participant's death. Any such delayed payments shall be made without interest. While it is intended that all payments and benefits provided under the Plan or an Award will be exempt from or comply with Section 409A, the Company makes no representation or covenant to ensure that the payments under the Plan or an Award are exempt from or compliant with Section 409A. In no event whatsoever shall the Company be liable if a payment or benefit under the Plan or an Award is challenged by any taxing authority or for any additional tax, interest or penalties that may be imposed on a Participant by Section 409A or any damages for failing to comply with Section 409A. The Participant will be entirely responsible for any and all taxes on any benefits payable to such Participant as a result of the Plan or an Award. If the applicable Award Agreement or Participant's employment agreement provides for Section 409A related provisions other than what is specified above in this Section 9(p), then such provisions in the Award or employment agreement shall govern.

(q) *Change in Control*. In the event that there is a Change in Control and/or the Company is a party to a merger or acquisition or reorganization or similar transaction, outstanding Awards shall be subject to the merger agreement or other applicable transaction agreement. Such agreement may provide, without limitation, that subject to the consummation of the applicable transaction, for the assumption (or substitution) of outstanding Awards by the surviving entity or its parent, for their continuation by the Company (if the Company is a surviving corporation), for accelerated vesting, or for their cancellation either with or without consideration, in all cases without the consent of the Participant.

(r) *Recoupment of Compensation*. The Company may (i) cause the cancellation of any Award, (ii) require reimbursement of any Award by a Participant and (iii) effect any other right of recoupment of equity or other compensation provided under this Plan or otherwise in accordance with Company policies as may be adopted and/or modified from time to time by the Company and/or applicable law (each, a "*Clawback Policy*"). In addition, a Participant may be required to repay to the Company certain previously paid compensation, whether provided under this Plan or an Award Agreement or otherwise, in accordance with the Clawback Policy. By accepting an Award, a Participant is also agreeing to be bound by the Company's Clawback Policy which may be amended from time to time by the Company in its discretion (including without limitation to comply with applicable laws or stock exchange requirements) and is further agreeing that all of the Participant's Awards may be unilaterally amended by the Company to the extent needed to comply with the Clawback Policy.

(s) *Dividends*. No dividends (that are paid by the Company to holders of Shares) will be paid or accrued with respect to Options, Stock Appreciation Rights, Restricted Stock Units or unearned Performance Awards; however, dividends may be paid with respect to unvested Restricted Stock awards issued under the Plan that are subject to time-vesting requirements only.

(t) *Dissolution*. To the extent not previously exercised or settled, all Awards shall terminate immediately prior to the dissolution or liquidation of the Company and shall be forfeited to the Company (except for repayment of any amounts a Participant had paid to the Company to acquire unvested Shares underlying the forfeited Awards).

Section 10. Effective Date of the Plan

The Plan shall be effective as of the date of its approval by the Board (the "*Adoption Date*"), however no Awards may be granted until the Plan has been approved by Company stockholders.

Section 11. Term of the Plan

No Award shall be granted under the Plan after (a) the tenth anniversary of the Adoption Date, or (b) any earlier date of discontinuation or termination established pursuant to Section 7(a) of the Plan. However, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award theretofore granted may extend beyond such date, and the authority of the Committee provided for hereunder with respect to the Plan and any Awards, and the authority of the Board to amend the Plan, shall extend beyond the termination of the Plan.

Exhibit 10.6

Notice of Stock Options

Optionee: **Option Number:**

Address: **Plan:** *2019 Omnibus Incentive Plan*

Notice is hereby given of the following Option Award grant (the "Option") to purchase shares of the Common Stock of The Pennant Group, Inc. (the "Corporation"):

Grant Date: **Number of Option Shares: *** ***

Type of Options: Non-Incentive **Exercise Price Per Share:**

V E S T I N G

Vesting Schedule: *[Vesting to be inserted at the time of grant.]*

Expiration Date: *Ten years from the Grant or upon earlier termination of the Option*

Except as otherwise provided in the Option Agreement, the Option may be exercised for vested Shares by Optionee in accordance with the following schedule:

On or after each of the following dates	**Number of Stock Options vested**

By accepting this Option Award, Optionee acknowledges and agrees that the option rights herein are granted only subject to and in accordance with the terms of (i) the enclosed NON-INCENTIVE STOCK OPTION AWARD TERMS AND CONDITIONS (together with this Notice of Grant of Stock Options, the "Option Agreement"), and (ii) THE PENNANT GROUP, INC. 2019 OMNIBUS INCENTIVE PLAN (the "Plan"), both of which are incorporated herein by this reference. Option Shares purchased pursuant to this Option Award can only be acquired subject to the terms set forth in the Plan and the Option Agreement, whether said options are purchased electronically or in person. All capitalized terms in this Notice of Grant of Stock Options shall have the meaning assigned to them in the Option Agreement or the Plan.

EXECUTED AND DELIVERED as of the Grant Date set forth above.

THE PENNANT GROUP, INC.
a Delaware corporation

By: _____
Name: _____
Title: _____

THE PENNANT GROUP, INC.
NON-INCENTIVE STOCK OPTION AWARD
TERMS AND CONDITIONS

These **NON-INCENTIVE STOCK OPTION AWARD TERMS AND CONDITIONS** are an integral part of the foregoing Notice of Grant of Stock Options (the "*Notice*," and together with these Terms and Conditions, the "*Option Agreement*") made by **The Pennant Group, Inc**., a Delaware corporation (the "*Company*") to the individual "*Optionee*" named therein. All capitalized terms used herein but not defined in the Option Agreement shall have the meanings given to them in The Pennant Group, Inc. 2019 Omnibus Incentive Plan (the "*Plan*"), the terms and conditions of which are incorporated herein by this reference.

1. Grant of Option. The Company hereby grants Optionee, on the date such grant was approved by the Committee (the "*Grant Date*"), the option (the "*Option*") to purchase all or any part of the number of Option Shares set forth in the Notice (the "*Shares*") of Common Stock of the Company at the exercise price per share set forth in the Notice, according to the terms and conditions set forth in this Option Agreement and in the Plan. The Option will not be treated as an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "*Code*"). The Option is issued under the Plan and is subject to its terms and conditions. A copy of the Plan will be furnished upon request of Optionee.

The Option shall terminate at the close of business on the Expiration Date set forth in the Notice (the "*Expiration Date*") unless sooner terminated or cancelled in accordance with this Option Agreement or the Plan.

2. Vesting of Option Rights.

(a) Except as otherwise provided in this Option Agreement, the Option may be exercised for vested Shares by Optionee in accordance with the schedule set forth in the Notice.

(b) During the lifetime of Optionee, the Option shall be exercisable only by Optionee and shall not be assignable or transferable by Optionee, other than by will or the laws of descent and distribution; provided however, that Optionee may transfer the Option to any "*Family Member*" (as such term is defined in the General Instructions to Form S-8 (or any successor to such Instructions or such Form) under the Securities Act), *provided* that the Participant may not receive any consideration for such transfer, the Family Member may not make any subsequent transfers other than by will or by the laws of descent and distribution and the Company receives written notice of such transfer.

3. Exercise of Option after Death or Termination of Service. The Option shall terminate and may no longer be exercised if Optionee ceases to provide Service to the Company or its affiliates, except that:

(a) If Optionee's Service shall be terminated for any reason, voluntary or involuntary, other than for "*Cause*" (as defined in Section 3(e)) or Optionee's death or disability (within the meaning of Section 22(e)(3) of the Code), Optionee may at any time within a period of 3 months after such termination exercise the Option to the extent the Option was vested and exercisable by Optionee on the date of the termination of Optionee's Service.

(b) If Optionee's Service is terminated for Cause, the Option shall be terminated as of the date of the act giving rise to such termination.

(c) If Optionee shall die while the Option is still exercisable according to its terms or if Optionee's Service is terminated because Optionee has become disabled (within the meaning of Section 22(e)(3) of the Code) while providing Service to the Company and Optionee shall not have fully exercised the Option, such Option may be exercised at any time within 12 months after Optionee's death or date of termination of Service for disability by Optionee, personal representatives or administrators or guardians of Optionee as applicable, or by any person or persons to whom the Option is transferred by will or the applicable laws of descent and distribution, to the extent of the full number of Shares Optionee was entitled to purchase under the Option on (i) the earlier of the date of death or termination of Service or (ii) the date of termination for such disability, as applicable.

(d) Notwithstanding the above, in no case may the Option be exercised to any extent by anyone after the Expiration Date.

(e) "Cause" shall mean, with respect to a Optionee, the occurrence of any of the following: (i) Optionee's personal dishonesty, willful misconduct, or breach of fiduciary duty involving personal profit, (ii) Optionee's continuing intentional or habitual failure to perform stated duties, (iii) Optionee's violation of any law (other than minor traffic violations or similar misdemeanor offenses not involving moral turpitude), (iv) Optionee's material breach of any provision of an employment or independent contractor agreement with the Company, or (v) any other act or omission by a Optionee that, in the opinion of the Committee, could reasonably be expected to adversely affect the Company's business, financial condition, prospects and/or reputation. In each of the foregoing subclauses (i) through (v), whether or not a "Cause" event has occurred will be determined by the Committee in its sole discretion or, in the case of Optionees who are Directors or officers or persons subject to Section 16 of the Exchange Act, the Board, each of whose determination shall be final, conclusive and binding. A Optionee's Service shall be deemed to have terminated for Cause if, after the Optionee's Service has terminated, facts and circumstances are discovered that would have justified a termination for Cause, including, without limitation, violation of material Company policies or breach of noncompetition, confidentiality or other restrictive covenants that may apply to the Optionee. The foregoing definition shall not in any way preclude or restrict the right of the Company (or any Affiliate) to discharge or dismiss Optionee or other person providing Service to the Company (or any Affiliate) for any other acts or omissions but such other acts or omissions shall not be deemed, for purposes of this Option Agreement, to constitute grounds for termination for Cause.

4. Method of Exercise of Option. Subject to the foregoing, the Option may be exercised in whole or in part from time to time by serving written notice of exercise on the Company at its principal office or the Company's designated agent for such purposes, within the Option period. The notice shall state the number of Shares as to which the Option is being exercised and shall be accompanied by payment of the exercise price. Payment of the exercise price shall be made (i) in cash (including bank check, valid personal check or money order payable to the Company), or (ii) with the approval of the Company (which may be given in its sole discretion), by delivering to the Company for cancellation shares of the Company's Common Stock already owned by Optionee having a Fair Market Value (as defined in the Plan) equal to the full exercise price of the Shares being acquired. Only that portion of the Option covering vested Option Shares is exercisable at any time. Subject to Section 402 of the Sarbanes- Oxley Act of 2002, to the extent this Option is exercised for vested Shares, the Option may be exercised in whole or in part from time to time through a special sale and remittance procedure pursuant to which Optionee shall concurrently provide irrevocable instructions (1) to Optionee's brokerage firm to effect the immediate sale of the purchased Shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased Shares plus all applicable income and employment taxes required to be withheld by the Company by reason of such exercise, and (2) to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale.

5. Miscellaneous.

(a) Plan Provisions Control. The Option award memorialized in this Option Agreement is made solely upon the terms and conditions set forth herein and in the Plan and any related documents. The Option Agreement and the Plan together constitute the entire agreement between the parties hereto with regard to the subject matter hereof. In the event that any provision of the Option Agreement conflicts with or is inconsistent in any respect with the terms of the Plan, the terms of the Plan shall control.

(b) No Rights of Stockholders. Neither Optionee, Optionee's legal representative nor a permissible assignee of this Option shall have any of the rights and privileges of a stockholder of the Company with respect to the Shares, unless and until such Shares have been issued in the name of Optionee, Optionee's legal representative or permissible assignee, as applicable.

(c) No Right to Employment. The grant of the Option shall not be construed as giving Optionee the right to be retained in the employ of, or as giving a director of the Company or an Affiliate (as defined in the Plan) the right to continue as a director of the Company or an Affiliate with, the Company or an Affiliate, nor will it affect in any way the right of the Company or an Affiliate to terminate such employment or position at any

time, with or without cause. In addition, the Company or an Affiliate may at any time dismiss Optionee from employment, or terminate the term of a director of the Company or an Affiliate, free from any liability or any claim under the Plan or the Option Agreement. Nothing in the Option Agreement shall confer on any person any legal or equitable right against the Company or any Affiliate, directly or indirectly, or give rise to any cause of action at law or in equity against the Company or an Affiliate. The Option granted hereunder shall not form any part of the wages or salary of Optionee for purposes of severance pay or termination indemnities, irrespective of the reason for termination of employment. Under no circumstances shall any person ceasing to be an employee of the Company or any Affiliate be entitled to any compensation for any loss of any right or benefit under the Option Agreement or Plan which such employee might otherwise have enjoyed but for termination of employment, whether such compensation is claimed by way of damages for wrongful or unfair dismissal, breach of contract or otherwise. By participating in the Plan, Optionee shall be deemed to have accepted all the conditions of the Plan and the Option Agreement and the terms and conditions of any rules and regulations adopted by the Committee and shall be fully bound thereby.

(d) Governing Law. The validity, construction and effect of the Plan and the Option Agreement, and any rules and regulations relating to the Plan and the Option Agreement, shall be determined in accordance with the internal laws, and not the law of conflicts, of the State of Delaware.

(e) Severability. If any provision of the Option Agreement is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or would disqualify the Option Agreement under any law deemed applicable by the Committee (as defined in the Plan), such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the purpose or intent of the Plan or the Option Agreement, such provision shall be stricken as to such jurisdiction or the Option Agreement, and the remainder of the Option Agreement shall remain in full force and effect.

(f) No Trust or Fund Created. Neither the Plan nor the Option Agreement shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and Optionee or any other person.

(g) Headings. Headings are given to the Sections and subsections of the Option Agreement solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Option Agreement or any provision thereof.

(h) Conditions Precedent to Issuance of Shares. Shares shall not be issued, and the Company shall not have any liability for failure to issue Shares, pursuant to the exercise of the Option unless such exercise and the issuance and delivery of the applicable Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, the requirements of any applicable Stock Exchange and the Delaware General Corporation Law. As a condition to the exercise of the purchase price relating to the Option, the Company may require that the person exercising or paying the purchase price represent and warrant that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation and warranty is required by law.

(i) Withholding. In order to provide the Company with the opportunity to claim the benefit of any income tax deduction which may be available to it upon the exercise of the Option and in order to comply with all applicable federal or state income tax laws or regulations, the Company may take such action as it deems appropriate to insure that, if necessary, all applicable federal or state payroll, withholding, income or other taxes are withheld or collected from Optionee.

(j) Consultation With Professional Tax and Investment Advisors. The holder of this Option Agreement acknowledges that the grant, exercise, vesting or any payment with respect to this Option Agreement, and the sale or other taxable disposition of the Shares acquired pursuant to the exercise thereof, may have tax consequences pursuant to the Code or under local, state or international tax laws. The holder further acknowledges that such holder is relying solely and exclusively on the holder’s own professional tax and investment advisors with respect to any and all such matters (and is not relying, in any manner, on the Company or any of its employees or representatives). Finally, the holder understands and agrees that any and all tax consequences resulting from the Option Agreement and its grant, exercise, vesting or any payment with respect thereto, and the sale or other taxable disposition of the Shares acquired pursuant to the Plan, is solely and exclusively the responsibility of the holder without any expectation or understanding that the Company or any of its employees or representatives will pay or reimburse such holder for such taxes or other items.

RESTRICTED STOCK UNIT AGREEMENT
PURSUANT TO THE
THE PENNANT GROUP, INC.
2019 OMNIBUS INCENTIVE PLAN

Participant:

Grant Date:

Number of Restricted Stock Units Granted:

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (this "Agreement"), dated as of the Grant Date specified above, is entered into by and between The Pennant Group, Inc. (the "Company"), and the Participant specified above, pursuant to The Pennant Group, Inc. 2019 Omnibus Incentive Plan, as in effect and as amended from time to time (the "Plan");

WHEREAS, it has been determined under the Plan that it would be in the best interests of the Company to grant the Restricted Stock Units ("RSUs") provided herein to the Participant; and

WHEREAS, the execution and delivery of this Agreement is contingent on the consummation of the spin-off of the Company from The Ensign Group, Inc. (the "Transaction");

NOW, THEREFORE, in consideration of the mutual covenants and promises hereinafter set forth and for other good and valuable consideration, the parties hereto hereby mutually covenant and agree as follows:

1. **Incorporation by Reference; Plan Document Receipt**. This Agreement is subject in all respects to the terms and provisions of the Plan (including, without limitation, any amendments thereto adopted at any time and from time to time unless such amendments are expressly intended not to apply to the Award provided hereunder), all of which terms and provisions are made a part of and incorporated in this Agreement as if they were each expressly set forth herein. Any capitalized term not defined in this Agreement shall have the same meaning as is ascribed thereto in the Plan. The Participant hereby acknowledges receipt of a true copy of the Plan and that the Participant has read the Plan carefully and fully understands its content. In the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall control. By signing this Agreement, Participant further agree to accept as binding, conclusive and final all decisions and interpretations by the Committee of the Plan upon any questions arising under the Plan.

2. **Definitions**. For purposes of this Agreement, the following terms shall have the meanings set forth below:

(a) "Cause" shall mean the occurrence of any of the following: (i) Participant's material violation of any material law, or regulatory requirement applicable to the Company, or (ii) Participant's material breach of any Company policy or procedure that could reasonably result in significant damage to the Company. In each of the foregoing subclauses (i) and (ii), whether or not a "Cause" event has occurred will be determined by the Board in good faith, whose determination shall be final, conclusive and binding.

(b) "Disability" shall mean a permanent and total disability as defined in Section 22(e)(3) of the Code. A Disability shall only be deemed to occur at the time of the determination by the Committee of the Disability. Notwithstanding the foregoing, Disability shall mean that a Participant is disabled under Section 409A(a)(2)(C)(i) or (ii) of the Code.

3. **Grant of Restricted Stock Unit Award**. Subject to the execution and return of this Agreement by the Participant to the Company as provided in Section 18 hereof, and subject to the consummation of the Transaction, the Company hereby grants to the Participant, as of the Grant Date specified above, the number of RSUs specified above, which represent the right to receive an equal number of Shares. Except as otherwise provided by the Plan, the Participant agrees and understands that nothing contained in this Agreement provides, or is intended to provide, the Participant with any protection against potential future dilution of the Participant's interest in the Company for any reason, and no adjustments shall be made for dividends in cash or other property, distributions or other rights in respect of the Shares underlying the RSUs, except as otherwise specifically provided for in the Plan or this Agreement. For the avoidance of doubt, if the Transaction is not consummated, this Agreement and the grant of RSUs provided for hereunder shall automatically be terminated and *void ab initio*.

4. **Vesting**.

(a) Vesting. [Vesting to be inserted at the time of grant.]

(b) Forfeiture. All unvested RSUs will be immediately forfeited for no consideration upon the Participant's voluntary termination of employment with the Company and its Affiliates for any reason before the third (3rd) anniversary of the consummation of the Transaction. All outstanding RSUs will be immediately forfeited for no consideration upon the Participant's termination by the Company for Cause.

5. **Delivery of Shares**.

(a) Settlement of RSUs. Notwithstanding anything contained in this Agreement to the contrary but subject to Section 4(b) hereof, any then outstanding RSU shall be settled as follows:

(i) of the vested RSUs shall be distributed on each of (A) the earlier to occur of (1) a Separation from Service for any reason other than Cause following the third (3rd) anniversary of the Transaction (the "Separation Trigger"), but only to the extent settlement of the RSUs in connection with the Separation Trigger is permitted under Section 409A, and (2) the fifth (5th) anniversary of the consummation of the Transaction (the "Anniversary Trigger"), and (B) of the remaining vested RSUs shall be distributed on each of the first anniversaries of the Separation Trigger or the Anniversary Trigger, as applicable; or

(ii) one hundred percent (100%) of the outstanding RSUs (including any remaining vested RSUs that have not been distributed in accordance with Section 5(a)(i) hereof) shall be distributed on the first to occur of (A) a Change in Control, provided that such Change in Control also constitutes a "change in control event", as defined pursuant to Treasury Regulation Section 1.409A-3(i)(5), and (B) the termination of the Participant's employment with the Company due to death or Disability.

(iii) Within thirty (30) days of a settlement event, the Company shall (A) issue and deliver to the Participant the number of settled Shares equal to the number of RSUs; and (B) enter the Participant's name on the books of the Company as the holder of record with respect to the number of settled Shares delivered to the Participant.

(b) General. Upon settlement of the RSUs in accordance with Section 5(a), the Company may issue the shares either (i) in certificate form or (ii) book entry form, registered in the name of the Participant. Delivery of any certificates will be made to the Participant's last address reflected on the books of the Company unless the Company is otherwise instructed in writing.

(c) Blackout Periods. If the Participant is subject to any Company "blackout" policy or other trading restriction imposed by the Company on the date such distribution would otherwise be made pursuant to Section 5(a) hereof, such distribution shall be instead made on the earlier of (i) the date that the Participant is not subject to any such policy or restriction and (ii) the later of (A) the end of the calendar year in which such distribution would otherwise have been made and (B) a date that is immediately prior to the expiration of two and one-half months following the date such distribution would otherwise have been made hereunder.

(d) Clawback. Notwithstanding the foregoing, any Shares received by the Participant in settlement of the RSUs shall be subject to clawback during the two (2) year period following such settlement if any of the following events occur during such two (2) year period: (i) a material restatement of the Company's financial results, where such restatement is a result of the discovery of organization misconduct of Participant, as determined by the Board in its sole discretion, (ii) Participant's material violation of any material law (or regulatory requirement applicable to the Company), or (iii) Participant's material breach of any Company policy or procedure that could reasonably result in significant damage to the Company.

6. **Rights as Stockholder**. The RSUs are bookkeeping entries only. Except as otherwise provided herein, the Participant shall have no rights as a stockholder with respect to any Shares covered by any RSU.

7. **Non-Transferability**. No portion of the RSUs may be sold, assigned, transferred, encumbered, hypothecated or pledged by the Participant, other than to the Company as a result of forfeiture of the RSUs as provided herein, unless and until payment is made in respect of vested RSUs in accordance with the provisions hereof and the Participant has become the holder of record of the vested Shares issuable hereunder. Any attempt to sell, exchange, transfer, assign, pledge, encumber or otherwise dispose of or hypothecate in any way any of the RSUs, or the levy of any execution, attachment or similar legal process upon the RSUs, contrary to the terms and provisions of this Agreement and/or the Plan shall be null and void and without legal force or effect.

8. **Restrictive Covenants.**

(a) Confidential Information. Participant acknowledges and agrees that the customers, business connections, customer lists, procedures, operations, techniques, financial statements, clients, potential clients or customers, employees, suppliers, programs, strategies, analyses, profit margins, sales, methods of operation, plans, products, technologies, materials, trade secrets, prospects and other aspects of and information, proprietary or otherwise, about the business of the Company or its Affiliates (the "Confidential Information") are established at great expense and protected as confidential information and provide the Company with a substantial competitive advantage in conducting its business. Participant further acknowledges and agrees that by virtue of his employment with the Company or its Affiliates, he has had access to and will have access to, and has been entrusted with and will be entrusted with Confidential Information, and that the Company or its Affiliates would suffer great loss and injury if Participant would disclose this information or use it in a manner not specifically authorized by the Company. Therefore, Participant agrees that during his employment relationship with the Company and/or its Affiliates and thereafter, he will not, directly or indirectly, either individually or as an employee, agent, partner, shareholder, owner trustee, beneficiary, co-venturer distributor, consultant or in any other capacity, use or disclose or cause to be used or disclosed any Confidential Information, unless and to the extent that any such information (a) becomes generally known to and available for use by the public other than as a result of Participant's acts or omissions, (b) was publicly known at the time of disclosure to Participant, or (c) is required to be disclosed to satisfy applicable laws and/or lawfully issued orders including, without limitation, legal demands, requirements, subpoenas, decrees, or orders by a competent court of law or governmental or administrative body. Participant shall deliver to the Company or its Affiliates at the termination of his employment, or at any other time the Company or its Affiliates may request, all memoranda, notes, plans, records, reports, computer tapes, printouts and software and other documents and data (and copies thereof) relating to the Confidential Information, Work Product (as defined below) or the business of the Company or its Affiliates which he may then possess or have under his control. Participant acknowledges and agrees that all inventions, innovations, improvements, developments, methods, designs, analyses, drawings, reports and all similar or related information (whether or not patentable) that relate to the Company's actual or anticipated business research and development or existing or future products or services and that are conceived, developed or made by Participant while employed by the Company ("Work Product") belong to the Company or its Affiliates.

(b) Non-Solicitation; Non-Interference.

(i) Participant agrees that during his employment relationship with the Company or its Affiliates and for eighteen (18) months following the termination date, Participant shall not, except in the furtherance of their duties hereunder, directly or indirectly, individually or on behalf of any other person, firm, corporation or other entity unaffiliated with the Company or its Affiliates, solicit, aid, persuade or induce any customer or prospective customer of the Company or any its Affiliates to divert their business or services away from the Company or its Affiliates, terminate or change their relationship with the Company or its Affiliates in a manner that is adverse to the Company or its Affiliates, or assist or aid another party in identifying or soliciting any such customer to purchase goods or services then sold by the Company or its Affiliates.

(ii) Participant agrees that during this employment relationship with the Company or its Affiliates and for eighteen (18) months following the termination date, Participant shall not, except in the furtherance of Participant's duties hereunder, directly or indirectly, individually or on behalf of another party, (i) solicit, aid or induce any employee, consultant, independent contractor, representative or agent of the Company or its Affiliates to leave such employment or retention with or to accept employment with or render services to another party or hire or retain any such employee, consultant, independent contractor, representative or agent of the Company or its Affiliates, or take any action to materially assist or aid another party in identifying, hiring or soliciting any such employee, consultant, independent contractor, representative or agent of the Company or its Affiliates, or (ii) intentionally interfere, or intentionally aid or induce any other person or entity in interfering, with the relationship between the Company or its Affiliates and any of their respective vendors, joint venturers or licensors. An employee, consultant, independent contractor, representative or agent shall be deemed covered by this Section 8(b)(ii) while so employed or retained by the Company or its Affiliates and for a period of six months thereafter.

(c) Non-Competition. Participant agrees that during his employment relationship with the Company and its Affiliates and for eighteen (18) months following the termination date, Participant shall not, anywhere in the areas where the Company conducts business during his employment period (the "Restricted Territory"), directly or indirectly, own, manage, operate, join, control or participate in the ownership, management, operation or control of, or be an officer or an employee of any business or organization (each, a "Restricted Business") that, directly or indirectly engages or participates in any line of business the Company and/or its Affiliates engages in at the time of the termination and any other active business under consideration at the time of termination. The foregoing shall not restrict Participant from owning up to 2% of any class of securities of any person engaged in a Restricted Business if such securities are listed on any national or regional securities exchange or have been registered under Section 12(g) of the Securities Exchange Act of 1934, as amended, as long as such securities are held solely as a passive investment and not with a view to influencing, controlling or directing the affairs of such person. For purposes of this Agreement, the Restricted Territory shall mean any geographic areas where the Company or its Affiliates conducts business during Participant's employment with the Company.

(d) Non-Disparagement. During Participant's employment relationship with the Company or its Affiliates and thereafter, Participant agrees that he will not, at any time, make, directly or indirectly, any oral or written statements that are disparaging of the Company or its Affiliates, the products or services provided by the Company or its Affiliates, any of the Company's present or former equityholders, officers, directors or employees.

(e) Additional Acknowledgements; Remedies. Participant acknowledges that the restrictions contained in this Section 8 are reasonable and necessary to protect the legitimate interests of the Company or its Affiliates and that the Company would not have entered into this Agreement in the absence of such restrictions. Participant also acknowledges that any breach by Participant of this Section 8 will cause continuing and irreparable injury to the Company or its Affiliates for which monetary damages would not be an adequate remedy. Participant shall not, in any action or proceeding to enforce any of the provisions of the Agreement, assert any claim or defense that an adequate remedy at law exists or that this Section 8 is unreasonable or otherwise not enforceable in accordance with its terms. In the event of such breach by Participant, the Company shall have the right to enforce the provisions of this Section 8 by seeking injunctive or other relief in any court, and the Agreement shall not in any way limit remedies of law or in equity otherwise available to such entity. The periods of time set forth in this Section 8 shall not include, and shall be deemed extended by, any time required for litigation to enforce the relevant covenant periods, provided that the Company is successful on the merits in any such litigation. The "time required for litigation" is herein defined to mean the period of time from the earlier of Participant's first breach of such covenants or service of process upon Participant through the expiration of all appeals related to such litigation.

(f) Survival of Provisions. The obligations contained in this Section 8 shall survive the termination of Participant's employment or service with the Company and shall be fully enforceable thereafter.

(g) Limitation. If the duration, scope, or nature of any restriction covered by any provision of this Section 8 is in excess of what is valid and enforceable under applicable law, such restriction shall be construed to limit duration, scope or activity to an extent that is valid and enforceable. For each of this Section 8, each of the Company and the Participant hereby acknowledges that this such Section shall be given the construction which renders its provisions valid and enforceable to the maximum extent, not exceeding its express terms, possible under applicable law.

9. **Cooperation.** Upon the receipt of reasonable notice from the Company (including outside counsel), the Participant agrees that while employed by the Company and thereafter, the Participant will respond and provide information with regard to matters in which the Participant has knowledge as a result of the Participant's employment with the Company, and will provide reasonable assistance to the Company and its Affiliates and their respective representatives in defense of all claims that may be made against the Company or its Affiliates, and will assist the Company and its Affiliates in the prosecution of all claims that may be made by the Company or its Affiliates, to the extent that such claims may relate to the period of the Participant's employment with the Company. The Participant agrees to promptly inform the Company if the Participant becomes aware of any lawsuit involving such claims that may be filed or threatened against the Company or its Affiliates. The Participant also agrees to promptly inform the Company (to the extent that the Participant is legally permitted to do so) if the Participant is asked to assist in any investigation of the Company or its Affiliates (or their actions), regardless of whether a lawsuit or other proceeding has then been filed against the Company or its Affiliates with respect to such investigation, and shall not do so unless legally required. Upon presentation of appropriate documentation, the Company shall pay or reimburse the Participant for all reasonable out-of-pocket travel, duplicating or telephonic expenses incurred by the Participant in complying with this Section 9.

10. **Whistleblower Protection**. Notwithstanding anything to the contrary contained herein, no provision of this Agreement shall be interpreted so as to impede the Participant (or any other individual) from reporting possible violations of federal law or regulation to any governmental agency or entity, including, but not limited to, the Department of Justice, the Securities and Exchange Commission, the Congress, and any agency Inspector General, or making other disclosures under the whistleblower provisions of federal law or regulation. The Participant does not need the prior authorization of the Company to make any such reports or disclosures and the Participant shall not be required to notify the Company that such reports or disclosures have been made.

11. **Governing Law**. All questions concerning the construction, validity and interpretation of this Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, without regard to the choice of law principles thereof.

12. **Section 409A.**

(i) The intent of the parties is that payments and benefits under this Agreement comply with Section 409A and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted to be in compliance therewith. The parties hereto acknowledge and agree that in no event whatsoever shall the Company be liable for any additional tax, interest or penalty that may be imposed on the Participant by Section 409A or damages for failing to comply with Section 409A.

(ii) Whenever a payment under this Agreement specifies a payment period with reference to a number of days, the actual date of payment within the specified period shall be within the sole discretion of the Company.

(iii) Notwithstanding any other provision of this Agreement to the contrary, in no event shall any payment under this Agreement that constitutes “nonqualified deferred compensation” for purposes of Section 409A be subject to offset by any other amount unless otherwise permitted by Section 409A.

13. **Withholding of Tax**. The payment of any taxes arising as a result of this grant shall be Participant’s sole responsibility. The Company shall have the power and the right to deduct or withhold, or require the Participant to remit to the Company, an amount sufficient to satisfy any federal, state, local and foreign taxes of any kind (including, but not limited to, the Participant’s FICA and SDI obligations) which the Company, in its sole discretion, deems necessary to be withheld or remitted to comply with the Code and/or any other applicable law, rule or regulation with respect to the RSUs and, if the Participant fails to do so, the Company may otherwise refuse to issue or transfer any Shares otherwise required to be issued pursuant to this Agreement. Notwithstanding anything in the Plan or anything else herein, Participant and the Company hereby acknowledge and agree that the payment of any taxes arising as a result of this grant shall not be satisfied by using net shares and that Participant shall satisfy such obligations either with immediately available cash or pursuant to a “sell-to-cover” plan under a previously arranged 10b5-1 Trading Plan in a manner consistent with the Company’s Insider Trading Policy.

14. **Legend**. The Company may at any time place legends referencing any applicable federal, state or foreign securities law restrictions on all certificates representing Shares issued pursuant to this Agreement. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing Shares acquired pursuant to this Agreement in the possession of the Participant in order to carry out the provisions of this Section 14.

15. **Securities Representations**. This Agreement is being entered into by the Company in reliance upon the following express representations and warranties of the Participant. The Participant hereby acknowledges, represents and warrants that:

(a) The Participant is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the RSUs.

(b) The Participant has been advised that the Participant may be an "affiliate" within the meaning of Rule 144 under the Securities Act of 1933, as amended (the "Securities Act") and in this connection the Company is relying in part on the Participant's representations set forth in this Section 15.

(c) If the Participant is deemed an affiliate within the meaning of Rule 144 of the Securities Act, the Shares issuable hereunder must be held indefinitely unless an exemption from any applicable resale restrictions is available or the Company files an additional registration statement (or a "re-offer prospectus") with regard to such Shares and the Company is under no obligation to register such Shares (or to file a "re-offer prospectus").

(d) If the Participant is deemed an affiliate within the meaning of Rule 144 of the Securities Act, the Participant understands that (i) the exemption from registration under Rule 144 will not be available unless (A) a public trading market then exists for the Shares of the Company, (B) adequate information concerning the Company is then available to the public, and (C) other terms and conditions of Rule 144 or any exemption therefrom are complied with, and (ii) any sale of the Shares issuable hereunder may be made only in limited amounts in accordance with the terms and conditions of Rule 144 or any exemption therefrom.

16. **Professional Advice**. The acceptance of this Agreement and the issuance of the RSUs and the underlying shares may have consequences under federal and state tax and securities laws, which may vary depending on the individual circumstances of the Participant. Accordingly, the Participant acknowledges that he or she has been advised to consult the Participant's legal and tax advisors in connection with this Agreement. The Participant acknowledges that neither the Company nor any of its officers, directors, attorneys, or agents have made any representations as to the federal or state tax effects of or any rights under, this Agreement.

17. **Entire Agreement; Amendment**. This Agreement, together with the Plan, contains the entire agreement between the parties hereto with respect to the subject matter contained herein, and supersedes all prior agreements or prior understandings, whether written or oral, between the parties relating to such subject matter. The Committee shall have the right, in its sole discretion, to modify or amend this Agreement from time to time in accordance with and as provided in the Plan. This Agreement may also be modified or amended by a writing signed by both the Company and the Participant. The Company shall give written notice to the Participant of any such modification or amendment of this Agreement as soon as practicable after the adoption thereof.

18. **Notices.** Any notice hereunder by the Participant shall be given to the Company in writing and such notice shall be deemed duly given only upon receipt thereof by the General Counsel of the Company. Any notice hereunder by the Company shall be given to the Participant in writing and such notice shall be deemed duly given only upon receipt thereof at such address as the Participant may have on file with the Company.

19. **Acceptance**. The Participant shall forfeit the RSUs if the Participant does not execute this Agreement within a period of 30 days from the date that the Participant receives this Agreement (or such other period as the Committee shall provide).

20. **No Right to Employment**. Any questions as to whether and when there has been a termination of employment and the cause of such termination shall be determined in the sole discretion of the Committee. Nothing in this Agreement shall interfere with or limit in any way the right of the Company or its Affiliates to terminate the Participant's employment or service at any time, for any reason and with or without Cause.

21. **Transfer of Personal Data**. The Participant authorizes, agrees and unambiguously consents to the collection, use and/or transmission by the Company (or any Affiliate) of any personal data information related to the RSUs awarded under this Agreement for legitimate business purposes (including, without limitation, the administration of the Plan). This authorization and consent is freely given by the Participant. The Participant authorizes the Company to receive, possess, use, retain and transfer the personal data, in electronic or other form, including any requisite transfer of such personal data as may be required to a broker or other third party with whom the Participant may elect to deposit any shares received upon vesting of the RSUs.

22. **Compliance with Laws**. The grant of RSUs and the issuance of Shares hereunder shall be subject to, and shall comply with, any applicable requirements of any foreign and U.S. federal and state securities laws, rules and regulations (including, without limitation, the provisions of the Securities Act, the Exchange Act and in each case any respective rules and regulations promulgated thereunder) and any other law, rule regulation or exchange requirement applicable thereto. The Company shall not be obligated to issue the RSUs or any Shares pursuant to this Agreement if any such issuance would violate any such requirements. As a condition to the settlement of the RSUs, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate to evidence compliance with any applicable law or regulation.

23. **Resolution of Disputes**. Any dispute or disagreement which may arise under, or as a result of, or in any way relate to, the interpretation, construction or application of this Agreement shall be determined by the Committee. Any determination made hereunder shall be final, binding and conclusive on the Participant, the Participant's heirs, executors, administrators and successors, and the Company and its Affiliates for all purposes.

24. **Binding Agreement; Assignment**. This Agreement shall inure to the benefit of, be binding upon, and be enforceable by the Company and its successors and assigns. The Participant shall not assign (except in accordance with Section 7 hereof) any part of this Agreement without the prior express written consent of the Company.

25. **Electronic Delivery**. The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

26. **Headings**. The titles and headings of the various sections of this Agreement have been inserted for convenience of reference only and shall not be deemed to be a part of this Agreement.

27. **Counterparts**. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same instrument.

28. **Further Assurances**. Each party hereto shall do and perform (or shall cause to be done and performed) all such further acts and shall execute and deliver all such other agreements, certificates, instruments and documents as either party hereto reasonably may request in order to carry out the intent and accomplish the purposes of this Agreement and the Plan and the consummation of the transactions contemplated thereunder.

29. **Severability**. The invalidity or unenforceability of any provisions of this Agreement in any jurisdiction shall not affect the validity, legality or enforceability of the remainder of this Agreement in such jurisdiction or the validity, legality or enforceability of any provision of this Agreement in any other jurisdiction, it being intended that all rights and obligations of the parties hereunder shall be enforceable to the fullest extent permitted by law.

30. **Acquired Rights**. The Participant acknowledges and agrees that: (a) the Company may terminate or amend the Plan at any time; (b) the Award of RSUs made under this Agreement is completely independent of any other award or grant and is made at the sole discretion of the Company; (c) no past grants or awards (including, without limitation, the RSUs awarded hereunder) give the Participant any right to any grants or awards in the future whatsoever; and (d) any benefits granted under this Agreement are not part of the Participant's ordinary salary, and shall not be considered as part of such salary in the event of severance, redundancy or resignation.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

THE PENNANT GROUP, INC.

By: _____
Name:
Title:

PARTICIPANT

_____
Name:

Exhibit 10.8

Notice of Restricted Stock Award

Grantee: **Restricted Stock Number**:

Address: **Plan**: *2019 Omnibus Incentive Plan*

Notice is hereby given of the following award (the "*Restricted Stock Award*") of Common Stock of The Pennant Group, Inc. (the "*Corporation*"):

Grant Date: **Number of Restricted Stock Shares**: *** ***

Type of Award: Restricted Stock

V E S T I N G

Vesting Schedule: *[Vesting to be inserted at the time of grant.]*

Except as otherwise provided in the Restricted Stock Agreement, the Restricted Stock will be vested in the Grantee in accordance with the following schedule:

On or after each of the following dates	Number of Restricted Stock Shares vested

By accepting this Restricted Stock Award, Grantee acknowledges and agrees that the Restricted Stock Shares granted herein are subject to and in accordance with the terms of (i) the enclosed RESTRICTED STOCK AWARD TERMS AND CONDITIONS (together with this Notice of Restricted Stock Award, the "*Restricted Stock Agreement*"), and (ii) THE PENNANT GROUP, INC. 2019 OMNIBUS INCENTIVE PLAN (the "*Plan*"), both of which are incorporated herein by this reference. All capitalized terms in this Notice of Restricted Stock Award shall have the meaning assigned to them in the Restricted Stock Agreement of the Plan.

EXECUTED AND DELIVERED as of the Grant Date set forth above.

THE PENNANT GROUP, INC.
a Delaware corporation

By: _____
Name: _____
Title: _____

THE PENNANT GROUP, INC.
RESTRICTED STOCK AWARD TERMS AND CONDITIONS

These **RESTRICTED STOCK AWARD TERMS AND CONDITIONS** are an integral part of the foregoing Notice Restricted Stock Award (the "*Notice*," and together with these Terms and Conditions, the "*Restricted Stock Agreement*" or this "*Agreement*") made by **The Pennant Group, Inc**., a Delaware corporation (the "*Company*") to the individual "*Grantee*" named therein. All capitalized terms used herein but not defined in this Restricted Stock Agreement shall have the meanings given to them in The Pennant Group, Inc. 2019 Omnibus Incentive Plan (the "*Plan*"), the terms and conditions of which are incorporated herein by this reference.

1. Definitions. For the purposes of this Agreement, the following terms shall have the meanings set forth below:

(a) "*Cause*" shall mean, with respect to a Grantee, the occurrence of any of the following: (i) Grantee's personal dishonesty, willful misconduct, or breach of fiduciary duty involving personal profit, (ii) Grantee's continuing intentional or habitual failure to perform stated duties, (iii) Grantee's violation of any law (other than minor traffic violations or similar misdemeanor offenses not involving moral turpitude), (iv) Grantee's material breach of any provision of an employment or independent contractor agreement with the Company, or (v) any other act or omission by a Grantee that, in the opinion of the Committee, could reasonably be expected to adversely affect the Company's business, financial condition, prospects and/or reputation. In each of the foregoing subclauses (i) through (v), whether or not a "*Cause*" event has occurred will be determined by the Committee in its sole discretion or, in the case of Grantees who are Directors or officers or persons subject to Section 16 of the Exchange Act, the Board, each of whose determination shall be final, conclusive and binding. A Grantee's Service shall be deemed to have terminated for Cause if, after the Grantee's Service has terminated, facts and circumstances are discovered that would have justified a termination for Cause, including, without limitation, violation of material Company policies or breach of noncompetition, confidentiality or other restrictive covenants that may apply to the Grantee. However, if the term or concept has been defined in an employment agreement between the Company and Grantee, then Cause shall have the definition set forth in such employment agreement. The foregoing definition shall not in any way preclude or restrict the right of the Company (or any Affiliate) to discharge or dismiss Grantee or other person providing Service to the Company (or any Affiliate) for any other acts or omissions but such other acts or omissions shall not be deemed, for purposes of this Agreement, to constitute grounds for termination for Cause.

(b) "*Vested Shares*" shall mean (i) all Shares issued pursuant to this Agreement that are vested pursuant to Section 3 hereof and (ii) all Shares issued with respect to the Common Stock referred to in clause (i) above by way of stock dividend or stock split or in connection with any conversion, merger, consolidation or recapitalization or other reorganization affecting the Shares. Vested Shares shall continue to be Vested Shares in the hands of any holder other than Grantee (except for the Company and purchasers pursuant to a public offering under the Securities Act), and each such transferee thereof shall succeed to the rights and obligations of a holder of Vested Shares hereunder.

2. Issuance of Stock. In partial consideration for Grantee's services to the Company, Grantee has been issued the number of Shares as set forth in the Notice (the "*Restricted Stock*").

3. Vesting.

(a) Normal Vesting. [Vesting to be inserted at the time of grant and will provide for a "Vesting Date".]

(b) If Grantee's employment with the Company terminates for any reason prior to the Vesting Date, all unvested Restricted Stock shall be forfeited and automatically transferred to the Company without consideration on the date of Grantee's employment termination and Grantee shall have no further rights with respect to the Restricted Stock. For purposes of this Agreement, employment with a Subsidiary of the Corporation shall be considered employment with the Corporation.

4. Restrictions on Transfer.

(a) Non-Transferability. Restricted Stock, and any rights and interests with respect thereto, issued under this Agreement and the Plan shall not, prior to vesting, be sold, exchanged, transferred, assigned or otherwise disposed of in any way by the Grantee (or any beneficiary(ies) of the Grantee), other than by testamentary disposition by the Grantee or the laws of descent and distribution. Any such Restricted Stock, and any rights and interests with respect thereto, shall not, prior to vesting, be pledged or encumbered in any way by the Grantee (or any beneficiary(ies) of the Grantee) and shall not, prior to vesting, be subject to execution, attachment or similar legal process. Any attempt to sell, exchange, transfer, assign, pledge, encumber or otherwise dispose of in any way any of the Restricted Stock, or the levy of any execution, attachment or similar legal process upon the Restricted Stock, contrary to the terms and provisions of this Agreement and/or the Plan shall be null and void and without legal force or effect.

(b) Securities Laws Restrictions on Transfer of Vested Shares. Grantee understands and hereby acknowledges that, in addition to transfer restrictions in this Agreement, federal and state securities laws govern and restrict Grantee's right to offer, sell or otherwise dispose of any Vested Shares unless such offer, sale or other disposition thereof is registered or qualified under the Securities Act and applicable state securities laws, or in the opinion of the Company's counsel, such offer, sale or other disposition is exempt from registration or qualification thereunder. Grantee agrees that he or she shall not offer, sell or otherwise dispose of any Vested Shares in any manner which would: (i) require the Company to file any registration statement with the Securities and Exchange Commission (or any similar filing under state law) or to amend or supplement any such filing or (ii) violate or cause the Company to violate the Securities Act, the rules and regulations promulgated thereunder or any other state or federal law. Grantee further understands that the certificates for any Vested Shares shall bear such legends as the Company deems necessary or desirable in connection with the Securities Act or other rules, regulations or laws. Grantee may not sell, transfer or dispose of any Vested Shares (except pursuant to an effective registration statement under the Securities Act) without first obtaining from the Company an opinion of the Company's counsel that registration under the Securities Act or any applicable state securities law is not required in connection with such transfer. If requested, Grantee agrees to provide the Company with written assurances, in form and substance satisfactory to the Company, that (1) the proposed disposition does not require registration of the Shares under the Securities Act or (2) all appropriate action necessary for compliance with the registration requirements of the Securities Act or any exemption from registration available under the Securities Act (including Rule 144) has been taken. When shares of Restricted Stock awarded by this Agreement become Vested Shares and after the conditions of this section 4(d) have been satisfied, the Grantee shall be entitled to receive unrestricted Shares and if the Grantee's stock is certificated and contain legends restricting the transfer of such Shares, the Grantee shall be entitled to receive new stock certificates free of such legends (except any legends requiring compliance with securities laws). In connection with the delivery of the unrestricted Shares pursuant to this Agreement, the Grantee agrees to execute any documents reasonably requested by the Company.

(c) Restrictive Legend. The certificates representing the Restricted Stock, if any, shall bear the following legend:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE WERE ORIGINALLY ISSUED ON , HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS OR AN EXEMPTION FROM REGISTRATION THEREUNDER. THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE ALSO SUBJECT TO ADDITIONAL RESTRICTIONS ON TRANSFER, REPURCHASE RIGHTS AND FORFEITURE PROVISIONS AND CERTAIN OTHER AGREEMENTS SET FORTH IN A RESTRICTED STOCK AGREEMENT BETWEEN THE COMPANY AND DATED AS OF ,____, A COPY OF WHICH MAY BE OBTAINED BY THE HOLDER HEREOF AT THE COMPANY'S PRINCIPAL PLACE OF BUSINESS WITHOUT CHARGE."

(d) Restrictions on Transfer after Vesting. The transfer or sale of Vested Shares in accordance with this Section 4 of this Agreement shall be subject to the Company Policy Regarding Insider Trading, as amended from time to time, including any preclearance procedures or black-out periods that specifically apply to Grantee.

5. Conformity with Plan. The Restricted Stock is intended to conform in all respects with, and is subject to all applicable provisions of, the Plan (which is incorporated herein by reference). Inconsistencies between this Agreement and the Plan shall be resolved in accordance with the terms of the Plan. By executing and returning the enclosed copy of this Agreement, Grantee acknowledges receipt of this Agreement and the Plan and agrees to be bound by all of the terms of this Agreement and the Plan.

6. Rights of Employment. Nothing in this Agreement shall interfere with or limit in any way the right of the Company to terminate Grantee's employment at any time (with or without Cause), nor confer upon Grantee any right to continue in the employ of the Company for any period of time or to continue his or her present (or any other) rate of compensation, and in the event of Grantee's termination of employment (including, but not limited to, termination by the Company without Cause), any portion of Grantee's Restricted Stock that was not previously vested shall be forfeited, except as otherwise provided herein. Nothing in this Agreement shall confer upon Grantee any right to be selected again as a Plan participant, and nothing in the Plan or this Agreement shall provide for any adjustment to the number of shares of Restricted Stock upon the occurrence of subsequent events except as provided in Section 8 below.

7. Withholding of Taxes.

(a) The Grantee shall, immediately upon notification of the amount due, if any, pay to the Company in cash or by check or direct a broker to sell a sufficient number of shares from the Grantee's brokerage account and deliver the proceeds to the Company, in either case in the amount necessary to satisfy any applicable federal, state and local tax withholding requirements. If additional withholding is or becomes required (as a result of the vesting of any Restricted Stock or as a result of disposition of Vested Shares) beyond any amount deposited before delivery of the certificates, the Grantee shall pay such amount to the Company, in cash or by check, on demand. The Company shall be entitled, if necessary or desirable, to withhold from Grantee any amounts due and payable by the Company, including wages, to Grantee (or secure payment from Grantee in lieu of withholding), the amount of any withholding or other tax due from the Company with respect to any Restricted Stock issuable under this Agreement, and the Company may defer such issuance unless indemnified by Grantee to its satisfaction. Grantee acknowledges that he or she has reviewed with his or her own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by this Agreement. Grantee is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. Grantee understands that he or she (and not the Company) shall be responsible for any tax liability that may arise as a result of the transactions contemplated by this Agreement. Grantee further understands that Section 83 of the Code, taxes as ordinary income the difference between the purchase price, if any, for the Shares and the fair market value of the Shares as of the date the forfeiture provisions in Section 3 lapse. Grantee understands that the he or she may elect to be taxed at the time the Restricted Stock is issued rather than when and as the forfeiture provisions lapse expires by filing an election under Section 83(b) of the Code with the IRS within 30 days from the date of hereof. **THE FORM FOR MAKING THIS SECTION 83(b) ELECTION IS ATTACHED TO THIS AGREEMENT AS EXHIBIT A AND GRANTEE (AND NOT THE COMPANY OR ANY OF ITS AGENTS) SHALL BE SOLELY RESPONSIBLE FOR APPROPRIATELY FILING SUCH FORM, EVEN IF GRANTEE REQUESTS THE COMPANY OR ITS AGENTS TO MAKE THIS FILING ON GRANTEE'S BEHALF.**

8. Adjustments. In the event of a reorganization, recapitalization, stock dividend or stock split, or combination or other change in the Shares, the Board or the Committee shall make such adjustments in the number and type of shares of Grantee's Restricted Stock as the Board or Committee reasonably determine to be appropriate, provided that any such adjustments shall not adversely affect the Grantee.

9. Rights as a Shareholder. Except as otherwise provided in this Agreement and the Plan, Grantee shall have all of the rights of a shareholder of the Company with respect to the Shares of Restricted Stock, including the right to vote such shares and the right to receive dividends. There is no guarantee by the Company that dividends will be paid. All dividends and other distributions paid with respect to Restricted Stock, including with respect to unvested Restricted Stock and whether paid in cash, Shares, or other property, shall be paid by the Company on the same date that dividend payments are made with respect to all of the Company's outstanding Shares.

10. Remedies. The parties hereto shall be entitled to enforce their rights under this Agreement specifically, to recover damages by reason of any breach of any provision of this Agreement and to exercise all other rights existing in their favor. The parties hereto acknowledge and agree that money damages would not be an adequate remedy for any breach of the provisions of this Agreement and that any party hereto shall be entitled to specific performance and/or injunctive relief (without posting bond or other security) from any court of law or equity of competent jurisdiction in order to enforce or prevent any violation of the provisions of this Agreement.

11. Amendment. Except as otherwise provided herein, any provision of this Agreement may be amended or waived only with the prior written consent of Grantee and the Company.

12. Successors and Assigns. Except as otherwise expressly provided herein, all covenants and agreements contained in this Agreement by or on behalf of any of the parties hereto shall bind and inure to the benefit of the respective successors and permitted assigns of the parties hereto whether so expressed or not.

13. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

14. Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall constitute an original, but all of which taken together shall constitute one and the same Agreement.

15. Descriptive Headings. The descriptive headings of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

16. Governing Law. The corporate law of the state of Delaware shall govern all questions concerning the relative rights of the Company and its stockholders. All other questions concerning the construction, validity and interpretation of this Agreement shall be governed by the internal law, and not the law of conflicts, of the state of Delaware.

17. Entire Agreement. This Agreement and the Plan constitute the entire understanding between Grantee and the Company, and supersedes all other agreements, whether written or oral, with respect to the acquisition by Grantee of Common Stock of the Company. If there are any conflicts in terms and conditions between this Agreement and the Plan, the terms and conditions of the Plan shall govern, unless otherwise determined by the Committee or the Board.

THE PENNANT GROUP, INC.

2019 LONG TERM INCENTIVE PLAN

THE PENNANT GROUP, INC.
2019 LONG TERM INCENTIVE PLAN

Section 1. Purpose

The purpose of the Plan is to promote the interests of the Company by aiding the Company in attracting and retaining employees, officers, consultants, independent contractors and directors capable of assuring the future success of the Company and its Affiliates, to offer such persons incentives to continue in the employ or service of the Company or its Affiliates and to afford such persons an opportunity to acquire a proprietary interest, or otherwise increase their proprietary interest, in the Company.

Section 2. Definitions

As used in the Plan, the following terms shall have the meanings set forth below:

(a) "*Affiliate*" shall mean (i) any entity that, directly or indirectly through one or more intermediaries, is controlled by the Company, (ii) any entity in which the Company has a significant equity interest, in each case as determined by the Committee and (iii) The Ensign Group, Inc. and its subsidiaries and affiliates.

(b) "*Award*" shall mean any Restricted Stock granted under the Plan.

(c) "*Award Agreement*" shall mean any written agreement, contract or other instrument or document evidencing an Award granted under the Plan. Each Award Agreement shall be subject to the applicable terms and conditions of the Plan and any other terms and conditions (not inconsistent with the Plan) determined by the Committee.

(d) "*Board*" shall mean the Board of Directors of Pennant.

(e) "*Cause*" shall mean (i) the willful and continued failure by Participant substantially to perform his or her duties and obligations (other than any such failure resulting from his or her incapacity due to physical or mental illness), (ii) Participant's conviction or plea bargain of any felony or gross misdemeanor involving moral turpitude, fraud or misappropriation of funds, or (iii) the willful engaging by Participant in misconduct which causes substantial injury to the Company or its affiliates, its other employees or the employees of its affiliates or its clients or the clients of its affiliates, whether monetarily or otherwise. For purposes of this paragraph, no action or failure to act on Participant's part shall be considered "*willful*" unless done or omitted to be done, by Participant in bad faith and without reasonable belief that his or her action or omission was in the best interests of the Company. However, if the term or concept has been defined in an employment agreement between the Company and Participant, then Cause shall have the definition set forth in such employment agreement. The foregoing definition shall not in any way preclude or restrict the right of the Company (or any Affiliate) to discharge or dismiss Participant or other person providing Service to the Company (or any Affiliate) for any other acts or omissions but such other acts or omissions shall not be deemed, for purposes of this Agreement, to constitute grounds for termination for Cause.

(f) "*Change in Control*" shall mean a change in ownership or control of the Company effected through any of the following transactions: (i) a merger, consolidation or other reorganization unless securities representing more than 50% of the total combined voting power of the voting securities of the successor corporation are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the persons who beneficially owned the Company's outstanding voting securities immediately prior to such transaction; (ii) a sale, transfer or other disposition of all or substantially all of the Company's assets; or (iii) the acquisition, directly or indirectly, by any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company), of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than 50% of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's stockholders. Change in Control shall not include an Initial Public Offering ("IPO") by the Company of its equity securities to the public pursuant to an effective registration statement filed under the Securities Act of 1933, as amended, or under any similar law then in effect.

(g) "*Code*" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

(h) "*Committee*" shall mean a committee of the Board appointed to administer the Plan; provided if there is no compensation committee, the Board means the compensation committee of the Board.

(i) "*Company*" shall mean The Pennant Group, Inc., a Delaware Corporation, and any successor corporation.

(j) "*Director*" shall mean a member of the Board of Directors of the Company.

(k) "*Eligible Person*" shall mean any employee, officer, consultant, independent contractor or director providing services to the Company or any Affiliate who the Committee determines to be an Eligible Person. An Eligible Person must be a natural person.

(l) "*Equity Restructuring*" shall mean a dividend or other distribution (whether in the form of cash, Shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company or other similar corporate transaction or event that affects the Shares such that an adjustment is necessary in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

(m) "*Exchange Act*" shall mean the Securities Exchange Act of 1934, as amended.

(n) "*Market Value*" shall mean, for purposes of the Plan, unless otherwise required by any applicable provision of the Code or any regulations issued thereunder, the market value as determined by the Committee in good faith in whatever manner it considers appropriate, taking into account the requirements of Section 409A of the Code and any other applicable laws, rules or regulations.

(o) "*Participant*" shall mean an Eligible Person designated to be granted an Award under the Plan.

(p) "*Person*" shall mean any individual or entity, including a corporation, partnership, limited liability company, association, joint venture or trust.

(q) "*Plan*" shall mean The Pennant Group, Inc. 2019 Long Term Incentive Plan, as amended from time to time, the provisions of which are set forth herein.

(r) "*Securities Act*" shall mean the Securities Act of 1933, as amended.

(s) "*Service*" shall mean the Participant's performance of services for the Company (or any Affiliate) in the capacity of an employee, officer, consultant, independent contractor or director.

(t) "*Share*" or "*Shares*" shall mean a share or shares of common stock, $0.001 par value per share, of the Company or such other securities or property as may become subject to Awards pursuant to an adjustment made under Section 4(c) of the Plan.

Section 3. Administration

(a) Power and Authority of the Committee. The Plan shall be administered by the Committee. Subject to the express provisions of the Plan and to applicable law, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to each Participant under the Plan; (iii) determine the number of Shares to be covered by (or the method by which payments or other rights are to be determined in connection with) each Award; (iv) determine the terms and conditions of any Award or Award Agreement; (v) amend the terms and conditions of any Award or Award Agreement or waive any restrictions relating to any Award; (vi) determine whether, to what extent and under what circumstances Awards may be exercised in cash, Shares, other securities, other Awards or other property, or canceled, forfeited or suspended; (vii) interpret and administer the Plan and any instrument or agreement, including an Award Agreement, relating to the Plan; (viii) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (ix) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations and other decisions under or with respect to the Plan or any Award or Award Agreement shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive and binding upon any Eligible Person and any holder or beneficiary of any Award.

(b) Power and Authority of the Board. Notwithstanding anything to the contrary contained herein, the Board may, at any time and from time to time, without any further action of the Committee, exercise the powers and duties of the Committee under the Plan.

Section 4. Shares Available for Awards

(a) Shares Available. Subject to adjustment as provided in Section 4(c) of the Plan, the aggregate number of Shares that may be issued under the Plan shall be [ ] Shares, or (ii) such lesser number of Shares as determined by the Board. Shares to be issued under the Plan may be either authorized but unissued Shares or Shares re-acquired and held in treasury. Any Shares that are used by a Participant as full or partial payment to the Company of the purchase price relating to an Award, or in connection with the satisfaction of tax obligations relating to an Award, shall again be available for granting Awards under the Plan. In addition, if any Shares covered by an Award or to which an Award relates are not purchased or are forfeited, or if an Award otherwise terminates without delivery of any Shares, then the number of Shares counted against the aggregate number of Shares available under the Plan with respect to such Award, to the extent of any such forfeiture or termination, shall again be available for granting Awards under the Plan.

(b) Accounting for Awards. For purposes of this Section 4, if an Award entitles the holder thereof to receive or purchase Shares, the number of Shares covered by such Award or to which such Award relates shall be counted on the date of grant of such Award against the aggregate number of Shares available for granting Awards under the Plan. Any Shares that are used by a Participant as full or partial payment to the Company of the purchase price relating to an Award or in connection with the satisfaction of tax obligations relating to an Award, shall again be available for granting Awards under the Plan. In addition, if any Shares covered by an Award or to which an Award relates are not purchased or are forfeited, or if an Award otherwise terminates without delivery of any Shares, then the number of Shares counted against the aggregate number of Shares available under the Plan with respect to such Award, to the extent of any such forfeiture or termination, shall again be available for granting Awards under the Plan.

(c) Adjustments. In the event of any Equity Restructuring, the number and type of Shares (or other securities or other property) subject to outstanding Awards, and the purchase price or exercise price with respect to any Award will be proportionately adjusted to avoid dilution or enlargement of rights resulting from such event; *provided*, *however*, that the number of Shares covered by any Award or to which such Award relates shall always be a whole number. The adjustments provided under this Section 4(c) shall be nondiscretionary and shall be final and binding on the affected Participant and the Company. The Committee shall make such proportionate adjustments to appropriately reflect such Equity Restructuring with respect to the number and kind of Shares that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Sections 4(a) hereof). Notwithstanding the above, in the event (i) of any reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company or any other similar corporate transaction or event or (ii) the Company shall enter into a written agreement to undergo such a transaction or event, any or all outstanding Awards may be canceled and the holders of any such Awards that are otherwise vested, may be paid in cash, the value of such Awards based upon the price per share of capital stock received or to be received by other stockholders of the Company in such event. Notwithstanding anything to the contrary herein, any such adjustment will be made in accordance with the provisions of Section 409A of the Code to the extent applicable.

Section 5. Eligibility

Any Eligible Person shall be eligible to be designated a Participant. In determining which Eligible Persons shall receive an Award and the terms of any Award, the Committee may take into account the nature of the services rendered by the respective Eligible Persons, their present and potential contributions to the success of the Company or such other factors as the Committee, in its discretion, shall deem relevant.

Section 6. Awards

(a) Restricted Stock Awards. The Committee is hereby authorized to grant Restricted Stock to Eligible Persons with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan, the terms and conditions of any Award, as the Committee shall determine:

(i) Restrictions. Shares of Restricted Stock shall be subject to such restrictions the Committee may impose (including, without limitation, a restriction on or prohibition against the right to receive any dividend or other right or property with respect thereto), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise as the Committee may deem appropriate.

(ii) Vesting of Restricted Stock Awards. A Restricted Stock Award shall vest in accordance with the schedule designated by the Committee as set forth in the Award Notice.

(iii) Issuance of Shares. Any Restricted Stock granted under the Plan may be evidenced in such manner as the Board may deem appropriate, including book-entry registration or issuance of a stock certificate or certificates, which certificate or certificates shall be held by the Company. Such certificate or certificates shall be registered in the name of the Participant and shall bear an appropriate legend referring to the restrictions and possible forfeiture applicable to such Restricted Stock as set forth in the Award Agreement.

(iv) Forfeiture. Except as otherwise determined by the Committee, (A) upon a Participant's termination of Service (as determined under criteria established by the Committee) during the applicable restriction period or prior to the vesting of such Awards, all applicable Shares of Restricted Stock at such time subject to restriction shall be forfeited to the Company; (B) upon a Participant's death or disability all applicable Shares of Restricted Stock at such time subject to restriction or that are not vested shall be forfeited to the Company, *provided*, *however*, that the Committee may, when it finds that a waiver would be in the best interest of the Company, waive in whole or in part any or all remaining restrictions with respect to Shares of Restricted Stock or any such award.

(b) General Consideration for Awards. Awards may be granted for no cash consideration or for any cash or other consideration as determined by the Committee and required by applicable law.

(i) Awards May Be Granted Separately or Together. Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with any other Award or any award granted under any plan of the Company or any Affiliate. Awards granted in addition to or in tandem with other Awards or in addition to or in tandem with awards granted under any such other plan of the Company or any Affiliate may be granted either at the same time as or at a different time from the grant of such other Awards or awards.

(ii) Forms of Payment under Awards. Subject to the terms of the Plan and of any applicable Award Agreement, payments or transfers to be made by the Company or an Affiliate upon the grant, exercise or payment of an Award may be made in such form or forms as the Committee shall determine (including, without limitation, cash, Shares, other securities, other Awards or other property or any combination thereof), and may be made in a single payment or transfer, in installments or on a deferred basis, in each case in accordance with rules and procedures established by the Committee.

(iii) Limits on Transfer of Awards. No Award and no right under any such Award shall be transferable by a Participant and the Company shall not be required to recognize any attempted assignment of such rights by any Participant; *provided*, *however*, that, if so determined by the Committee or as set forth in the terms and conditions of any Awards (which have been previously approved by the Committee), a Participant may, in the manner established by the Committee, designate a beneficiary or beneficiaries to exercise the rights of the Participant and receive any property distributable with respect to any Award upon the death of the Participant. Except as otherwise determined by the Committee or as set forth in the terms and conditions of any Awards (which have been previously approved by the Committee), each Award or right under any such Award shall be exercisable during the Participant's lifetime only by the Participant or, if permissible under applicable law, by the Participant's guardian or legal representative. Except as otherwise determined by the Committee, no Award or right under any such Award may be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or other encumbrance thereof shall be void and unenforceable against the Company or any Affiliate.

(iv) Restrictions; Securities Exchange Listing. All Shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan, applicable federal or state securities laws and regulatory requirements, and the Committee may direct appropriate stop transfer orders and cause other legends to be placed on the certificates for such Shares or other securities to reflect such restrictions. If the Shares or other securities are traded on a securities exchange, the Company shall not be required, and shall have no liability for failure, to deliver any Shares or other securities covered by an Award unless and until such Shares or other securities have been and continue to be admitted for trading on such securities exchange. No Shares shall be issued or delivered pursuant to the Plan, and the Company shall have no liability for failure to issue or deliver Shares under the Plan, if doing so would violate any internal policies of the Company.

Section 7. Amendment and Termination; Adjustments

(a) Amendments to the Plan. The Board may amend, alter, suspend, discontinue or terminate the Plan at any time; *provided*, *however*, that, such amendment, alteration, suspension, discontinuation or termination shall be consistent with the terms the Securities Act.

(b) Amendments to Awards. The Committee may waive any conditions of or rights of the Company under any outstanding Award, prospectively or retroactively. Except as otherwise provided herein or in an Award Agreement, the Committee may not amend, alter, suspend, discontinue or terminate any outstanding Award, prospectively or retroactively, if such action would adversely affect the rights of the holder of such Award, without the consent of the Participant or holder or beneficiary thereof.

(c) Correction of Defects, Omissions and Inconsistencies. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any Award or Award Agreement in the manner and to the extent it shall deem desirable to implement or maintain the effectiveness of the Plan.

Section 8. Income Tax Withholding

In order to comply with all applicable federal, state or local income tax laws or regulations, the Company may take such action as it deems appropriate to ensure that all applicable federal, state or local payroll, withholding, income or other taxes, which are the sole and absolute responsibility of a Participant, are withheld or collected from such Participant. In order to assist a Participant in paying all or a portion of the federal, state and local taxes to be withheld or collected upon exercise or receipt of (or the lapse of restrictions relating to) an Award, the Committee, in its discretion and subject to such additional terms and conditions as it may adopt, may permit the Participant to satisfy such tax obligation by (i) electing to have the Company withhold a portion of the Shares otherwise to be delivered upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Market Value equal to the amount of such taxes (up to the maximum marginal tax rate in the Participant's jurisdiction) or (ii) delivering to the Company Shares other than Shares issuable upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Market Value equal to the amount of such taxes (but only to the extent of the minimum amount required to be withheld under applicable laws or regulations). The election, if any, must be made on or before the date that the amount of tax to be withheld is determined.

Section 9. General Provisions

(a) No Rights to Awards. No Eligible Person or other Person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Eligible Persons or holders or beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to any Participant or with respect to different Participants.

(b) Award Agreements. No Participant will have rights under an Award granted to such Participant unless and until an Award Agreement shall have been duly executed on behalf of the Company and, if requested by the Company, signed by the Participant.

(c) Plan Provisions Control. In the event that any provision of an Award Agreement conflicts with or is inconsistent in any respect with the terms of the Plan as set forth herein or subsequently amended, the terms of the Plan shall control.

(d) No Rights of Stockholders. Neither a Participant nor the Participant's legal representative shall have any voting rights, dividend rights, or cash dividend rights with respect to any Award or issuance of Shares under this plan other than those rights that are mandated by operation of law.

(e) No Limit on Other Compensation Arrangements. Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting or continuing in effect other or additional compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

(f) No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ, nor will it affect in any way the right of the Company or an Affiliate to terminate a Participant's employment or Service at any time, with or without cause. In addition, the Company or an Affiliate may at any time dismiss a Participant from employment, free from any liability or any claim under the Plan or any Award, unless otherwise expressly provided in the Plan or in any Award Agreement. Nothing in this Plan shall confer on any person any legal or equitable right against the Company or any Affiliate, directly or indirectly, or give rise to any cause of action at law or in equity against the Company or an Affiliate. The Awards granted hereunder shall not form any part of the wages or salary of any Eligible Person for purposes of severance pay or termination indemnities, irrespective of the reason for termination of employment. Under no circumstances shall any person ceasing to be an employee of the Company or any Affiliate be entitled to any compensation for any loss of any right or benefit under the Plan which such employee might otherwise have enjoyed but for termination of employment, whether such compensation is claimed by way of damages for wrongful or unfair dismissal, breach of contract or otherwise. By participating in the Plan, each Participant shall be deemed to have accepted all the conditions of the Plan and the terms and conditions of any rules and regulations adopted by the Committee and shall be fully bound thereby.

(g) Governing Law. The validity, construction and effect of the Plan or any Award, and any rules and regulations relating to the Plan or any Award, shall be determined in accordance with the internal laws, and not the law of conflicts, of the State of Delaware.

(h) Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the purpose or intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction or Award, and the remainder of the Plan or any such Award shall remain in full force and effect.

(i) No Trust or Fund Created. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and an Eligible Person or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company or any Affiliate.

(j) Other Benefits. No compensation or benefit awarded to or realized by any Participant under the Plan shall be included for the purpose of computing such Participant's compensation under any compensation-based retirement, disability, or similar plan of the Company unless required by law or otherwise provided by such other plan.

(k) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash shall be paid in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated or otherwise eliminated.

(l) Headings. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

(m) Conditions Precedent to Issuance of Shares. Shares shall not be issued, and the Company shall not have any liability for failure to issue Shares, pursuant to the exercise or payment of the purchase price relating to an Award unless such exercise or payment and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act, the Exchange Act, the rules and regulations promulgated thereunder, the requirements of any applicable Stock Exchange and the Delaware General Corporation Law. As a condition to the exercise or payment of the purchase price relating to such Award, the Company may require that the person exercising or paying the purchase price represent and warrant that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation and warranty is required by law.

Section 10. Effective Date of the Plan

The Plan shall be effective as of [•], 2019.

Section 11. Term of the Plan

No Award shall be granted under the Plan after (a) the tenth anniversary of the later of (i) the date on which this Plan was adopted by the Board or (ii) the date this Plan was approved by the stockholders of the Company, or (b) any earlier date of discontinuation or termination established pursuant to Section 7(a) of the Plan. However, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award theretofore granted may extend beyond such date, and the authority of the Committee provided for hereunder with respect to the Plan and any Awards, and the authority of the Board to amend the Plan, shall extend beyond the termination of the Plan.

Exhibit 10.10

Notice of Restricted Stock Award

Grantee: **Restricted Stock Number**:

Address: **Plan**: *2019 Long Term Incentive Plan*

Notice is hereby given of the following award (the "Restricted Stock Award") of Common Stock of The Pennant Group, Inc. (the "Corporation"):

Grant Date: **Number of Restricted Stock Shares**[1]: *** ***

Type of Award: Restricted Stock

V E S T I N G

Vesting Schedule: *[Vesting to be inserted at the time of grant.]*

Except as otherwise provided in the Restricted Stock Agreement, the Restricted Stock will be vested in the Grantee in accordance with the following schedule:

On or after each of the following dates	Number of Restricted Stock Shares vested

By accepting this Restricted Stock Award, Grantee acknowledges and agrees that the Restricted Stock Shares granted herein are subject to and in accordance with the terms of (i) the enclosed RESTRICTED STOCK AWARD TERMS AND CONDITIONS (together with this Notice of Restricted Stock Award, the "Restricted Stock Agreement"), and (ii) THE PENNANT GROUP, INC. 2019 LONG TERM INCENTIVE PLAN (the "Plan"), both of which are incorporated herein by this reference. All capitalized terms in this Notice of Restricted Stock Award shall have the meaning assigned to them in the Restricted Stock Agreement of the Plan.

EXECUTED AND DELIVERED as of the Grant Date set forth above.

THE PENNANT GROUP, INC.
a Delaware corporation

By: _____
Name: _____
Title: _____

1 This amount may be adjusted depending on the ultimate market value of The Pennant Group, Inc. once it is publicly-traded on a national securities exchange.

THE PENNANT GROUP, INC.
RESTRICTED STOCK AWARD
TERMS AND CONDITIONS

These **RESTRICTED STOCK AWARD TERMS AND CONDITIONS** are an integral part of the foregoing Notice Restricted Stock Award (the "Notice," and together with these Terms and Conditions, the "Restricted Stock Agreement" or this "Agreement") made by **The Pennant Group, Inc.**, a Delaware corporation (the "Company") to the individual "Grantee" named therein. All capitalized terms used herein but not defined in this Restricted Stock Agreement shall have the meanings given to them in the Pennant Group, Inc. 2019 Long Term Incentive Plan (the "Plan"), the terms and conditions of which are incorporated herein by this reference.

1. Definitions. For the purposes of this Agreement, the following terms shall have the meanings set forth below:

"Cause" shall mean (i) the willful and continued failure by Grantee substantially to perform his or her duties and obligations (other than any such failure resulting from his or her incapacity due to physical or mental illness), (ii) Grantee's conviction or plea bargain of any felony or gross misdemeanor involving moral turpitude, fraud or misappropriation of funds, or (iii) the willful engaging by Grantee in misconduct which causes substantial injury to the Company or its affiliates, its other employees or the employees of its affiliates or its clients or the clients of its affiliates, whether monetarily or otherwise. For purposes of this paragraph, no action or failure to act on Grantee's part shall be considered "*willful*" unless done or omitted to be done, by Grantee in bad faith and without reasonable belief that his or her action or omission was in the best interests of the Company. However, if the term or concept has been defined in an employment agreement between the Company and Grantee, then Cause shall have the definition set forth in such employment agreement. The foregoing definition shall not in any way preclude or restrict the right of the Company (or any Affiliate) to discharge or dismiss Grantee or other person providing Service to the Company (or any Affiliate) for any other acts or omissions but such other acts or omissions shall not be deemed, for purposes of this Agreement, to constitute grounds for termination for Cause.

"Vested Shares" shall mean (i) all Shares issued pursuant to this Agreement that are vested pursuant to Section 3 hereof and (ii) all Shares issued with respect to the Common Stock referred to in clause (i) above by way of stock dividend or stock split or in connection with any conversion, merger, consolidation or recapitalization or other reorganization affecting the Shares. Vested Shares shall continue to be Vested Shares in the hands of any holder other than Grantee (except for the Company and purchasers pursuant to a public offering under the Securities Act), and each such transferee thereof shall succeed to the rights and obligations of a holder of Vested Shares hereunder.

2. Issuance of Stock. In partial consideration for Grantee's services to the Company, Grantee has been issued the number of Shares set forth in the Notice (the "Restricted Stock"), subject to the consummation of the spin-off of the Company from The Ensign Group, Inc. (the "Transaction"). For the avoidance of doubt, if the Transaction is not consummated, this Agreement and the grant of Restricted Stock provided for hereunder shall automatically be terminated and *void ab initio*.

3. Vesting.

(a) Normal Vesting. [Vesting to be inserted at the time of grant and will provide for a "Vesting Date".]

(b) If Grantee's employment with the Company terminates for any reason prior to the Vesting Date, all unvested Restricted Stock shall be forfeited and automatically transferred to the Company without consideration on the date of Grantee's employment termination and Grantee shall have no further rights with respect to the Restricted Stock. For purposes of this Agreement, employment with a Subsidiary of the Company shall be considered employment with the Company.

4. Restrictions on Transfer.

(a) Non-Transferability. Restricted Stock, and any rights and interests with respect thereto, issued under this Agreement and the Plan shall not, prior to vesting, be sold, exchanged, transferred, assigned or otherwise disposed of in any way by the Grantee (or any beneficiary(ies) of the Grantee), other than by testamentary disposition by the Grantee or the laws of descent and distribution. Any such Restricted Stock, and any rights and interests with respect thereto, shall not, prior to vesting, be pledged or encumbered in any way by the Grantee (or any beneficiary(ies) of the Grantee) and shall not, prior to vesting, be subject to execution, attachment or similar legal process. Any attempt to sell, exchange, transfer, assign, pledge, encumber or otherwise dispose of in any way any of the Restricted Stock, or the levy of any execution, attachment or similar legal process upon the Restricted Stock, contrary to the terms and provisions of this Agreement and/or the Plan shall be null and void and without legal force or effect.

(b) Securities Laws; Restrictions on Transfer of Vested Shares. Grantee understands and hereby acknowledges that, in addition to transfer restrictions in this Agreement, the Plan and federal and state securities laws govern and restrict Grantee's right to offer, sell or otherwise dispose of any Vested Shares unless such offer, sale or other disposition thereof is registered or qualified under the Securities Act and applicable state securities laws, or in the opinion of the Company's counsel, such offer, sale or other disposition is exempt from registration or qualification thereunder. Grantee agrees that he or she shall not offer, sell or otherwise dispose of any Vested Shares in any manner which would: (i) require the Company to file any registration statement with the Securities and Exchange Commission (or any similar filing under state law) or to amend or supplement any such filing or (ii) violate or cause the Company to violate the Securities Act, the rules and regulations promulgated thereunder or any other state or federal law. Grantee further understands that the certificates for any Vested Shares shall bear such legends as the Company deems necessary or desirable in connection with the Securities Act or other rules, regulations or laws. Grantee may not sell, transfer or dispose of any Vested Shares (except pursuant to an effective registration statement under the Securities Act) without first obtaining from the Company an opinion of the Company's counsel that registration under the Securities Act or any applicable state securities law is not required in connection with such transfer. If requested, Grantee agrees to provide the Company with written assurances, in form and substance satisfactory to the Company, that (1) the proposed disposition does not require registration of the Shares under the Securities Act or (2) all appropriate action necessary for compliance with the registration requirements of the Securities Act or any exemption from registration available under the Securities Act (including Rule 144) has been taken.

(c) Restrictive Legend. The certificates representing the Restricted Stock, if any, shall bear the following legend:

> "THE SECURITIES REPRESENTED BY THIS CERTIFICATE WERE ORIGINALLY ISSUED ON _____, HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS OR AN EXEMPTION FROM REGISTRATION THEREUNDER. THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE ALSO SUBJECT TO ADDITIONAL RESTRICTIONS ON TRANSFER, REPURCHASE RIGHTS AND FORFEITURE PROVISIONS AND CERTAIN OTHER AGREEMENTS SET FORTH IN A RESTRICTED STOCK AGREEMENT BETWEEN THE COMPANY AND _____ DATED AS OF _____, ___, A COPY OF WHICH MAY BE OBTAINED BY THE HOLDER HEREOF AT THE COMPANY'S PRINCIPAL PLACE OF BUSINESS WITHOUT CHARGE."

(d) Restrictions on Transfer after Vesting. The transfer or sale of Vested Shares in accordance with this Section 4 of this Agreement shall be subject to the Parent Company Policy Regarding Insider Trading, as amended from time to time, including any preclearance procedures or black-out periods that specifically apply to Grantee.

5. Conformity with Plan. The Restricted Stock is intended to conform in all respects with, and is subject to all applicable provisions of, the Plan (which is incorporated herein by reference). Inconsistencies between this Agreement and the Plan shall be resolved in accordance with the terms of the Plan. By executing and returning the enclosed copy of this Agreement, Grantee acknowledges receipt of this Agreement and the Plan and agrees to be bound by all of the terms of this Agreement and the Plan.

6. Rights of Employment. Nothing in this Agreement shall interfere with or limit in any way the right of the Company to terminate Grantee's employment at any time (with or without Cause), nor confer upon Grantee any right to continue in the employ of the Company for any period of time or to continue his or her present (or any other) rate of compensation, and in the event of Grantee's termination of employment (including, but not limited to, termination by the Company without Cause), any portion of Grantee's Restricted Stock that was not previously vested shall be forfeited, except as otherwise provided herein. Nothing in this Agreement shall confer upon Grantee any right to be selected again as a Plan participant, and nothing in the Plan or this Agreement shall provide for any adjustment to the number of shares of Restricted Stock upon the occurrence of subsequent events except as provided in Section 7 below.

7. Withholding of Taxes.

(a) Subject to compliance with applicable law and any insider trading policy of the Company, the Company may permit the Grantee to satisfy the Company's tax withholding obligations in accordance with procedures established by the Company providing for either (i) delivery by the Grantee to the Company or a broker approved by the Company of properly executed instructions, in a form approved by the Company previously obtained and held by Grantee in an amount necessary to cover the Company's withholding obligations, or (ii) payment by check. The Grantee shall deliver written notice of any such permitted election to the Company on a form specified by the Company for this purpose at least thirty (30) days (or such other period established by the Company) prior to the date on which the Company's tax withholding obligation arises (the "Withholding Date"). If the Grantee elects payment by check, the Grantee agrees to deliver a check for the full amount of the required tax withholding to the Company on or before the second business day following the Withholding Date. If additional withholding is or becomes required (as a result of the vesting of any Restricted Stock or as a result of disposition of Vested Shares) beyond any amount deposited before delivery of the certificates, the Grantee shall pay such amount to the Company, in cash or by check, on demand. The Company shall be entitled, if necessary or desirable, to withhold from Grantee any amounts due and payable by the Company, including wages, to Grantee (or secure payment from Grantee in lieu of withholding), the amount of any withholding or other tax due from the Company with respect to any Restricted Stock issuable under this Agreement, and the Company may defer such issuance unless indemnified by Grantee to its satisfaction.

(b) The Company may permit the Grantee to satisfy all or any portion of a Company's tax withholding obligations by deducting a number of whole, Vested Shares otherwise deliverable to the Grantee or by the Grantee's tender to the Company of a number of whole, Vested Shares or Vested Shares acquired otherwise than pursuant to this Agreement having, in any such case, a fair market value, as determined by the Company as of the date on which the tax withholding obligations arise, up to the maximum marginal tax rates in the Grantee's jurisdiction.

(c) Grantee acknowledges that he or she has reviewed with his or her own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by this Agreement. Grantee is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. Grantee understands that he or she (and not the Company) shall be responsible for any tax liability that may arise as a result of the transactions contemplated by this Agreement. Grantee further understands that Section 83 of the Code, taxes as ordinary income the difference between the purchase price, if any, for the Shares and the fair market value of the Shares as of the date the forfeiture provisions in Section 3 lapse. Grantee understands that he or she may elect to be taxed at the time the Restricted Stock is issued rather than when and as the forfeiture provisions lapse expires by filing an election under Section 83(b) of the Code with the IRS within 30 days from the date of hereof. **THE FORM FOR MAKING THIS SECTION 83(b) ELECTION IS ATTACHED TO**

THIS AGREEMENT AS EXHIBIT A AND GRANTEE (AND NOT THE COMPANY OR ANY OF ITS AGENTS) SHALL BE SOLELY RESPONSIBLE FOR APPROPRIATELY FILING SUCH FORM, EVEN IF GRANTEE REQUESTS THE COMPANY OR ITS AGENTS TO MAKE THIS FILING ON GRANTEE'S BEHALF.

8. Adjustments. In the event of a reorganization, recapitalization, stock dividend or stock split, or combination or other change in the Shares, the number and type of shares of Grantee's Restricted Stock shall be adjusted by the Committee as necessary, provided that any such adjustments shall not adversely affect the Grantee.

9. Rights as a Shareholder. Except as otherwise provided in this Agreement and the Plan, Grantee shall have all of the rights of a shareholder of the Company with respect to the Shares of Restricted Stock, including the right to vote such shares and the right to receive dividends. There is no guarantee by the Company that dividends will be paid. All dividends and other distributions paid with respect to Restricted Stock, including with respect to unvested Restricted Stock and whether paid in cash, Shares, or other property, shall be paid by the Company on the same date that dividend payments are made with respect to all of the Company's outstanding Shares.

10. Remedies. The parties hereto shall be entitled to enforce their rights under this Agreement specifically, to recover damages by reason of any breach of any provision of this Agreement and to exercise all other rights existing in their favor. The parties hereto acknowledge and agree that money damages would not be an adequate remedy for any breach of the provisions of this Agreement and that any party hereto shall be entitled to specific performance and/or injunctive relief (without posting bond or other security) from any court of law or equity of competent jurisdiction in order to enforce or prevent any violation of the provisions of this Agreement.

11. Amendment. Except as otherwise provided herein, any provision of this Agreement may be amended or waived only with the prior written consent of Grantee and the Company.

12. Successors and Assigns. Except as otherwise expressly provided herein, all covenants and agreements contained in this Agreement by or on behalf of any of the parties hereto shall bind and inure to the benefit of the respective successors and permitted assigns of the parties hereto whether so expressed or not.

13. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

14. Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall constitute an original, but all of which taken together shall constitute one and the same Agreement.

15. Descriptive Headings. The descriptive headings of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

16. Governing Law. The corporate law of the state of Delaware shall govern all questions concerning the relative rights of the Company and its stockholders. All other questions concerning the construction, validity and interpretation of this Agreement shall be governed by the internal law, and not the law of conflicts, of the state of Delaware.

17. Entire Agreement. This Agreement and the Plan constitute the entire understanding between Grantee and the Company, and supersedes all other agreements, whether written or oral, with respect to the acquisition by Grantee of Common Stock of the Company. If there are any conflicts in terms and conditions between this Agreement and the Plan, the terms and conditions of the Plan shall govern, unless otherwise determined by the Committee or the Board.

* * * * *

Exhibit 10.11

THE PENNANT GROUP, INC.

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (this "Agreement") is effective as of , 2019, by and between The Pennant Group, Inc., a Delaware corporation (the "Company"), and , an individual (the "Indemnitee").

WHEREAS, the Company desires to attract and retain the services of highly qualified individuals, such as Indemnitee, to serve the Company as directors and/or officers;

WHEREAS, Indemnitee currently is a member of the Company's Board of Directors and/or an officer of the Company;

WHEREAS, in order to induce Indemnitee to provide services to the Company, the Company wishes to provide for the indemnification of, and advancement of expenses to, Indemnitee to the maximum extent permitted by law;

WHEREAS, Indemnitee and the Company agree that additional protection is necessary in the current business environment, and the Indemnitee and certain other directors, officers, employees, agents and fiduciaries of the Company may not be willing to continue to serve in such capacities and the Company may experience difficulties in attracting qualified persons to serve as officers or directors without additional protection for such persons;

WHEREAS, the Company and Indemnitee recognize the continued difficulty in obtaining liability insurance or desired coverage limits and terms for the Company's directors, officers, employees, agents and fiduciaries, the significant and continual increases in the cost of such insurance and the general trend of insurance companies to reduce the scope of coverage of such insurance;

WHEREAS, the Company and Indemnitee further recognize the substantial increase in corporate litigation in general, subjecting directors, officers, employees, agents and fiduciaries to expensive litigation risks at the same time as the availability and scope of coverage of liability insurance provide increasing challenges for the Company; and

WHEREAS, in view of the considerations set forth above, the Company desires that Indemnitee shall be indemnified by the Company as set forth herein.

NOW, THEREFORE, the Company and Indemnitee hereby agree as set forth below.

1. Certain Definitions.

(a) "Business Day" shall mean any day other than a Saturday, Sunday, national holiday or other day on which banks in the State of Delaware are required or permitted to be closed.

(b) "Change in Control" shall be deemed to have occurred if, on or after the date of this Agreement, (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company acting in such capacity or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 50% of the total voting power represented by the Company's then outstanding Voting Securities, (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company and any new director whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof, or (iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation other than a merger or consolidation which would result in the Voting Securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into Voting Securities of the surviving entity) at least 80% of the total voting power represented by the Voting Securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company (in one transaction or a series of related transactions) of all or substantially all of the Company's assets.

(c) "Claim" shall mean any threatened, pending or completed action, suit, proceeding, arbitration or other alternative dispute resolution mechanism whether brought by or in the right of the Company or otherwise, or any hearing, inquiry or investigation that Indemnitee in good faith believes might lead to the institution of any such action, suit, proceeding, arbitration or other alternative dispute resolution mechanism, whether civil, criminal, administrative, arbitrative, investigative or other, or any appeal therefrom.

(d) References to the "Company" shall include, in addition to The Pennant Group, Inc., any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger to which The Pennant Group, Inc. (or any of its wholly owned subsidiaries) is a party which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees, agents or fiduciaries, so that if Indemnitee is or was a director, officer, employee, agent or fiduciary of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee, trustee, agent or fiduciary of another corporation, partnership, joint venture, employee benefit plan, trust or other enterprise, Indemnitee shall stand in the same position under the provisions of this Agreement with respect to the resulting or surviving corporation as Indemnitee would have with respect to such constituent corporation if its separate existence had continued.

(e) "Expenses" shall mean any expenses including, without limitation, reasonable fees, charges and disbursements of counsel and all other costs, expenses and obligations paid or incurred by Indemnitee in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in, any Claim relating to any Indemnifiable Event. Expenses also shall include (i) Expenses incurred in connection with any appeal resulting from any Claim, including without limitation the premium, security for, and other costs relating to any cost bond, supersedes bond, or other appeal bond or its equivalent, and (ii) for purposes of Section 2(c) only, Expenses incurred by Indemnitee in connection with the interpretation, enforcement or defense of Indemnitee's rights under this Agreement, by litigation or otherwise. Expenses, however, shall not include amounts paid in settlement by Indemnitee or the amount of judgments or fines against Indemnitee. The parties agree that for the purposes of any advancement of Expenses for which Indemnitee has made written demand to the Company in accordance with this Agreement, all Expenses included in such demand that are certified by affidavit of Indemnitee's counsel as being reasonable shall be presumed conclusively to be reasonable.

(f) "Expense Advance" shall mean an advance payment of Expenses to Indemnitee pursuant to Section 3(b).

(g) "Indemnifiable Event" shall mean any event or occurrence, whether occurring on, prior to, or after the date of this Agreement (i) related to the fact that Indemnitee is or was a director, officer, employee, agent or fiduciary of the Company, or any subsidiary of the Company, or is or was serving at the request of the Company as a director, officer, employee, trustee, agent or fiduciary of another corporation, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise, or (ii) by reason of any action or inaction on the part of Indemnitee while serving in any capacity set forth in clause (i).

(h) "Independent Legal Counsel" shall mean an attorney or firm of attorneys, selected in accordance with the provisions of Section 2(c), who shall not have otherwise performed services for either: (i) the Company or Indemnitee within the last three years (other than with respect to matters concerning the rights of Indemnitee under this Agreement, or of other indemnitees under similar indemnity agreements) or (ii) any other party to the Claim giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, Independent Legal Counsel shall not include any person or firm that, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement.

(i) "Losses" shall mean (i) any amounts or sums which Indemnitee is legally obligated to pay as a result of a Claim or Claims made against Indemnitee for Indemnifiable Events including, without limitation, damages, judgments, fines, penalties, ERISA excise taxes and penalties, and sums or amounts paid in settlement (if such settlement is approved in advance by the Company, which approval shall not be unreasonably withheld) of such Claim or Claims, and (ii) to the extent not paid in advance pursuant to the terms of this Agreement for any reason, Expenses.

(j) "Reviewing Party" shall mean any appropriate person or body consisting of a member or members of the Company's Board of Directors, or any other person or body appointed by the Board of Directors, who is not a party to the particular Claim for which Indemnitee is seeking indemnification, or Independent Legal Counsel as provided in Section 2(c).

(k) "Voting Securities" shall mean any securities of the Company (or a surviving entity as described in the definition of a "Change in Control") that vote generally in the election of directors.

2. Indemnification.

(a) Agreement to Indemnify. If Indemnitee was, is or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Claim by reason of (or arising in part out of) an Indemnifiable Event, the Company will, to the fullest extent permitted by law, indemnify Indemnitee against, and will make Expense Advances from time to time of, any and all Expenses and Losses (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses and Losses, but excluding amounts paid in settlement of any such Claim if such settlement was not approved by the Company) arising from or relating to such Claim (whether or not such Claim proceeds to judgment or is settled or otherwise is brought to a disposition) incurred by Indemnitee by reason of (or arising in part out of) such Indemnifiable Event.

(b) Review of Indemnification Obligations. Notwithstanding the provisions of Section 2(a), (i) the obligations of the Company under Section 2(a) to make indemnification payments for Losses shall be subject to the condition that the Reviewing Party shall have determined (in a written opinion, in any case in which Independent Legal Counsel is the Reviewing Party) that Indemnitee would be permitted to be indemnified under this Agreement and applicable law, and (ii) the obligation of the Company to make an Expense Advance shall be subject to the condition that, if, when and to the extent that the Reviewing Party determines that Indemnitee would not be permitted to be so indemnified under applicable law, the Company shall be entitled to be reimbursed by Indemnitee (who hereby agrees to reimburse the Company) for all such amounts theretofore paid; provided, however, that if Indemnitee has commenced or thereafter commences legal proceedings in a court specified in Section 15 to secure a determination that Indemnitee should be indemnified under applicable law, any determination made by the Reviewing Party that Indemnitee would not be permitted to be indemnified under applicable law shall not be binding and Indemnitee shall not be required to reimburse the Company for any Expense Advance until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed). Indemnitee's obligation to reimburse the Company for any Expense Advance shall be unsecured and no interest shall be charged thereon. If there has been no determination by the Reviewing Party within ten (10) Business Days after written demand by Indemnitee for Losses or Expense Advance is received by the Company, or if the Reviewing Party determines that Indemnitee substantively would not be permitted to be indemnified in whole or in part under this Agreement or applicable law, Indemnitee shall have the right to commence litigation seeking an initial determination by the court or challenging any such determination by the Reviewing Party or any aspect thereof, including the legal or factual bases therefor, and the Company hereby consents to service of process and to appear in any such proceeding. Absent such litigation, any determination by the Reviewing Party shall be conclusive and binding on the Company and Indemnitee.

(c)Selection of Reviewing Party. For matters that require a determination by the Reviewing Party in respect of Losses, the Reviewing Party shall be the following:

(i) If Indemnitee is a director or officer claiming a right to indemnity for Losses under this Agreement or under the Company's Certificate of Incorporation or Bylaws at the time a determination by the Reviewing Party is required (a "Current Director or Officer") and if no Change in Control has occurred that was not approved by a majority of the Company's Board of Directors who were directors immediately prior to such Change in Control (any such non-preapproved transaction, a "Triggering Change in Control"), then the Reviewing Party will be the members of the Company's Board of Directors who are not parties to the Claim for which indemnification is being sought, or a committee of such directors designated by majority vote of the directors who are not parties to the Claim for which indemnification is being sought, or if such directors or committee so decide, the Independent Legal Counsel.

(ii) If Indemnitee is not a Current Director or Officer and no Triggering Change in Control has occurred, then the Reviewing Party will be the Company's chief executive officer or chief financial officer, acting on behalf of the Company, unless the Indemnitee expressly demands in writing at the time that he or she makes a demand for indemnification of a Loss that Independent Legal Counsel be the Reviewing Party, in which event Independent Legal Counsel shall be the Reviewing Party.

(iii) If a Triggering Change in Control has occurred, then the Reviewing Party will be Independent Legal Counsel unless Indemnitee, in its sole discretion, waives the right to have Independent Legal Counsel be the Reviewing Party, in which case the Reviewing Party will be the members of the Company's Board of Directors who are not parties to the Claim for which indemnification is being sought.

In all circumstances where Independent Legal Counsel is the Reviewing Party, such Independent Legal Counsel shall be selected by Indemnitee and approved by the Company (which approval shall not be unreasonably withheld) and shall otherwise meet the definition of Independent Legal Counsel in Section 1(h).

(d) Independent Legal Counsel Opinion. In any case in which Independent Legal Counsel is acting as the Reviewing Party, such counsel, among other things, shall render its written opinion to the Company and Indemnitee as to whether and to what extent Indemnitee would be permitted to be indemnified under this Agreement and applicable law. The Company agrees to abide by such opinion and to pay a reasonable retainer fee and the reasonable fees, charges and disbursements of any Independent Legal Counsel selected to act as the Reviewing Party and to indemnify fully such counsel against any and all expenses (including reasonable fees, charges and disbursements of counsel), claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto. Notwithstanding any other provision of this Agreement, the Company shall not be required to pay expenses of more than one Independent Legal Counsel in connection with all matters concerning the Indemnitee, and such Independent Legal Counsel shall be the Independent Legal Counsel for any or all other indemnitees making indemnification claims that relate to the same Claim as the Indemnitee's unless (i) the Company otherwise determines or (ii) any Indemnitee shall provide a written statement setting forth in detail a reasonable objection to such Independent Legal Counsel making any determination with respect to other indemnitees.

(e) Mandatory Payment of Expenses. Notwithstanding any other provision of this Agreement other than Section 10, to the extent that Indemnitee has been successful on the merits or otherwise, including, without limitation, the dismissal of an action without prejudice, in defense of any Claim regarding any Indemnifiable Event, Indemnitee shall be indemnified against all Expenses incurred by Indemnitee in connection therewith. To the fullest extent allowable under applicable law, the Company shall also indemnify against, and, if requested by Indemnitee, shall advance to Indemnitee subject to and in accordance with Section 2(a), any Expenses actually and reasonably paid or incurred by Indemnitee in connection with any action or proceeding by Indemnitee for (a) indemnification or reimbursement or advance payment of Expenses by the Company under any provision of this Agreement, or under any other agreement or provision of the Constituent Documents now or hereafter in effect relating to Claims relating to Indemnifiable Events, and/or (b) recovery under any directors' and officers' liability insurance policies maintained by the Company.

3. Indemnification Procedure.

(a) Payment of Indemnification. Payment of Expenses and Losses shall be made by the Company as soon as practicable but in any event no later than thirty (30) Business Days after written demand by Indemnitee therefor is received by the Company (which written demand shall include such documentation and information in reasonable detail as is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification, including but not limited to copies of invoices received by Indemnitee in connection with Expenses; provided that, in the case of invoices in connection with legal services, any reference to legal work performed or to expenditures made that would cause Indemnitee to waive any privilege accorded by applicable law shall not be included with the invoice), unless the Reviewing Party has provided a written determination to the Company that Indemnitee is not entitled to indemnification under applicable law. The Reviewing Party making the determination with respect to Indemnitee's entitlement to indemnification shall notify Indemnitee of such written determination no later than ten (10) Business Days thereafter.

(b) Expense Advances. If so requested by Indemnitee, the Company shall advance any and all Expenses to Indemnitee (an "Expense Advance") within thirty (30) Business Days after the receipt by the Company of a statement or statements from Indemnitee requesting such advance or advances (which statement or statements shall satisfy the reasonable detail requirement of Section 3(a) above), whether prior to or after final disposition of any Claim relating to an Indemnifiable Event. Advances shall be made without regard to Indemnitee's ability to repay the Expenses and without regard to Indemnitee's ultimate entitlement to indemnification under the provisions of this Agreement. The Indemnitee shall qualify for advances solely upon the execution and delivery to the Company of an undertaking in form and substance reasonably satisfactory to the Company providing that the Indemnitee undertakes to repay the advance if and to the extent that it is ultimately determined that Indemnitee is not entitled to be indemnified by the Company. In connection with any request for Expense Advances, Indemnitee shall not be required to provide any documentation or information to the extent that the provision thereof would undermine or otherwise jeopardize attorney-client privilege. Advances shall include any and all reasonable Expenses incurred pursuing an action to enforce this right of advancement. However, in the event that Indemnitee is ultimately determined not to be entitled to such indemnification or insurance recovery, as the case may be, then all amounts advanced under this Section 3(b) shall be repaid. Indemnitee shall be required to reimburse the Company in the event that a final judicial determination is made that such action brought by Indemnitee was frivolous or not made in good faith.

(c) Action to Compel Payment. If a claim for indemnification for Losses or any Expense Advance pursuant to this Agreement is not paid in full for any reason (including, but not limited to, a decision adverse to the Indemnitee by the Reviewing Party, or the failure of the Reviewing Party to render its determination) within thirty (30) Business Days of the date of written demand, in the case of Expense Advance, or thirty (30) days of the date of written demand in the case of any other claim for indemnification of Losses or Expenses, then Indemnitee may file suit to recover the unpaid amount of such claim in a court specified in Section 15. The provisions of Sections 3(e) and 13 shall be applicable to any such action.

(d) Notice/Cooperation by Indemnitee. Indemnitee shall give the Company notice in writing as soon as practicable of any Claim made against Indemnitee relating to an Indemnifiable Event for which a request for Expense Advance or for which indemnification for Losses will or could be sought under this Agreement. Notice to the Company shall be directed to the Chief Executive Officer of the Company at the address shown on the signature page of this Agreement (or such other address as the Company shall designate in writing to Indemnitee). In addition, Indemnitee shall give the Company such information and cooperation as the Company may reasonably require and as shall be within Indemnitee's power. The failure by Indemnitee to timely notify the Company hereunder shall not relieve the Company from any liability hereunder unless the Company's ability to participate in the defense of such claim was materially and adversely affected by such failure, except that the Company shall not be liable to indemnify Indemnitee under this Agreement with respect to any judicial award in a Claim related to an Indemnifiable Event if the Company was not given a reasonable and timely opportunity to participate at its expense in the defense of such action.

(e) Burden of Proof; No Presumption Against Indemnitee. For purposes of this Agreement, the termination of any Claim relating to an Indemnifiable Event by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that Indemnitee did not meet any particular standard of conduct or have any particular belief or that a court has determined that Expense Advances or indemnification for Losses is not permitted by applicable law or hereunder. In addition, neither the failure of the Reviewing Party to have made a determination as to whether Indemnitee has met any particular standard of conduct or had any particular belief, nor an actual determination by the Reviewing Party that Indemnitee has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnitee to secure a judicial determination that Indemnitee should be entitled to receive Expense Advances or be indemnified for Losses under applicable law, shall be a defense to Indemnitee's claim or create a presumption that Indemnitee has not met any particular standard of conduct or did not have any particular belief. In connection with any determination by the Reviewing Party or otherwise as to whether Indemnitee is entitled to Expense Advances or indemnification for Losses under applicable law or hereunder, the burden of proof shall be on the Company to establish that Indemnitee is not so entitled.

(f) Notice to Insurers. If, at the time of the receipt by the Company of a notice of a Claim relating to an Indemnifiable Event pursuant to Section 3(d), the Company has liability insurance in effect which may cover such Claim, the Company shall give prompt notice of the commencement of such Claim to the insurers in accordance with the procedures set forth in each of the Company's policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such Claim in accordance with the terms of such policies.

(g) Selection of Counsel. In any Claim made against Indemnitee relating to an Indemnifiable Event for which a request for Expense Advance or for which indemnification for Losses will or could be sought under this Agreement, the Company shall be entitled to assume the defense of such Claim with counsel approved by Indemnitee (which approval shall not be unreasonably withheld) upon the delivery to Indemnitee of written notice of the Company's election so to do. After delivery of such notice, approval of such counsel by Indemnitee and the retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with respect to the same Claim; provided that (i) Indemnitee shall have the right to employ Indemnitee's separate counsel in any such Claim at Indemnitee's expense and (ii) if (A) the employment of separate counsel by Indemnitee has been previously authorized by the Company, (B) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of any such defense, or (C) the Company shall not continue to retain such counsel to defend such Claim, then the fees and expenses of Indemnitee's separate counsel shall be at the expense of the Company.

4. Additional Indemnification Rights; Nonexclusivity.

(a) Scope. The Company hereby agrees to make Expense Advances to, and indemnify, the Indemnitee to the fullest extent permitted by law, notwithstanding that such Expense Advances and indemnification are not specifically authorized by the other provisions of this Agreement, the Company's Certificate of Incorporation, the Company's Bylaws or by statute. In the event of any change after the date of this Agreement in any applicable law, statute or rule which expands the right of a Delaware corporation to indemnify a member of its board of directors or an officer, employee, agent or fiduciary, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits afforded by such change. In the event of any change in any applicable law, statute or rule which narrows the right of a Delaware corporation to indemnify a member of its board of directors or an officer, employee, agent or fiduciary, such change, to the extent not otherwise required by such law, statute or rule to be applied to this Agreement, shall have no effect on this Agreement or the parties' rights and obligations hereunder except as set forth in Section 9(a).

(b) Nonexclusivity. The rights to Expense Advances and indemnification for Losses provided by this Agreement shall be in addition to any rights to which Indemnitee may be entitled under the Company's Certificate of Incorporation, its Bylaws, any other agreement, any vote of stockholders or disinterested directors, the General Corporation Law of the State of Delaware, or otherwise. The indemnification provided under this Agreement shall continue as to Indemnitee for any action taken or not taken by Indemnitee while serving in an indemnified capacity even though Indemnitee may have ceased to serve in such capacity.

5. No Duplication of Payments. The Company shall not be liable under this Agreement to make any payment in connection with any Claim made against Indemnitee to the extent Indemnitee has otherwise actually received payment, under any insurance policy, provision of the Company's Certificate of Incorporation, Bylaw or otherwise, of the amounts otherwise indemnifiable hereunder.

6. Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of Expenses or Losses incurred in connection with any Claim relating to an Indemnifiable Event, but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion of such Expenses or Losses to which Indemnitee is entitled.

7. Mutual Acknowledgment. Both the Company and Indemnitee acknowledge that in certain instances, federal law or applicable public policy may prohibit the Company from indemnifying its directors, officers, employees, agents or fiduciaries under this Agreement or otherwise. Indemnitee understands and acknowledges that the Company has undertaken or may be required in the future to undertake with the Securities and Exchange Commission to submit the question of indemnification to a court in certain circumstances for a determination of the Company's right under public policy to indemnify Indemnitee.

8. Liability Insurance. The Company shall, from time to time, make the good faith determination whether or not it is practicable for the Company to obtain and maintain a policy or policies with reputable insurance companies covering certain liabilities that may be incurred by its directors and officers. Notwithstanding the foregoing, the Company shall have no obligation to obtain or maintain such insurance if the Company determines in good faith that such insurance is not reasonably available, if the premium costs for such insurance are disproportionate to the amount of coverage provided, if the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit, or if the Indemnitee is covered by similar insurance maintained by a parent or subsidiary of the Company. The Indemnitee shall be entitled to the protection of any such insurance policies the Company may elect to maintain generally for the benefit of its directors and officers (and to the extent the Company maintains such an insurance policy or policies, the Indemnitee shall be covered by such policy or policies in accordance with its or their terms, to the maximum extent of the coverage available for any officer or director of the Company).

9. Exceptions. Notwithstanding any other provision of this Agreement to the contrary, the Company shall not be obligated pursuant to the terms of this Agreement:

(a) Excluded Action or Omissions. To indemnify Indemnitee for acts, omissions or transactions for which Indemnitee is prohibited from receiving indemnification under applicable law.

(b) Claims Initiated by Indemnitee. To indemnify for Losses or make Expense Advances to Indemnitee with respect to Claims initiated or brought voluntarily by Indemnitee and not by way of defense, except (i) with respect to actions or proceedings brought to establish or enforce a right to receive Expense Advances or indemnification for Losses under this Agreement or any other agreement or insurance policy or under the Company's Certificate of Incorporation or Bylaws now or hereafter in effect relating to Claims for Indemnifiable Events, (ii) in specific cases if the Board of Directors has approved the initiation or bringing of such Claim, or (iii) as otherwise required under Delaware Law.

(c) Lack of Good Faith. To indemnify Indemnitee for any Expenses incurred by the Indemnitee with respect to any proceeding instituted (i) by Indemnitee to enforce or interpret this Agreement, if a court specified in Section 15 determines that each of the material assertions made by the Indemnitee in such proceeding was not made in good faith or was frivolous, or (ii) by or in the name of the Company to enforce or interpret this Agreement, if a court specified in Section 15 determines that each of the material defenses asserted by Indemnitee in such proceeding was made in bad faith or was frivolous.

(d) Claims Under Section 16(b). To indemnify Indemnitee for expenses and the payment of profits arising from the purchase and sale by Indemnitee of securities in violation of Section 16(b) of the Securities Exchange Act of 1934, as amended, or any similar successor statute.

10. Period of Limitations. No legal action relating to the entitlement of Indemnitee to Expense Advances or indemnification for Losses shall be brought and no such cause of action shall be asserted by or in the right of the Company against Indemnitee, Indemnitee's estate, spouse, heirs, executors or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, and any claim or cause of action of the Company shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such two-year period; provided, however, that if any shorter period of limitations is otherwise applicable to any such cause of action, such shorter period shall govern.

11. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall constitute an original.

12. Binding Effect; Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors, assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company), spouses, heirs and personal and legal representatives. The Company shall require and cause any successor (whether direct or indirect, and whether by purchase, merger, consolidation or otherwise) to all, substantially all, or a substantial part, of the business and/or assets of the Company, by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place, provided that if the Company continues to exist it shall remain jointly and severally liable with such successor for the obligations hereunder. This Agreement shall continue in effect regardless of whether Indemnitee continues to serve as a director, officer, employee, agent or fiduciary (as applicable) of the Company or of any other enterprise, including subsidiaries and employee benefit plans of the Company, at the Company's request.

13. Attorneys' Fees. In the event that any action is instituted by Indemnitee under this Agreement or under any liability insurance policies maintained by the Company to enforce or interpret any of the terms hereof or thereof, Indemnitee shall be entitled to be paid all Expenses incurred by Indemnitee with respect to such action if Indemnitee is ultimately successful in such action, and shall be entitled to the advancement of Expenses with respect to such action, unless as a part of such action a court specified in Section 15 determines that each of the material assertions made by Indemnitee as a basis for such action were not made in good faith or were frivolous. In the event of an action instituted by or in the right of the Company under this Agreement to enforce or interpret any of the terms of this Agreement, Indemnitee shall be entitled to be paid all Expenses incurred by Indemnitee in defense of such action (including costs and expenses incurred with respect to Indemnitee's counterclaims and cross-claims made in such action), and shall be entitled to the advancement of Expenses with respect to such action, unless as a part of such action a court specified in Section 15 determines that each of Indemnitee's material defenses to such action were made in bad faith or were frivolous.

14. Notice. Unless otherwise set forth in this Agreement, all notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed effectively given (i) if delivered by hand and signed for by the party addressed, on the date of such delivery, (ii) if delivered by Federal Express or similar overnight courier, freight prepaid, on the first Business Day after the date of deposit, or (iii) if mailed by domestic certified or registered mail with postage prepaid, on the fifth Business Day after the date postmarked. Notices shall be addressed if to Indemnitee, at Indemnitee's address as set forth beneath Indemnitee's signature to this Agreement and if to the Company at the address of its principal corporate offices (attention: Chief Executive Officer) or at such other address as such party may designate by ten (10) Business Days' advance written notice to the other party hereto.

15. Consent to Jurisdiction. The Company and Indemnitee each hereby irrevocably consent to the exclusive jurisdiction and venue of the courts of the State of Delaware for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement, and agree that any action instituted under this Agreement shall be commenced, prosecuted and continued only in the Court of Chancery of the State of Delaware in and for New Castle County, which shall be the exclusive and only proper forum for adjudicating such a claim. The Company and Indemnitee irrevocably waive any right to object that any action brought in such court is in an inconvenient forum.

16. Severability. The provisions of this Agreement shall be severable in the event that any of the provisions hereof (including any provision within a single section, paragraph or sentence) are held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable, and the remaining provisions shall remain enforceable to the fullest extent permitted by law. Furthermore, to the fullest extent possible, the provisions of this Agreement (including, without limitations, each portion of this Agreement containing any provision held to be invalid, void or otherwise unenforceable, that is not itself invalid, void or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

17. Choice of Law. This Agreement shall be governed by and its provisions construed and enforced in accordance with the laws of the State of Delaware, as applied to contracts between Delaware residents, entered into and to be performed entirely within the State of Delaware, without regard to the conflict of laws principles thereof.

18. Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights.

19. Amendment and Termination. No amendment, modification, termination or cancellation of this Agreement shall be effective unless it is in writing signed by both the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed to be or shall constitute a waiver of any other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver.

20. Integration and Entire Agreement. This Agreement sets forth the entire understanding between the parties hereto and supersedes and merges all previous written and oral negotiations, commitments, understandings and agreements relating to the subject matter hereof between the parties hereto.

21. No Construction as Employment Agreement. Nothing contained in this Agreement shall be construed as giving Indemnitee any right to be retained in the employ of the Company or any of its subsidiaries or affiliated entities.

22. Contribution. To the fullest extent permissible by applicable law, if the indemnification provided for in this Agreement is held by a court specified in Section 15 to be unavailable to Indemnitee for any reason whatsoever, then the Company, in lieu of indemnifying Indemnitee, shall contribute to the amount incurred by Indemnitee for Losses in connection with any Claim relating to an Indemnifiable Event, in such proportion as is fair and reasonable in light of all of the circumstances of such Claim in order to reflect (i) the relative benefits received by the Company and Indemnitee as a result of the event(s) and/or transaction(s) giving cause to such Claim; and/or (ii) the relative fault of the Company (and its directors, officers, employees, agents and fiduciaries) and Indemnitee in connection with such event(s) and/or transaction(s); and/or (iii) any other relevant equitable considerations.

IN WITNESS WHEREOF, the parties hereto have executed this Indemnification Agreement as of the date first above written.

COMPANY:

THE PENNANT GROUP, INC.,
a Delaware corporation

By: _____
Daniel H Walker,
Chief Executive Officer and President

1675 East Riverside Drive, Suite 150
Eagle, Idaho 83616

INDEMNITEE:

_____

Print Name: _____

Address: _____

_____

Facsimile: _____

Exhibit 10.12

Deal CUSIP: [●]
Revolver CUSIP: [●]

CREDIT AGREEMENT

dated as of [●], 2019

among

THE PENNANT GROUP, INC.
as Borrower

THE LENDERS FROM TIME TO TIME PARTY HERETO

and

SUNTRUST BANK
as Administrative Agent

SUNTRUST ROBINSON HUMPHREY, INC.,

BOFA SECURITIES, INC.

and

REGIONS SECURITIES LLC
as Joint Lead Arrangers and Joint Book Managers

[●]
as Syndication Agent

[●]
as Co-Documentation Agent

and

[●]
as Co-Documentation Agent

TABLE OF CONTENTS

CREDIT AGREEMENT

THIS CREDIT AGREEMENT (as amended, restated, amended and restated, supplemented, or otherwise modified from time to time, this "Agreement") is made and entered into as of [●], 2019, by and among THE PENNANT GROUP, INC., a Delaware corporation (the "Borrower"), the several banks and other financial institutions and lenders from time to time party hereto (the "Lenders") and SUNTRUST BANK, in its capacity as administrative agent for the Lenders (in such capacity, the "Administrative Agent"), as issuing bank (in such capacity, an "Issuing Bank") and as swingline lender (in such capacity, the "Swingline Lender").

W I T N E S S E T H:

WHEREAS, the Borrower has requested that the Lenders establish a $75,000,000 revolving credit facility in favor of the Borrower; and

WHEREAS, subject to the terms and conditions of this Agreement, the Lenders, the Issuing Banks and the Swingline Lender are willing to establish the requested revolving credit facility in favor of the Borrower on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Borrower, the Lenders, the Administrative Agent, the Issuing Banks and the Swingline Lender agree as follows:

ARTICLE I

DEFINITIONS; CONSTRUCTION

Section 1.1. Definitions. In addition to the other terms defined herein, the following terms used herein shall have the meanings herein specified (to be equally applicable to both the singular and plural forms of the terms defined):

"Accounts Collateral" shall have the meaning set forth in Section 7.2(i).

"Acquisition" shall mean (a) any Investment by the Borrower or any of its Subsidiaries in any other Person organized in the United States (with all or substantially all of the assets of such Person and its Subsidiaries located in the United States), pursuant to which such Person shall become a Subsidiary of the Borrower or any of its Subsidiaries or shall be merged or otherwise consolidated or combined with the Borrower or any of its Subsidiaries or (b) any acquisition by the Borrower or any of its Subsidiaries of the assets of any Person (other than a Subsidiary of the Borrower) that constitute all or substantially all of the assets of such Person or a division or business unit of such Person, whether through purchase, capital lease, exercise of an option to purchase, merger or other business combination or transaction (and all or substantially all of such assets, division or business unit are located in the United States). With respect to a determination of the amount of an Acquisition, such amount shall include all consideration (including any deferred payments) set forth in the applicable agreements governing such Acquisition as well as the assumption of any Indebtedness in connection therewith.

"Acquisition Consideration" shall mean purchase consideration for a Permitted Acquisition of an Excluded Subsidiary and all other payments (but excluding any related acquisition fees, costs and expenses incurred in connection with any Permitted Acquisition of an Excluded Subsidiary), directly or indirectly, by the Borrower or any of its Subsidiaries in exchange for, or as part of, or in connection with, a Permitted Acquisition of an Excluded Subsidiary, whether paid in cash or cash equivalents or by exchange of equity interests or of any property or by the assumption of debt of the Person

or business unit or asset group of any Person acquired or proposed to be acquired in any such Acquisition or otherwise and whether payable at or prior to the consummation of a Permitted Acquisition of an Excluded Subsidiary or deferred for payment at any future time (including earn-outs); provided, that any such future payment that is subject to a contingency shall be considered Acquisition Consideration only to the extent of the reserve, if any, required under GAAP at the time of such sale to be established in respect thereof by the Borrower or any of its Subsidiaries; provided, further, that Acquisition Consideration shall not include (a) any consideration or payment paid by the Borrower or any of its Subsidiaries (i) with the net cash proceeds of Capital Stock of the Borrower to its shareholders and/or (ii) in the form of Capital Stock of the Borrower and (b) cash and cash equivalents acquired by the Borrower or any of its Subsidiaries as part of the applicable Permitted Acquisition of an Excluded Subsidiary.

"Additional Lender" shall have the meaning set forth in Section 2.23.

"Adjusted LIBOR" shall mean, with respect to each Interest Period for a Eurodollar Loan, (i) the rate per annum equal to the London interbank offered rate for deposits in U.S. Dollars appearing on Reuters screen page LIBOR 01 (or on any successor or substitute page of such service or any successor to such service, or such other commercially available source providing such quotations as may be designated by the Administrative Agent from time to time) at approximately 11:00 A.M. (London time) two (2) Business Days prior to the first day of such Interest Period, with a maturity comparable to such Interest Period, divided by (ii) a percentage equal to 1.00% minus the then stated maximum rate of all reserve requirements (including any marginal, emergency, supplemental, special or other reserves and without benefit of credits for proration, exceptions or offsets that may be available from time to time) expressed as a decimal (rounded upward to the next 1/100th of 1%) applicable to any member bank of the Federal Reserve System in respect of Eurocurrency liabilities as defined in Regulation D (or any successor category of liabilities under Regulation D); provided, that if the rate referred to in clause (i) above is not available at any such time for any reason, then the rate referred to in clause (i) shall instead be the interest rate per annum, as determined by the Administrative Agent, to be the arithmetic average of the rates per annum at which deposits in U. S. Dollars in an amount equal to the amount of such Eurodollar Loan are offered by major banks in the London interbank market to the Administrative Agent at approximately 11:00 A.M. (London time), two (2) Business Days prior to the first day of such Interest Period. For the avoidance of doubt, if LIBOR shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

"Administrative Agent" shall have the meaning set forth in the introductory paragraph hereof.

"Administrative Questionnaire" shall mean, with respect to each Lender, an administrative questionnaire in the form provided by the Administrative Agent and submitted to the Administrative Agent duly completed by such Lender.

"Affiliate" shall mean, as to any Person, any other Person that directly, or indirectly through one or more intermediaries, Controls, is Controlled by, or is under common Control with, such Person; provided that none of the Borrower and its Subsidiaries shall constitute an Affiliate of Ensign or any of its Subsidiaries. For the purposes of this definition, "Control" shall mean the power, directly or indirectly, either to (i) vote 10% or more of the securities having ordinary voting power for the election of directors (or persons performing similar functions) of a Person or (ii) direct or cause the direction of the management and policies of a Person, whether through the ability to exercise voting power, by control or otherwise. The terms "Controlled by" and "under common Control with" have the meanings correlative thereto.

"Aggregate Revolving Commitment Amount" shall mean the aggregate principal amount of the Aggregate Revolving Commitments from time to time. On the Closing Date, the Aggregate Revolving Commitment Amount is $75,000,000.

"Aggregate Revolving Commitments" shall mean, collectively, all Revolving Commitments of all Lenders at any time outstanding.

"Anti-Terrorism Order" shall mean Executive Order 13224, signed by President George W. Bush on September 23, 2001.

"Applicable Lending Office" shall mean, for each Lender and for each Type of Loan, the "Lending Office" of such Lender (or an Affiliate of such Lender) designated for such Type of Loan in the Administrative Questionnaire submitted by such Lender or such other office of such Lender (or such Affiliate of such Lender) as such Lender may from time to time specify to the Administrative Agent and the Borrower as the office by which its Loans of such Type are to be made and maintained.

"Applicable Margin" shall mean, as of any date, with respect to all Loans outstanding on such date or the letter of credit fee, as the case may be, the percentage *per annum* determined by reference to the applicable Leverage Ratio in effect on such date as set forth in the pricing grid below (the "Pricing Grid"); provided that a change in the Applicable Margin resulting from a change in the Leverage Ratio shall be effective on the second Business Day after the Borrower delivers each of the financial statements required by Section 5.1(a) and (b) and the Compliance Certificate required by Section 5.1(c); provided, further, that if at any time the Borrower shall have failed to deliver such financial statements and such Compliance Certificate when so required, the Applicable Margin shall be at Level I as set forth in the Pricing Grid until such time as such financial statements and Compliance Certificate are delivered, at which time the Applicable Margin shall be determined as provided above. Notwithstanding the foregoing, the Applicable Margin from the Closing Date until the date by which the financial statements and Compliance Certificate for the Fiscal Year ending December 31, 2019 are required to be delivered shall be at [Level IV] as set forth in the Pricing Grid. In the event that any financial statement or Compliance Certificate delivered hereunder is shown to be inaccurate (regardless of whether this Agreement or the Commitments are in effect or any Loans are outstanding when such inaccuracy is discovered), and such inaccuracy, if corrected, would have led to the application of a higher Applicable Margin based upon the Pricing Grid (the "Accurate Applicable Margin") for any period that such financial statement or Compliance Certificate covered, then (i) the Borrower shall promptly deliver to the Administrative Agent a correct financial statement or Compliance Certificate, as the case may be, for such period, (ii) the Applicable Margin shall be adjusted such that after giving effect to the corrected financial statement or Compliance Certificate, as the case may be, the Applicable Margin shall be reset to the Accurate Applicable Margin based upon the Pricing Grid for such period and (iii) the Borrower shall promptly pay to the Administrative Agent, for the account of the Lenders, the accrued additional interest owing as a result of such Accurate Applicable Margin for such period. The provisions of this definition shall not limit the rights of the Administrative Agent and the Lenders with respect to Section 2.13(c) or Article VIII.

Pricing Grid

Pricing Level	Leverage Ratio	Applicable Margin for Eurodollar Loans	Applicable Margin for Base Rate Loans	Applicable Margin for Letter of Credit Fees	Applicable Percentage for Commitment Fees
I	Greater than or equal to 2.50:1.00	3.50% *per annum*	2.50% *per annum*	3.50% *per annum*	0.625% *per annum*
II	Less than 2.50:1.00 but greater than or equal to 2.00:1.00	3.25% *per annum*	2.25% *per annum*	3.25% *per annum*	0.625% *per annum*
III	Less than 2.00:1.00 but greater than or equal to 1.50:1.00	3.00% *per annum*	2.00% *per annum*	3.00% *per annum*	0.625% *per annum*
IV	Less than 1.50:1.00 but greater than or equal to 1.00:1.00	2.75% *per annum*	1.75% *per annum*	2.75% *per annum*	0.625% *per annum*
V	Less than 1.00:1.00	2.50% *per annum*	1.50% *per annum*	2.50% *per annum*	0.625% *per annum*

"Applicable Percentage" shall mean, as of any date, with respect to the commitment fee as of such date, the percentage *per annum* determined by reference to the Leverage Ratio in effect on such date as set forth in the Pricing Grid; provided that a change in the Applicable Percentage resulting from a change in the Leverage Ratio shall be effective on the second Business Day after which the Borrower delivers each of the financial statements required by Section 5.1(a) and (b) and the Compliance Certificate required by Section 5.1(c); provided, further, that if at any time the Borrower shall have failed to deliver such financial statements and such Compliance Certificate when so required, the Applicable Percentage shall be at Level I as set forth in the Pricing Grid until such time as such financial statements and Compliance Certificate are delivered, at which time the Applicable Percentage shall be determined as provided above. Notwithstanding the foregoing, the Applicable Percentage for the commitment fee from the Closing Date until the date by which the financial statements and Compliance Certificate for the Fiscal Year ending December 31, 2019 are required to be delivered shall be at [Level IV] as set forth in the Pricing Grid. In the event that any financial statement or Compliance Certificate delivered hereunder is shown to be inaccurate (regardless of whether this Agreement or the Commitments are in effect or any Loans are outstanding when such inaccuracy is discovered), and such inaccuracy, if corrected, would have led to the application of a higher Applicable Percentage based upon the Pricing Grid (the "Accurate Applicable Percentage") for any period that such financial statement or Compliance Certificate covered, then (i) the Borrower shall promptly deliver to the Administrative Agent a correct financial statement or Compliance Certificate, as the case may be, for such period, (ii) the Applicable Percentage shall be adjusted such that after giving effect to the corrected financial statement or Compliance Certificate, as the case may be, the Applicable Percentage shall be reset to the Accurate Applicable Percentage based upon the Pricing Grid for such period and (iii) the Borrower shall promptly pay to the Administrative Agent, for the account of the Lenders, the accrued additional commitment fee owing as a result of such Accurate Applicable Percentage for such period. The provisions of this definition shall not limit the rights of the Administrative Agent and the Lenders with respect to Section 2.13(c) or Article VIII.

"Approved Fund" shall mean any Person (other than a natural Person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business and that is administered or managed by (i) a Lender, (ii) an Affiliate of a Lender or (iii) an entity or an Affiliate of an entity that administers or manages a Lender.

"Assignment and Acceptance" shall mean an assignment and acceptance entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 10.4(b)) and accepted by the Administrative Agent, in the form of Exhibit A attached hereto or any other form approved by the Administrative Agent.

"Available Amount" shall mean, on any date, an amount not less than zero, equal to:

(i) 50% of the aggregate amount of Equity Issuance Proceeds received by Borrower from or in exchange for the issuance of Capital Stock (other than Disqualified Capital Stock and any issuance or distribution of Capital Stock in connection with the Pennant Transaction) after the Closing Date and on or prior to such date; *minus*

(ii) the aggregate amount of any Acquisition Consideration for all Permitted Acquisitions of Excluded Subsidiaries and other Investments in Excluded Subsidiaries, in each case, utilizing the Available Amount on or after the Closing Date and on or prior to such date.

"Availability Period" shall mean the period from the Closing Date to but excluding the applicable Revolving Commitment Termination Date.

"Bail-In Action" shall mean the exercise of any Write-Down and Conversion Powers by the applicable EEA Resolution Authority in respect of any liability of an EEA Financial Institution.

"Bail-In Legislation" shall mean, with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule.

"Bank Product Obligations" shall mean, collectively, all obligations and other liabilities of any Loan Party to any Bank Product Provider arising with respect to any Bank Products.

"Bank Product Provider" shall mean any Person that (i) is a Lender or an Affiliate of a Lender that provides a Bank Product to a Loan Party and (ii) except when the Bank Product Provider is either (A) Wells Fargo Bank, National Association with respect to Bank Products in existence on the Closing Date or (B) SunTrust Bank and its Affiliates, has provided prior written notice to the Administrative Agent which has been acknowledged by the Borrower of (x) the existence of such Bank Product, (y) the maximum dollar amount of obligations arising thereunder (the "Bank Product Amount") and (z) the methodology to be used by such parties in determining the obligations under such Bank Product from time to time; provided, the term "Bank Product Provider" shall include any Person that is the Administrative Agent, an Affiliate of the Administrative Agent, a Lender or an Affiliate of a Lender as of the Closing Date or as of the date that such Person provides any Bank Product to any Loan Party, but subsequently ceases to be the Administrative Agent, an Affiliate of the Administrative Agent, a Lender or an Affiliate of a Lender, as the case may be. In no event shall any Bank Product Provider acting in such capacity be deemed a Lender for purposes hereof to the extent of and as to Bank Products except that each reference to the term "Lender" in Article IX and Section 10.3(b) shall be deemed to include such Bank Product Provider and in no event shall the approval of any such person in its capacity as Bank Product Provider be required in connection with the release or termination of any security interest or Lien of the Administrative Agent. The Bank Product Amount may be changed from time to time upon written notice to the Administrative Agent by the applicable Bank Product Provider. No Bank Product Amount may be established at any time that a Default or Event of Default exists.

"Bank Products" shall mean any of the following services provided to any Loan Party by any Bank Product Provider: (a) any treasury or other cash management services, including deposit accounts, automated clearing house (ACH) origination and other funds transfer, depository (including cash vault and check deposit), zero balance accounts and sweeps, return items processing, controlled disbursement accounts, positive pay, lockboxes and lockbox accounts, account reconciliation and information reporting, payables outsourcing, payroll processing, trade finance services, investment accounts and securities accounts, and (b) card services, including credit cards (including purchasing cards and commercial cards), prepaid cards, including payroll, stored value and gift cards, merchant services processing, and debit card services.

"Base Rate" shall mean the highest of (i) the rate which the Wall Street Journal reports from time to time as the prime lending rate, as in effect from time to time, (ii) the Federal Funds Rate, as in effect from time to time, plus one-half of one percent (0.50%) *per annum*, (iii) LIBOR determined on a daily basis for an Interest Period of one (1) month, plus one percent (1.00%) *per annum* and (iv) zero percent (0.00%). Any change in the Base Rate due to a change in the prime lending rate, the Federal Funds Rate or LIBOR shall be effective as of the opening of business on the day of such change in the prime lending rate, the Federal Funds Rate or LIBOR, respectively.

"Beneficial Ownership Certification" shall mean a certification regarding beneficial ownership as required by the Beneficial Ownership Regulation.

"Beneficial Ownership Regulation" shall mean 31 C.F.R. § 1010.230.

"Benefit Plan" shall mean any of (a) an "employee benefit plan" (as defined in ERISA) that is subject to Title I of ERISA, (b) a "plan" as defined in and subject to Section 4975 of the Code or (c) any Person whose assets include (for purposes of Section 3(42) of ERISA or otherwise for purposes of Title I of ERISA or Section 4975 of the Code) the assets of any such "employee benefit plan" or "plan".

"BHC Act Affiliate" of a party shall mean an "affiliate" (as such term is defined under, and interpreted in accordance with, 12 U.S.C. 1841(k)) of such party.

"Borrower" shall have the meaning set forth in the introductory paragraph hereof.

"Borrowing" shall mean a borrowing consisting of (i) Loans of the same Class and Type, made, converted or continued on the same date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect, or (ii) a Swingline Loan.

"Business Day" shall mean any day other than (i) a Saturday, Sunday or other day on which commercial banks in Atlanta, Georgia are authorized or required by law to close and (ii) if such day relates to a Borrowing of, a payment or prepayment of principal or interest on, a conversion of or into, or an Interest Period for, a Eurodollar Loan or a notice with respect to any of the foregoing, any day on which banks are not open for dealings in Dollar deposits in the London interbank market.

"Capital Lease Obligations" of any Person shall mean all obligations of such Person to pay rent or other amounts under any lease (or other arrangement conveying the right to use) of real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP; provided that, (i) for the avoidance of doubt, any lease of a property operated as a healthcare facility shall be accounted for as an operating lease and not as a Capital Lease Obligation, and (ii) any lease that is accounted for by any Person as an operating lease as of December 31, 2018 and any lease entered into in the future that would have been accounted for as an operating lease if such lease had been in effect on December 31, 2018 shall be accounted for as an operating lease and not as a Capital Lease Obligation.

"Capital Stock" shall mean all shares, options, warrants, general or limited partnership interests, membership interests or other equivalents (regardless of how designated) of or in a corporation, partnership, limited liability company or equivalent entity whether voting or nonvoting, including common stock, preferred stock or any other "equity security" (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the Securities and Exchange Commission under the Exchange Act).

"Cash Collateralize" shall mean, in respect of any obligations, to provide and pledge (as a first priority perfected security interest) cash collateral for such obligations in Dollars with the Administrative Agent pursuant to documentation in form and substance reasonably satisfactory to the Administrative Agent (and "Cash Collateralized" and "Cash Collateralization" have the corresponding meanings).

"CFC" shall mean any Subsidiary that is a "controlled foreign corporation" within the meaning of Section 957 of the Code.

"CHAMPVA" shall mean, collectively, the Civilian Health and Medical Program of the Department of Veterans Affairs, a program of medical benefits covering retirees and dependents of former members of the armed services administered by the United States Department of Veterans Affairs, and all laws, rules, regulations, manuals, orders or requirements pertaining to such program.

"Change in Control" shall mean the occurrence of one or more of the following events: (i) any sale, lease, exchange or other transfer (in a single transaction or a series of related transactions) of all or substantially all of the assets of the Borrower to any Person or "group" (within the meaning of the Exchange Act and the rules of the Securities and Exchange Commission thereunder in effect on the date hereof), (ii) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or "group" (within the meaning of the Exchange Act and the rules of the Securities and Exchange Commission thereunder as in effect on the date hereof) of 35% or more of the outstanding shares of the voting equity interests of the Borrower, or (iii) during any period (after the Closing Date) of 24 consecutive months, a majority of the members of the board of directors or other equivalent governing body of the Borrower cease to be composed of individuals who are Continuing Directors. It being understood and agreed that (x) the Pennant Transaction shall not constitute a Change in Control and (y) a Person shall not be deemed to have beneficial ownership of Capital Stock subject to a stock purchase agreement, merger agreement or similar agreement until the consummation of the transactions contemplated by such agreement so long as Payment in Full of the Obligations is a condition to the effectiveness of the acquisition contemplated by such stock purchase agreement, merger agreement or similar agreement.

"Change in Law" shall mean (i) the adoption of any applicable law, rule or regulation after the date of this Agreement, (ii) any change in any applicable law, rule or regulation, or any change in the interpretation, implementation or application thereof, by any Governmental Authority after the date of this Agreement, or (iii) compliance by any Lender (or its Applicable Lending Office) or any Issuing Bank (or, for purposes of Section 2.18(b), by the Parent Company of such Lender or such Issuing Bank, if applicable) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement; provided that for purposes of this Agreement, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "Change in Law", regardless of the date enacted, adopted, implemented or issued.

"Class", when used in reference to any Loan or Borrowing, refers to whether such Loan, or each of the Loans comprising such Borrowing, is a Revolving Loan, a Swingline Loan, an Incremental Term Loan, an Extended Term Loan or an Other Refinancing Term Loan and, when used in reference to any Commitment, refers to whether such Commitment is a Revolving Commitment, a Swingline Commitment, an Incremental Term Loan Commitment, an Extended Term Loan Commitment or an Other Refinancing Term Loan Commitment.

"Closing Date" shall mean the date on which the conditions precedent set forth in Section 3.1 and Section 3.2 have been satisfied or waived in accordance with Section 10.2.

"Closing Date Release" shall have the meaning set forth in Section 3.1(b)(xv).

"Code" shall mean the Internal Revenue Code of 1986, as amended and in effect from time to time.

"Collateral" shall mean all tangible and intangible property, real and personal, of any Loan Party that is or purports to be the subject of a Lien to the Administrative Agent to secure the whole or any part of the Obligations or any Guarantee thereof, and shall include, without limitation, all casualty insurance proceeds and condemnation awards with respect to any of the foregoing.

"Collateral Access Agreement" shall mean each landlord waiver or bailee agreement granted to, and in form and substance reasonably acceptable to, the Administrative Agent.

"Collateral Documents" shall mean, collectively, the Guaranty and Security Agreement, the Control Account Agreements, the Sweep Agreements, all Copyright Security Agreements, all Patent Security Agreements, all Trademark Security Agreements, all Collateral Access Agreements, all Real Estate Documents, all loss payee endorsements required by Section 5.8, and all other instruments and agreements now or hereafter securing or perfecting the Liens securing the whole or any part of the Obligations or any Guarantee thereof, all UCC financing statements, fixture filings and stock powers, and all other documents, instruments, agreements and certificates executed and delivered by any Loan Party to the Administrative Agent and the Lenders in connection with the foregoing.

"Commitment" shall mean a Revolving Commitment, a Swingline Commitment or a Term Loan Commitment or any combination thereof (as the context shall permit or require).

"Compliance Certificate" shall mean a certificate from the principal executive officer or the principal financial officer of the Borrower in the form of, and containing the certifications set forth in, the certificate attached hereto as Exhibit 5.1(c).

"Consolidated EBITDA" shall mean, for the Borrower and its Subsidiaries for any period, an amount equal to the sum of (i) Consolidated Net Income for such period plus (ii) to the extent deducted in determining Consolidated Net Income for such period, and without duplication, (A) Consolidated Interest Expense, amortization or write-off of debt discount and debt issuance costs and commissions and discounts, premiums and other fees, expenses and charges associated with Indebtedness including underwriting, arrangement and commitment fees, letter of credit fees, and Bank Product fees and prepayment or related premiums, (B) income tax expense determined on a consolidated basis in accordance with GAAP, (C) depreciation and amortization determined on a consolidated basis in accordance with GAAP, (D) unusual, extraordinary or non-recurring charges or losses determined on a consolidated basis in accordance with GAAP, (E) severance, business integration, restructuring or optimization costs determined on a consolidated basis in accordance with GAAP, (F) costs and expenses in connection with equity or stock option plans or other employee benefit plans or stock subscriptions to the extent funded directly or indirectly with proceeds of an equity issuance by, or capital contribution to, the Borrower or

constituting non-cash charges determined on a consolidated basis in accordance with GAAP, (G) any non-cash charges or expenses determined on a consolidated basis in accordance with GAAP; provided that to the extent any such non-cash charge or expense represents an accrual or reserve for a potential cash item in any future period, the Borrower may elect to either not add such item pursuant to this clause (G) (or to add such item in part), or to have the cash payment in respect thereof in such future period (to the extent previously added pursuant to this clause (G)) subtracted from Consolidated EBITDA to such extent in such future period in which such cash payment occurs, and excluding amortization of a prepaid cash item that was paid in a prior period, (H) expenses related to Permitted Acquisitions and other Acquisitions permitted hereunder or approved in writing by the Required Lenders (or attempted Permitted Acquisitions and attempted Acquisitions permitted hereunder or approved in writing by the Required Lenders), equity issuances (whether or not consummated) and the Related Transactions, in each case for such period, (I) costs, fees, expenses or charges related to this Agreement and the transactions related hereto, and (J) charges, costs, losses and expenses relating to any Development Facility solely during the first twelve (12) months following the opening of such Development Facility; provided that the amount added back in the determination of Consolidated EBITDA for such Test Period pursuant to this clause (J) shall not exceed 10.0% of Consolidated EBITDA (after giving effect to such addbacks) of the Borrower and its Subsidiaries for such period, minus (iii)(A) unusual, extraordinary or non-recurring gains determined on a consolidated basis in accordance with GAAP and (B) non-cash gains (excluding any non-cash gain to the extent it (x) represents the reversal of an accrual or reserve for a potential cash item that reduced Consolidated Net Income or Consolidated EBITDA in any prior period, (y) is in respect of cash received in a prior period and not included in Consolidated Net Income or Consolidated EBITDA in a prior period or (z) represents an accrual in the ordinary course); provided that if any non-cash gain represents an accrual or asset outside the ordinary course for potential cash items in any future period, the cash payment in respect thereof shall in such future period be added to Consolidated EBITDA for such period to the extent such non-cash gain was excluded from Consolidated EBITDA in any prior period; *plus* (iv) to the extent not included in the calculation of Consolidated Net Income or not added back to Consolidated Net Income pursuant to clause (ii) above, proceeds of business interruption insurance (to the extent actually received in cash); provided that for purposes of calculating compliance with the financial covenants set forth in Article VI, to the extent that during such period any Loan Party shall have consummated a Permitted Acquisition or other Acquisition permitted hereunder or approved in writing by the Required Lenders, or any sale, transfer or other disposition of any Person, business, property or assets (other than the Pennant Transaction), Consolidated EBITDA shall be calculated on a Pro Forma Basis with respect to such Person, business, property or assets so acquired or disposed of. Notwithstanding the foregoing, the total amount of Consolidated EBITDA that is attributable to Excluded Subsidiaries (and their respective Subsidiaries) shall not exceed 50% of Consolidated EBITDA (prior to inclusion of Consolidated EBITDA of any Excluded Subsidiary and its Subsidiaries) of the Borrower and its Subsidiaries in any Test Period (determined on a consolidated basis, inclusive of intercompany transactions). Notwithstanding the foregoing or anything to the contrary contained herein, (i) Consolidated EBITDA for each of the Fiscal Quarters ended September 30, 2018, December 31, 2018, March 31, 2019 and June 30, 2019 shall be deemed to be $[●], $[●], $[●] and $[●], respectively, in each case as may be subject to addbacks and adjustments (without duplication) pursuant to the second paragraph of Section 1.3 for the applicable Test Period and (ii) Consolidated EBITDA for the Fiscal Quarter ending September 30, 2019 shall be determined in accordance with the foregoing definition as if the Pennant Transaction had been consummated as of the first day of such Fiscal Quarter.

"Consolidated EBITDAR" shall mean, for the Borrower and its Subsidiaries for any Test Period, an amount equal to the sum of (i) Consolidated EBITDA for such Test Period *plus* the aggregate amount of Consolidated EBITDA attributable to Excluded Subsidiaries (and their respective Subsidiaries) for such Test Period, if any, that was excluded from the calculation of Consolidated EBITDA for such Test Period as a result of the provision in the definition of Consolidated EBITDA limiting Consolidated EBITDA attributable to Excluded Subsidiaries (and their respective Subsidiaries) for such Test Period to 50% of

Consolidated EBITDA (prior to inclusion of Consolidated EBITDA of any Excluded Subsidiary and its Subsidiaries) of the Borrower and its Subsidiaries in such Test Period and (ii) Consolidated Lease Expense for such Test Period. Notwithstanding the foregoing or anything to the contrary contained herein, (i) Consolidated EBITDAR for each of the Fiscal Quarters ended September 30, 2018, December 31, 2018, March 31, 2019 and June 30, 2019 shall be deemed to be $[●], $[●], $[●] and $[●], respectively, and (ii) Consolidated EBITDAR for the Fiscal Quarter ending September 30, 2019 shall be determined in accordance with the foregoing definition as if the Pennant Transaction had been consummated as of the first day of such Fiscal Quarter.

"Consolidated Interest Expense" shall mean, for the Borrower and its Subsidiaries for any period, determined on a consolidated basis in accordance with GAAP, the sum of (i) total interest expense, including, without limitation, the interest component of any payments in respect of Capital Lease Obligations, expensed during such period (whether or not actually paid during such period) plus (ii) the net amount payable or expensed or deducted in calculating Consolidated Net Income (or minus the net amount receivable) with respect to Hedging Transactions during such period (whether or not actually paid or received during such period). Notwithstanding the foregoing or anything to the contrary contained herein, (i) Consolidated Interest Expense for each of the Fiscal Quarters ended September 30, 2018, December 31, 2018, March 31, 2019 and June 30, 2019 shall be deemed to be $[●], $[●], $[●] and $[●], respectively, and (ii) Consolidated Interest Expense for the Fiscal Quarter ending September 30, 2019 shall be determined in accordance with the foregoing definition as if the Pennant Transaction had been consummated as of the first day of such Fiscal Quarter.

"Consolidated Lease Expense" shall mean, for the Borrower and its Subsidiaries for any period, the aggregate amount of fixed and contingent rentals expensed with respect to leases of real and personal property (excluding Capital Lease Obligations) for such period (whether or not actually paid during such period) determined on a consolidated basis in accordance with GAAP. Notwithstanding the foregoing or anything to the contrary contained herein, (i) Consolidated Lease Expense for each of the Fiscal Quarters ended September 30, 2018, December 31, 2018, March 31, 2019 and June 30, 2019 shall be deemed to be $[●], $[●], $[●] and $[●], respectively, and (ii) Consolidated Lease Expense for the Fiscal Quarter ending September 30, 2019 shall be determined in accordance with the foregoing definition as if the Pennant Transaction had been consummated as of the first day of such Fiscal Quarter.

"Consolidated Net Income" shall mean, for the Borrower and its Subsidiaries for any period, the net income (or loss) of the Borrower and its Subsidiaries for such period determined on a consolidated basis in accordance with GAAP; provided that there shall be excluded from Consolidated Net Income (to the extent otherwise included therein) (i) any extraordinary gains or losses, (ii) any gains attributable to write-ups of assets or the sale of assets (other than the sale of inventory in the ordinary course of business), (iii) any equity interest of the Borrower or any Subsidiary of the Borrower in the unremitted earnings of any Person that is not a Subsidiary, and (iv) any income (or loss) of any Person accrued prior to the date it becomes a Subsidiary or is merged into or consolidated with the Borrower or any Subsidiary or the date that such Person's assets are acquired by the Borrower or any Subsidiary. Notwithstanding the foregoing or anything to the contrary contained herein, (i) Consolidated Net Income for each of the Fiscal Quarters ended September 30, 2018, December 31, 2018, March 31, 2019 and June 30, 2019 shall be deemed to be $[●], $[●], $[●] and $[●], respectively, and (ii) Consolidated Net Income for the Fiscal Quarter ending September 30, 2019 shall be determined in accordance with the foregoing definition as if the Pennant Transaction had been consummated as of the first day of such Fiscal Quarter.

"Consolidated Total Debt" shall mean, as of any date, all Indebtedness of the Borrower and its Subsidiaries measured on a consolidated basis as of such date, but excluding Hedging Obligations.

"Consolidated Total Net Debt" shall mean, as of any date, (i) Consolidated Total Debt minus (ii) all cash and Permitted Investments held on such date by the Borrower and its Subsidiaries in (x) Controlled Accounts and/or (y) Lender Accounts; provided that the aggregate amount of cash and Permitted Investments deducted from Consolidated Total Debt at any time pursuant to this clause (ii) shall not exceed $20,000,000.

"Continuing Director" shall mean, with respect to any period, any individuals (A) who were members of the board of directors or other equivalent governing body of the Borrower on the first day of such period, (B) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (A) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body, or (C) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (A) and (B) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body.

"Contractual Obligation" of any Person shall mean any provision of any security issued by such Person or of any agreement, instrument or undertaking under which such Person is obligated or by which it or any of the property in which it has an interest is bound.

"Control Account Agreement" shall mean any tri-party agreement by and among a Loan Party, the Administrative Agent and a depositary bank or securities intermediary at which such Loan Party maintains a Controlled Account, in each case in form and substance satisfactory to the Administrative Agent.

"Controlled Account" shall have the meaning set forth in Section 5.11.

"Copyright" shall have the meaning assigned to such term in the Guaranty and Security Agreement.

"Copyright Security Agreement" shall mean any Copyright Security Agreement executed by a Loan Party owning registered Copyrights or applications for Copyrights in favor of the Administrative Agent for the benefit of the Secured Parties, both on the Closing Date and thereafter.

"Covered Entity" shall mean any of the following:

(i) a "covered entity" as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 252.82(b);

(ii) a "covered bank" as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 47.3(b); or

(iii) a "covered FSI" as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 382.2(b).

"Covered Party" shall have the meaning set forth in Section 10.20.

"Credit Agreement Refinancing Indebtedness" shall mean any Indebtedness incurred pursuant to a Refinancing Amendment, in each case, issued, incurred or otherwise obtained (including by means of the extension or renewal of existing Indebtedness) in exchange for, or to extend, renew, replace or refinance, in whole or part, existing Loans or Commitments (including any successive Credit Agreement Refinancing Indebtedness) ("Refinanced Debt"); provided that (a) such exchanging, extending, renewing, replacing or refinancing Indebtedness (including, if such Indebtedness includes any Other Refinancing

Revolving Commitments, the unused portion of such Other Refinancing Revolving Commitments) is in an original aggregate principal amount not greater than the aggregate principal amount of the Refinanced Debt (and, in the case of Refinanced Debt consisting, in whole or in part, of unused Revolving Commitments, Extended Revolving Commitments or Other Refinancing Revolving Commitments, the amount thereof) except by an amount equal to unpaid accrued interest and premium thereon plus reasonable upfront fees and original issue discount on such exchanging, extending, renewing, replacing or refinancing Indebtedness, plus other reasonable and customary fees and expenses in connection with such exchange, modification, refinancing, refunding, renewal, replacement or extension, (b) such Indebtedness has a maturity equal to or later than, and, except in the case of Other Refinancing Revolving Commitments, a Weighted Average Life to Maturity equal to or greater than, the Refinanced Debt, (c) the terms and conditions of such Indebtedness (except as otherwise provided in clause (b) above and with respect to pricing, premiums and optional prepayment or redemption terms) are substantially identical to, or (taken as a whole) are no more favorable to the lenders or holders providing such Indebtedness, than those applicable to the Loans or Commitments being refinanced (except for covenants or other provisions applicable only to periods after the latest Maturity Date at the time of incurrence of such Indebtedness) (provided that satisfaction of this clause (c) shall be evidenced by a certificate of a Responsible Officer of the Borrower delivered to the Administrative Agent at least three (3) Business Days prior to the incurrence of such Indebtedness, providing a reasonably detailed description of the material terms and conditions of such Indebtedness or drafts of the documentation relating thereto, and a certificate of a Responsible Officer of the Borrower stating that the Borrower has determined in good faith that such terms and conditions satisfy the requirement of this clause (c) which shall be conclusive evidence that such terms and conditions satisfy such requirement unless the Administrative Agent notifies the Borrower within such three (3) Business Day period that it disagrees with such determination (including a description of the basis upon which it disagrees)) and (d) such Refinanced Debt shall be repaid, or satisfied and discharged, and all accrued interest, fees and premiums (if any) in connection therewith shall be paid, on the date such Credit Agreement Refinancing Indebtedness is issued, incurred or obtained.

"CTRI" shall mean CareTrust REIT, Inc., a Maryland corporation.

"Debtor Relief Laws" shall mean the Bankruptcy Code of the United States of America, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect.

"Default" shall mean any condition or event that, with the giving of notice or the lapse of time or both, would constitute an Event of Default.

"Default Interest" shall have the meaning set forth in Section 2.13(c).

"Default Right" shall have the meaning assigned to that term in, and shall be interpreted in accordance with, 12 C.F.R. §§ 252.81, 47.2 or 382.1, as applicable.

"Defaulting Lender" shall mean, subject to Section 2.26(c), any Lender that (a) has failed to (i) fund all or any portion of its Loans within two (2) Business Days of the date such Loans were required to be funded hereunder unless such Lender notifies the Administrative Agent and the Borrower in writing that such failure is the result of such Lender's good-faith determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable default, shall be specifically identified in such writing) has not been satisfied, or (ii) pay to the Administrative Agent, any Issuing Bank, any Swingline Lender or any other Lender any other amount required to be paid by it hereunder (including in respect of its participation in Letters of Credit or Swingline Loans) within two (2) Business Days of the date when due, (b) has notified the Borrower, the Administrative Agent or any Issuing Bank or Swingline Lender in writing that it does not intend to comply with its funding obligations

hereunder, or has made a public statement to that effect (unless such writing or public statement relates to such Lender's obligation to fund a Loan hereunder and states that such position is based on such Lender's good-faith determination that a condition precedent to funding (which condition precedent, together with any applicable default, shall be specifically identified in such writing or public statement) cannot be satisfied), (c) has failed, within three (3) Business Days after written request by the Administrative Agent or the Borrower, to confirm in writing to the Administrative Agent and the Borrower that it will comply with its prospective funding obligations hereunder (provided that such Lender shall cease to be a Defaulting Lender pursuant to this clause (c) upon receipt of such written confirmation by the Administrative Agent and the Borrower), or (d) has, or has a direct or indirect parent company that has, (i) become the subject of a proceeding under any Debtor Relief Law, or (ii) had appointed for it a receiver, custodian, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or assets, including the Federal Deposit Insurance Corporation or any other state or federal or foreign regulatory authority acting in such a capacity; provided that a Lender shall not be a Defaulting Lender solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender. Any determination by the Administrative Agent that a Lender is a Defaulting Lender under clauses (a) through (d) above shall be conclusive and binding absent manifest error, and such Lender shall be deemed to be a Defaulting Lender (subject to Section 2.26(b)) upon delivery of written notice of such determination to the Borrower, each Issuing Bank, each Swingline Lender and each Lender.

"Designated Non-Cash Consideration" shall mean the fair market value of non-cash consideration received by Borrower or any of its Subsidiaries in connection with a sale or other disposition of assets that is so designated as "Designated Non-Cash Consideration" pursuant to a certificate from a Responsible Officer of the Borrower setting forth the basis of such valuation, *minus* the amount of cash or Permitted Investments received in connection with a subsequent sale of or collection on such Designated Non-Cash Consideration.

"Development Facility" means any newly constructed, rehabilitated or developed healthcare facility of the Borrower or any Subsidiary.

"Disqualified Capital Stock" shall mean, with respect to any Person, any Capital Stock of such Person that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures (excluding any maturity as the result of an optional redemption by the issuer thereof) or is mandatorily redeemable or redeemable at the sole option of the holder thereof (other than solely (x) for Qualified Capital Stock or upon a sale of assets, casualty event or a change of control, in each case, subject to the prior payment in full of the Obligations or (y) as a result of a redemption that by the terms of such Capital Stock is contingent upon such redemption not being prohibited by this Agreement), pursuant to a sinking fund obligation or otherwise (other than solely for Qualified Capital Stock) or exchangeable or convertible into debt securities of the issuer thereof at the sole option of the holder thereof, in whole or in part, on or prior to the date that is 181 days after the latest Maturity Date then in effect at the time of issuance thereof.

"Disqualified Institution" shall mean those Persons who are competitors of the Borrower or any of its Subsidiaries and any Affiliate of such competitors that are, in each case, identified in writing to the Administrative Agent by the Borrower from time to time (the writings described herein, collectively, the "Disqualified Institutions List"); provided that any update or supplement to the Disqualified Institutions List shall not apply retroactively to disqualify any parties that have previously acquired an assignment or a participation in any Commitment or Loan.

"Disqualified Institutions List" shall have the meaning assigned to such term in the definition of Disqualified Institution.

"Dollar(s)" and the sign "$" shall mean lawful money of the United States.

"Domestic Subsidiary" shall mean each Subsidiary of the Borrower that is organized under the laws of the United States or any state or district thereof.

"Earlier LC Maturity Date" shall have the meaning set forth in Section 2.22(a).

"Earlier Swingline Maturity Date" shall have the meaning set forth in Section 2.4(f).

"EEA Financial Institution" shall mean (a) any credit institution or investment firm established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority, (b) any entity established in an EEA Member Country which is a parent of an institution described in clause (a) of this definition, or (c) any financial institution established in an EEA Member Country which is a subsidiary of an institution described in clause (a) or (b) of this definition and is subject to consolidated supervision with its parent.

"EEA Member Country" shall mean any of the member states of the European Union, Iceland, Liechtenstein and Norway.

"EEA Resolution Authority" shall mean any public administrative authority or any Person entrusted with public administrative authority of any EEA Member Country (including any delegee) having responsibility for the resolution of any EEA Financial Institution.

"Ensign" shall mean The Ensign Group, Inc., a Delaware corporation.

"Ensign Credit Agreement" shall mean that certain Third Amended and Restated Credit Agreement, dated as of [●], 2019, by and among Ensign, the lenders from time to time party thereto, and SunTrust Bank, as administrative agent for the lenders, as issuing bank, and as swingline lender, as amended, restated, amended and restated, supplemented or otherwise modified through the Closing Date.

"Ensign Landlord" shall mean Ensign and any Subsidiary of Ensign.

"Ensign Master Leases" shall mean the master leases entered into by the Borrower or any of its Subsidiaries with one or more Ensign Landlords, in each case, in substantially the form of such master leases delivered to the Administrative Agent on or prior to the Closing Date and any other master lease entered into by the Borrower or any of its Subsidiaries with an Ensign Landlord.

"Environmental Laws" shall mean all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by or with any Governmental Authority relating in any way to the environment, preservation or reclamation of natural resources, the management, Release or threatened Release of any Hazardous Material or to health and safety matters.

"Environmental Liability" shall mean any liability, contingent or otherwise (including any liability for damages, costs of environmental investigation and remediation, costs of administrative oversight, fines, natural resource damages, penalties or indemnities), of the Borrower or any of its

Subsidiaries directly or indirectly resulting from or based upon (i) any actual or alleged violation of any Environmental Law, (ii) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (iii) any actual or alleged exposure to any Hazardous Materials, (iv) the Release or threatened Release of any Hazardous Materials or (v) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

"Equity Issuance" shall mean (a) any issuance or sale after the Closing Date by the Borrower of any Capital Stock, or (b) the receipt by the Borrower after the Closing Date of any capital contribution (whether or not evidenced by any Capital Stock issued by the recipient of such contribution).

"Equity Issuance Proceeds" shall mean, with respect to any Equity Issuance, the aggregate amount of all cash received in respect thereof by the Person consummating such Equity Issuance net of all investment banking fees, discounts and commissions, legal fees, consulting fees, accountants' fees, underwriting discounts and commissions and other fees and expenses actually incurred in connection therewith.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended and in effect from time to time, and any successor statute thereto and the regulations promulgated and rulings issued thereunder.

"ERISA Affiliate" shall mean any person that for purposes of Title I or Title IV of ERISA or Section 412 of the Code would be deemed at any relevant time to be a "single employer" or otherwise aggregated with the Borrower or any of its Subsidiaries under Section 414(b), (c), (m) or (o) of the Code or Section 4001 of ERISA.

"ERISA Event" shall mean (i) any "reportable event" as defined in Section 4043 of ERISA with respect to a Plan (other than an event as to which the PBGC has waived under subsection .22, .23, .25, .27 or .28 of PBGC Regulation Section 4043 the requirement of Section 4043(a) of ERISA that it be notified of such event); (ii) any failure to make a required contribution to any Plan that would result in the imposition of a lien or other encumbrance or the provision of security under Section 430 of the Code or Section 303 or 4068 of ERISA, or the arising of such a lien or encumbrance, there being or arising any "unpaid minimum required contribution" or "accumulated funding deficiency" (as defined or otherwise set forth in Section 4971 of the Code or Part 3 of Subtitle B of Title 1 of ERISA), whether or not waived, or any filing of any request for or receipt of a minimum funding waiver under Section 412 of the Code or Section 302 of ERISA with respect to any Plan or Multiemployer Plan, or that such filing may be made, or any determination that any Plan is, or is expected to be, in at-risk status under Title IV of ERISA; (iii) any incurrence by the Borrower, any of its Subsidiaries or any of their respective ERISA Affiliates of any liability under Title IV of ERISA with respect to any Plan or Multiemployer Plan (other than for premiums due and not delinquent under Section 4007 of ERISA); (iv) any institution of proceedings, or the occurrence of an event or condition which would reasonably be expected to constitute grounds for the institution of proceedings by the PBGC, under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan; (v) any incurrence by the Borrower, any of its Subsidiaries or any of their respective ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan, or the receipt by the Borrower, any of its Subsidiaries or any of their respective ERISA Affiliates of any notice that a Multiemployer Plan is in endangered or critical status under Section 305 of ERISA; (vi) any receipt by the Borrower, any of its Subsidiaries or any of their respective ERISA Affiliates of any notice, or any receipt by any Multiemployer Plan from the Borrower, any of its Subsidiaries or any of their respective ERISA Affiliates of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent, within the meaning of Title IV of ERISA; (vii) engaging in a non-exempt prohibited transaction within the meaning of Section 4975 of the Code or Section 406 of ERISA; or (viii) any filing of a notice of intent to terminate any Plan if such termination would require material additional contributions in order to be considered a standard termination within the meaning of Section 4041(b) of ERISA, any filing under Section 4041(c) of ERISA of a notice of intent to terminate any Plan, or the termination of any Plan under Section 4041(c) of ERISA.

"EU Bail-In Legislation Schedule" shall mean the EU Bail-In Legislation Schedule published by the Loan Market Association (or any successor Person), as in effect from time to time.

"Eurodollar", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, bears interest at a rate determined by reference to LIBOR.

"Event of Default" shall have the meaning set forth in Section 8.1.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended and in effect from time to time.

"Excluded Subsidiary" shall mean (i) each Subsidiary of the Borrower that is designated by the Borrower as an "Excluded Subsidiary" on Schedule 4.14 on the Closing Date, and (ii) each other Subsidiary of the Borrower that is designated by the Borrower by written notice to the Administrative Agent as an "Excluded Subsidiary" pursuant to Section 5.18 subsequent to the Closing Date. Notwithstanding the foregoing, in no event shall (i) any tenant under any Ensign Master Lease be an Excluded Subsidiary other than to the extent such tenant is required to grant a Lien on its assets to secure Indebtedness of the applicable Ensign Landlord or (ii) any tenant under any PropCo Master Lease be an Excluded Subsidiary.

"Excluded Subsidiary Designation" shall have the meaning set forth in Section 5.18.

"Excluded Subsidiary Designation Amount" shall have the meaning set forth in Section 5.18.

"Excluded Subsidiary Revocation" shall have the meaning set forth in Section 5.18.

"Excluded Taxes" shall mean, with respect to any Recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) income or franchise taxes imposed on (or measured by) the Recipient's net income by the jurisdiction under the laws of which such Recipient is organized or in which its principal office is located or, in the case of any Lender, in which its Applicable Lending Office is located, (b) any branch profits taxes imposed by the United States or any similar tax imposed by any other jurisdiction in which such Recipient is located, and (c) any U.S. federal withholding taxes that (i) are imposed on amounts payable to such Recipient pursuant to a law in effect at the time such Recipient becomes a Recipient under this Agreement or designates a new lending office, except in each case to the extent that amounts with respect to such taxes were payable either (A) to such Recipient's assignor immediately before such Recipient became a Recipient under this Agreement, or (B) to such Recipient immediately before it designated a new lending office, (ii) are attributable to such Recipient's failure to comply with Section 2.20(e), or (iii) are imposed under FATCA.

"Extended Commitments" shall mean the Extended Term Loan Commitments and the Extended Revolving Commitments.

"Extended Facility" shall mean any additional tranche established pursuant to Section 2.27 reflecting an extension of the maturity date and, if applicable, amortization schedule of any existing tranche.

"Extended Facility Agreement" shall mean an Extended Revolving Credit Facility Agreement or an Extended Term Facility Agreement, as the context may require.

"Extended Facility Closing Date" shall mean, with regard to an Extended Facility, the first date all the conditions precedent set forth in the respective Extended Facility Agreement are satisfied or waived in accordance with Section 10.2.

"Extended Facility Lender" shall mean, at any time, with regard to an Extended Facility, any Lender that holds Loans or Commitments under such Extended Facility at such time.

"Extended Revolving Commitments" shall have the meaning set forth in Section 2.27.

"Extended Revolving Credit Facility" shall mean an Extended Facility designated as an "Extended Revolving Credit Facility" by the Borrower and established pursuant to an Extended Revolving Credit Facility Agreement.

"Extended Revolving Credit Facility Agreement" shall mean an agreement setting forth the terms and conditions relating to an Extended Revolving Credit Facility.

"Extended Term Facility" shall mean an Extended Facility designated as an "Extended Term Facility" by the Borrower and established pursuant to an Extended Term Facility Agreement.

"Extended Term Facility Agreement" shall mean an agreement setting forth the terms and conditions relating to an Extended Term Facility.

"Extended Term Loan Commitment" shall have the meaning set forth in Section 2.27.

"Extended Term Loans" shall have the meaning set forth in Section 2.27.

"Extending Revolving Lender" shall have the meaning set forth in Section 2.27.

"Extending Term Loan Lender" shall have the meaning set forth in Section 2.27.

"Extension" shall have the meaning set forth in Section 2.27.

"Extension Offer" shall have the meaning set forth in Section 2.27.

"FATCA" shall mean Sections 1471 through 1474 of the Code as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with) and any current or future regulations or official interpretations thereof and any agreement entered into pursuant to Section 1471(b)(1) of the Code or any intergovernmental agreements entered into in connection with the implementation of such Sections of the Code.

"Federal Funds Rate" shall mean, for any day, the rate *per annum* (rounded upwards, if necessary, to the next 1/100 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with member banks of the Federal Reserve System, as published by the Federal Reserve Bank of New York on the next succeeding Business Day or, if such rate is not so published for any Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upwards, if necessary, to the next 1/100 of 1%) charged to the Administrative Agent on such day on such transactions as determined by the Administrative Agent. For the avoidance of doubt, if the Federal Funds Rate shall be less than zero, such rate shall be deemed zero for purposes of this Agreement.

"Fee Letter" shall mean that certain fee letter, dated as of May 3, 2019, executed by SunTrust Robinson Humphrey, Inc. and SunTrust Bank and accepted by the Borrower, as amended, restated, amended and restated, supplemented or otherwise modified from time to time.

"Fiscal Quarter" shall mean any fiscal quarter of the Borrower.

"Fiscal Year" shall mean any fiscal year of the Borrower.

"Flood Insurance Laws" shall mean, collectively, (i) the National Flood Insurance Reform Act of 1994 (which comprehensively revised the National Flood Insurance Act of 1968 and the Flood Disaster Protection Act of 1973), as now or hereafter in effect or any successor statute thereto, (ii) the Flood Insurance Reform Act of 2004, as now or hereafter in effect or any successor statute thereto and (iii) the Biggert–Waters Flood Insurance Reform Act of 2012, as now or hereafter in effect or any successor statute thereto.

"Foreign Person" shall mean any Person that is not a U.S. Person.

"Foreign Subsidiary" shall mean each Subsidiary of the Borrower that is organized under the laws of a jurisdiction other than one of the fifty states of the United States or the District of Columbia.

"GAAP" shall mean generally accepted accounting principles in the United States applied on a consistent basis and subject to the terms of Section 1.3.

"Governmental Authority" shall mean the government of the United States, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government. "Governmental Authority" shall include any agency, branch or other governmental body charged with the responsibility, or vested with the authority to administer or enforce, any Health Care Laws, including any Medicare or Medicaid contractors, intermediaries or carriers.

"Governmental Deposit Account" shall mean a deposit account of a Loan Party maintained in accordance with the requirements of Section 5.11, into which direct proceeds of Medicare and Medicaid payments made by Governmental Payors are deposited.

"Governmental Payor" shall mean Medicare, Medicaid, TRICARE, CHAMPVA, any state health plan adopted pursuant to Title XIX of the Social Security Act, any other state or federal health care program and any other Governmental Authority which presently or in the future maintains a Third Party Payor Program.

"Guarantee" of or by any Person (the "guarantor") shall mean any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness of any other Person (the "primary obligor") in any manner, whether directly or indirectly and including any obligation, direct or indirect, of the guarantor (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness of the payment thereof, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or (iv) as an account party in respect of any letter of credit or letter of guaranty issued in support of such Indebtedness; provided that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guarantee is made or, if not so stated or determinable, the maximum reasonably anticipated liability in respect thereof (assuming such Person is required to perform thereunder) as determined by such Person in good faith. The term "Guarantee" used as a verb has a corresponding meaning.

"Guarantor" shall mean each of the Subsidiary Loan Parties.

"Guaranty and Security Agreement" shall mean the Guaranty and Security Agreement, dated as of the Closing Date and substantially in the form of Exhibit B, made by the Loan Parties in favor of the Administrative Agent for the benefit of the Secured Parties, as amended, restated, amended and restated, supplemented or otherwise modified from time to time.

"Hazardous Materials" shall mean all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Health Care Law" shall mean any Requirement of Law relating to (a) fraud and abuse (including, without limitation, the following statutes, as amended and in effect from time to time, and any successor statutes thereto and the regulations promulgated thereunder: the federal Anti-Kickback Statute (42 U.S.C. § 1320a-7b(b)); the Stark Law (42 U.S.C. § 1395nn and §1395(q)); the civil False Claims Act (31 U.S.C. § 3729 et seq.); Sections 1320a-7 and 1320a-7a and 1320a-7b of Title 42 of the United States Code; and the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Pub. L. No. 108-173)); (b) Medicare, Medicaid, CHAMPVA, TRICARE or other Third Party Payor Programs; (c) the licensure or regulation of healthcare providers, suppliers, professionals, facilities or payors; (d) the provision of, or payment for, health care services, items or supplies; (e) patient health care; (f) quality, safety certification and accreditation standards and requirements; (g) the billing, coding or submission of claims or collection of accounts receivable or refund of overpayments; (h) HIPAA; (i) fee-splitting prohibitions; (j) health planning or rate-setting laws, including laws regarding certificates of need and certificates of exemption; (k) certificates of operations and authority; (l) laws regulating the provision of free or discounted care or services; and (m) any and all other applicable federal, state or local health care laws, rules, codes, statutes, regulations, manuals, orders, ordinances, statutes, policies, professional or ethical rules, administrative guidance and requirements, in each case as amended from time to time.

"Health Care Permits" shall mean, with respect to any Person, any permit, approval, consent, authorization, license, provisional license, registration, accreditation, certificate, certification, certificate of need, qualification, operating authority, concession, grant, franchise, variance or permission from any Governmental Authority issued or required under applicable Health Care Laws.

"Hedging Obligations" of any Person shall mean any and all obligations of such Person, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired under (i) any and all Hedging Transactions, (ii) any and all cancellations, buy backs, reversals, terminations or assignments of any Hedging Transactions and (iii) any and all renewals, extensions and modifications of any Hedging Transactions and any and all substitutions for any Hedging Transactions.

"Hedging Transaction" of any Person shall mean (a) any transaction (including an agreement with respect to any such transaction) now existing or hereafter entered into by such Person that is a rate swap transaction, swap option, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap or option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option, spot transaction, credit protection transaction, credit swap, credit default swap, credit default option, total return swap, credit spread transaction, repurchase transaction, reverse repurchase transaction, buy/sell-back transaction, securities lending transaction, or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or

governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a "Master Agreement"), including any such obligations or liabilities under any Master Agreement.

"HIPAA" shall mean the (a) Health Insurance Portability and Accountability Act of 1996; (b) the Health Information Technology for Economic and Clinical Health Act (Title XIII of the American Recovery and Reinvestment Act of 2009); and (c) any state and local laws regulating the privacy and/or security of individually identifiable information, including state laws providing for notification of breach of privacy or security of individually identifiable information, in each case, with respect to the laws described in clauses (a), (b) and (c) of this definition, as amended and in effect from time to time, and any successor statutes thereto and the regulations promulgated thereunder.

"Immaterial Subsidiary" shall mean, as of any date of determination, any direct or indirect Subsidiary of the Borrower that is formed or acquired after the Closing Date that has, (a) individually, (i) assets in an amount not in excess of 2.5% of the total assets of the Borrower and its Subsidiaries (other than Excluded Subsidiaries) determined on a consolidated basis as of such date and (ii) revenues in an amount not in excess of 2.5% of the total revenues of the Borrower and its Subsidiaries (other than Excluded Subsidiaries) on a consolidated basis for the most recently ended Test Period and (b) when taken together with all other then-existing Immaterial Subsidiaries, (i) assets in an amount not in excess of 5.0% of the total assets of the Borrower and its Subsidiaries (other than Excluded Subsidiaries) determined on a consolidated basis as of such date and (ii) revenues in an amount not in excess of 5.0% of the total revenues of the Borrower and its Subsidiaries (other than Excluded Subsidiaries) on a consolidated basis for the most recently ended Test Period.

"Increasing Lender" shall have the meaning set forth in Section 2.23.

"Incremental Commitment" shall have the meaning set forth in Section 2.23.

"Incremental Commitment Joinder" shall have the meaning set forth in Section 2.23.

"Incremental Revolving Commitment" shall have the meaning set forth in Section 2.23.

"Incremental Term Loan" shall have the meaning set forth in Section 2.23.

"Incremental Term Loan Commitment" shall have the meaning set forth in Section 2.23.

"Indebtedness" of any Person shall mean, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person in respect of the deferred purchase price of property or services (other than trade payables incurred in the ordinary course of business and excluding earn-outs except to the extent required under GAAP to be reflected as a liability on the balance sheet of such Person), (iv) all obligations of such Person under any conditional sale or other title retention agreement(s) relating to property acquired by such Person, (v) all Capital Lease Obligations of such Person, (vi) all obligations, contingent or otherwise, of such Person in respect of letters of credit, acceptances or similar extensions of credit, (vii) all Guarantees of such Person of the type of Indebtedness described in clauses (i) through (vi) above, (viii) all Indebtedness of a third party secured by any Lien on property owned by such Person, whether or not such Indebtedness has been assumed by such Person (provided that if such Person has not assumed or otherwise become liable in respect of such Indebtedness, such Indebtedness shall be deemed to be in an amount equal to the lesser of (A) the amount of such Indebtedness and (B) the fair market value of the property to which such Lien relates), (ix) all obligations of such Person in respect of Disqualified Capital Stock, (x) all Off-Balance Sheet Liabilities and (xi) all Hedging Obligations. The

Indebtedness of any Person shall include (1) the Indebtedness of any partnership in which such Person is a general partner, except to the extent that the terms of such Indebtedness or the terms of the partnership agreement of such partnership provide that such Person is not liable therefor and (2) the Indebtedness of any joint venture (other than to the extent covered by clause (1) above) in which such Person is joint venturer, solely to the extent that the terms of such Indebtedness or the terms of the operating agreement of such joint venture expressly provide that such Person is liable therefor, or such Person is otherwise liable therefor.

"Indemnified Taxes" shall mean Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of any Loan Party under any Loan Document.

"Interest/Rent Coverage Ratio" shall mean, as of the end of any Test Period, the ratio of (i) Consolidated EBITDAR for such Test Period to (ii) the sum of Consolidated Interest Expense and Consolidated Lease Expense for such Test Period.

"Interest Period" shall mean with respect to any Eurodollar Borrowing, a period of one, two, three or six months, or such other period that is twelve months or less than one month that is agreed to by all relevant Lenders; provided that:

(i) the initial Interest Period for such Borrowing shall commence on the date of such Borrowing (including the date of any conversion from a Borrowing of another Type), and each Interest Period occurring thereafter in respect of such Borrowing shall commence on the day on which the next preceding Interest Period expires;

(ii) if any Interest Period would otherwise end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day, unless such Business Day falls in another calendar month, in which case such Interest Period would end on the next preceding Business Day;

(iii) any Interest Period which begins on the last Business Day of a calendar month or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period shall end on the last Business Day of such calendar month;

(iv) each principal installment of the Term Loans shall have an Interest Period ending on or prior to each installment payment date and the remaining principal balance (if any) of the Term Loans shall have an Interest Period determined as set forth above; and

(v) no Interest Period may extend beyond the applicable Revolving Commitment Termination Date, unless on such Revolving Commitment Termination Date the aggregate outstanding principal amount of Term Loans is equal to or greater than the aggregate principal amount of Eurodollar Loans with Interest Periods expiring after such date, and no Interest Period may extend beyond the final Maturity Date.

"Investments" shall have the meaning set forth in Section 7.4.

"Issuing Bank" shall mean (a) SunTrust Bank in its capacity as an issuer of Letters of Credit and (b) each other Lender with a Revolving Commitment selected by the Borrower and approved by the Administrative Agent that agrees to act as an issuer of Letters of Credit (it being understood that any other Lender that becomes an Issuing Bank may condition its agreement to act in such capacity on a lesser sublimit within the LC Commitment but that the Administrative Agent shall not have any responsibility for monitoring the usage of such lesser sublimit), in each case pursuant to Section 2.22.

"Joining Guarantor" shall have the meaning set forth in Section 5.12(a).

"JV Documents" shall mean (i) [●], (ii) [●], (iii) [●] and (iv) [●], in each case of clauses (i) through ([●]), as in effect on the Closing Date and, solely to the extent such amendment, restatement, amendment and restatement, or other modification is not materially adverse to the interests of the Lenders or the Administrative Agent, as amended, restated, amended and restated, or otherwise modified from time to time.

"JV Entity" shall mean each of (i) [●] and (ii) [●].

"LCA Election" shall mean the Borrower's election to treat a specified Acquisition as a Limited Condition Acquisition in accordance with Section 1.5, effective upon delivery by the Borrower of the LCA Election Certificate required by Section 1.5.

"LCA Election Certificate" shall have the meaning set forth in Section 1.5.

"LCA Test Date" shall have the meaning set forth in Section 1.5.

"LC Commitment" shall mean that portion of the Aggregate Revolving Commitments that may be used by the Borrower for the issuance of Letters of Credit in an aggregate face amount not to exceed $15,000,000.

"LC Disbursement" shall mean a payment made by an Issuing Bank pursuant to a Letter of Credit.

"LC Documents" shall mean all applications, agreements and instruments relating to the Letters of Credit but excluding the Letters of Credit.

"LC Exposure" shall mean, at any time, the sum of (i) the aggregate undrawn amount of all outstanding Letters of Credit at such time, plus (ii) the aggregate amount of all LC Disbursements that have not been reimbursed by or on behalf of the Borrower at such time. The LC Exposure of any Revolving Lender shall be its Pro Rata Share (based on such Revolving Lender's Revolving Commitment or Revolving Credit Exposure, as applicable) of the total LC Exposure at such time.

"Lead Arrangers" shall mean SunTrust Robinson Humphrey, Inc., BofA Securities, Inc. and Regions Securities LLC, each in its capacity as a joint lead arranger in connection with this Agreement.

"Lease-Adjusted Leverage Ratio" shall mean, as of any date of determination, the ratio of (i) the sum of (A) Consolidated Total Net Debt as of such date and (B) an amount equal to six (6) times the Consolidated Lease Expense for the most recently ended Test Period to (ii) Consolidated EBITDAR for the most recently ended Test Period.

"Lender Account" shall mean any deposit account or securities account of the Borrower or any of its Subsidiaries that is established at the Administrative Agent or any Lender.

"Lender-Related Hedge Provider" shall mean any Person that, at the time it enters into a Hedging Transaction with any Loan Party, (i) is a Lender or an Affiliate of a Lender and (ii) except when the Lender-Related Hedge Provider is SunTrust Bank or any of its Affiliates, has provided prior written notice to the Administrative Agent which has been acknowledged by the Borrower of (x) the existence of such Hedging Transaction and (y) the methodology to be used by such parties in determining the obligations under such Hedging Transaction from time to time. In no event shall any Lender-Related Hedge Provider acting in such capacity be deemed a Lender for purposes hereof to the extent of and as to Hedging

Obligations except that each reference to the term "Lender" in Article IX and Section 10.3(b) shall be deemed to include such Lender-Related Hedge Provider. In no event shall the approval of any such Person in its capacity as Lender-Related Hedge Provider be required in connection with the release or termination of any security interest or Lien of the Administrative Agent.

"Lenders" shall have the meaning set forth in the introductory paragraph hereof and shall include, where appropriate, the Swingline Lender, each Increasing Lender, each Additional Lender that joins this Agreement pursuant to Section 2.23, each Extended Facility Lender and each Refinancing Lender.

"Letter of Credit" shall mean any stand-by letter of credit issued pursuant to Section 2.22 by an Issuing Bank for the account of the Borrower pursuant to the LC Commitment.

"Leverage Ratio" shall mean, as of any date of determination, the ratio of (i) Consolidated Total Net Debt as of such date to (ii) Consolidated EBITDA for the most recently ended Test Period.

"Licensed Personnel" shall mean any Person (including any physician) involved in the delivery of health care or medical items, services or supplies, employed or retained by the Borrower or any of its Subsidiaries.

"Lien" shall mean any mortgage, pledge, security interest, lien (statutory or otherwise), charge, encumbrance, hypothecation, assignment, or other arrangement having the practical effect of any of the foregoing or any preference, priority or other security agreement or preferential arrangement for security of any kind or nature whatsoever (including any conditional sale or other title retention agreement and any capital lease having the same economic effect as any of the foregoing).

"Limited Condition Acquisition" shall mean any Acquisition whose consummation is not conditioned on the availability of, or on obtaining, third party financing; provided that in the event the consummation of any such acquisition shall not have occurred on or prior to the date that is one hundred and fifty (150) days following the signing of the applicable Limited Condition Acquisition Agreement (or such longer period as is reasonably necessary to obtain regulatory approvals from any applicable Governmental Authority), such acquisition shall no longer constitute a Limited Condition Acquisition for any purpose hereunder.

"Limited Condition Acquisition Agreement" shall have the meaning set forth in Section 1.5.

"Liquidity" shall mean, as of any date of determination, an amount equal to (x) the Aggregate Revolving Commitment Amount minus (y) the aggregate Revolving Credit Exposure of all Lenders.

"Loan Documents" shall mean, collectively, this Agreement, the Collateral Documents, the LC Documents, the Fee Letter, all Notices of Borrowing, all Notices of Swingline Borrowing, all Notices of Conversion/Continuation, all Compliance Certificates, any promissory notes issued hereunder and each other instrument, agreement, document and writing executed in connection with any of the foregoing that is identified by its terms as a "Loan Document".

"Loan Parties" shall mean the Borrower and the Subsidiary Loan Parties.

"Loans" shall mean all Revolving Loans, Swingline Loans and Term Loans in the aggregate or any of them, as the context shall require, and shall include, where appropriate, any loan made pursuant to Section 2.23, 2.27 or 2.28.

"Master Leases" shall mean the PropCo Master Leases, the Ensign Master Leases and each other Material Master Lease.

"Material Adverse Effect" shall mean, with respect to any event, act, condition or occurrence of whatever nature, whether singularly or in conjunction with any other event or events, act or acts, condition or conditions, occurrence or occurrences whether or not related, resulting in a material adverse change in, or a material adverse effect on, (i) the business, results of operations, financial condition, assets, liabilities or properties of the Borrower and its Subsidiaries taken as a whole and after giving effect to the Related Transactions, (ii) the ability of the Loan Parties, taken as a whole, to perform their respective obligations under the Loan Documents, (iii) the rights and remedies of the Administrative Agent, each Issuing Bank, the Swingline Lender or the Lenders under any of the Loan Documents or (iv) the legality, validity or enforceability of any of the Loan Documents.

"Material Agreements" shall mean (i) all agreements, indentures or notes governing the terms of any Material Indebtedness, (ii) each Master Lease and (iii) all other agreements, documents, contracts, indentures and instruments pursuant to which a default, breach or termination thereof could reasonably be expected to result in a Material Adverse Effect.

"Material Indebtedness" shall mean any Indebtedness (other than the Commitments, the Loans and the Letters of Credit) of the Borrower or any of its Subsidiaries individually or in an aggregate committed or outstanding principal amount exceeding $7,500,000. For purposes of determining the amount of attributed Indebtedness from Hedging Obligations, the "principal amount" of any Hedging Obligations at any time shall be the Net Mark-to-Market Exposure of such Hedging Obligations.

"Material Master Lease" shall mean a master lease of multiple properties to the Borrower or its Subsidiaries concerning properties from which the Borrower and its Subsidiaries, when taken together, derived in excess of 7.5% of their consolidated revenues for any Test Period.

"Material Real Estate" shall mean Real Estate with a fair market value in excess of $3,500,000.

"Material Subsidiary" shall mean, as of any date, any direct or indirect Subsidiary of the Borrower that is not an Immaterial Subsidiary.

"Maturity Date" shall mean, (a) with respect to any new tranche of Term Loans (including any Incremental Term Loans, Extended Term Loans or Other Refinancing Term Loans), the maturity dates specified therefor in the applicable Incremental Commitment Joinder, Extended Facility Agreement or Refinancing Amendment, as applicable and (b) with respect to the Revolving Commitments, the Revolving Commitment Termination Date.

"Medicaid" shall mean, collectively, the health care assistance program established by Title XIX of the Social Security Act (42 U.S.C. 1396 et seq.) and any statutes succeeding thereto, and all laws, rules, regulations, manuals, orders or requirements pertaining to such program, including (a) all federal statutes affecting such program; (b) all state statutes and plans for medical assistance enacted in connection with such program and federal rules and regulations promulgated in connection with such program; and (c) all applicable provisions of all rules, regulations, manuals, orders and administrative, reimbursement, and requirements of all Government Authorities promulgated in connection with such program (whether or not having the force of law), in each case as the same may be amended and in effect from time to time.

"Medicare" shall mean, collectively, the health insurance program for the aged and disabled established by Title XVIII of the Social Security Act (42 U.S.C. 1395 et seq.) and any statutes succeeding thereto, and all laws, rules, regulations, manuals, orders or requirements pertaining to such program including (a) all federal statutes (whether set forth in Title XVIII of the Social Security Act (42 U.S.C. 1395 et seq.) or elsewhere) affecting such program; and (b) all applicable provisions of all rules, regulations, manuals, orders and administrative and reimbursement requirements of all Governmental Authorities promulgated in connection with such program (whether or not having the force of law), in each case as the same may be amended and in effect from time to time.

"Moody's" shall mean Moody's Investors Service, Inc.

"Mortgaged Property" shall mean, collectively, the Real Estate subject to the Mortgages, including, but not limited to, any Real Estate for which a Mortgage is required to be delivered after the Closing Date pursuant to Section 5.13.

"Mortgage Release Event" shall mean, on any date of determination, as applicable, that:

(i) if a Mortgage Trigger Event resulted pursuant to clause (A) of the definition of Mortgage Trigger Event, (x) the Event of Default that resulted in such Mortgage Trigger Event shall no longer exist as of such date, (y) no other Default or Event of Default shall exist and be continuing as of such date and (z) no other Mortgage Trigger Event shall have occurred for which the relevant Mortgage Release Event pursuant to clauses (ii) and/or (iii) below has not occurred as of such date;

(ii) if a Mortgage Trigger Event resulted pursuant to clause (B) of the definition of Mortgage Trigger Event, (x) the Leverage Ratio of the Borrower shall have been less than a ratio that is 0.25:1.00 less than the then-applicable maximum Leverage Ratio permitted under Section 6.1 for three (3) consecutive Fiscal Quarters following the date of such Mortgage Trigger Event and (y) no other Mortgage Trigger Event shall have occurred for which the relevant Mortgage Release Event pursuant to clause (i) above and/or clause (iii) below has not occurred as of such date; and/or

(iii) if a Mortgage Trigger Event resulted pursuant to clause (C) of the definition of Mortgage Trigger Event, (x) Liquidity shall have been greater than 10% of the Aggregate Revolving Commitment Amount for a period of one hundred twenty (120) consecutive days and (y) no other Mortgage Trigger Event shall have occurred for which the relevant Mortgage Release Event pursuant to clauses (i) and/or (ii) above has not occurred as of such date.

"Mortgage Trigger Event" shall mean, as of any date of determination, that (A) an Event of Default has occurred and is continuing, (B) the Leverage Ratio of the Borrower is equal to or greater than a ratio that is 0.25:1.00 less than the then-applicable maximum Leverage Ratio permitted under Section 6.1 for two consecutive Fiscal Quarters, or (C) Liquidity is equal to or less than 10% of the Aggregate Revolving Commitment Amount for a period of ten (10) consecutive Business Days.

"Mortgages" shall mean, collectively, each mortgage, deed of trust, trust deed, security deed, deed to secure debt or other real estate security documents delivered by any Loan Party to the Administrative Agent from time to time, all in form and substance reasonably satisfactory to the Administrative Agent, as the same may be amended, restated, amended and restated, supplemented or otherwise modified from time to time.

"Multiemployer Plan" shall mean any "multiemployer plan" as defined in Section 4001(a)(3) of ERISA, which is contributed to by (or to which there is or may be an obligation to contribute of) the Borrower, any of its Subsidiaries or an ERISA Affiliate, and each such plan for the five-year period immediately following the latest date on which the Borrower, any of its Subsidiaries or an ERISA Affiliate contributed to or had an obligation to contribute to such plan.

"Net Mark-to-Market Exposure" of any Person shall mean, as of any date of determination with respect to any Hedging Obligation, the excess (if any) of all unrealized losses over all unrealized profits of such Person arising from such Hedging Obligation. "Unrealized losses" shall mean the fair market value of the cost to such Person of replacing the Hedging Transaction giving rise to such Hedging Obligation as of the date of determination (assuming such Hedging Transaction were to be terminated as of that date), and "unrealized profits" shall mean the fair market value of the gain to such Person of replacing such Hedging Transaction as of the date of determination (assuming such Hedging Transaction were to be terminated as of that date).

"Non-Defaulting Lender" shall mean, at any time, a Lender that is not a Defaulting Lender.

"Non-Public Information" shall mean any material non-public information (within the meaning of United States federal and state securities laws) with respect to the Borrower or any of its Subsidiaries or any of their respective securities.

"Non-U.S. Plan" shall mean any plan, fund (including, without limitation, any superannuation fund) or other similar program established, contributed to (regardless of whether through direct contributions or through employee withholding) or maintained outside the United States by the Borrower or one or more of its Subsidiaries primarily for the benefit of employees of the Borrower or such Subsidiaries residing outside the United States, which plan, fund or other similar program provides, or results in, retirement income, a deferral of income in contemplation of retirement, or payments to be made upon termination of employment, and which plan is not subject to ERISA or the Code.

"Notice of Conversion/Continuation" shall have the meaning set forth in Section 2.7(b).

"Notice of Borrowing" shall have the meaning set forth in Section 2.3.

"Notice of Swingline Borrowing" shall have the meaning set forth in Section 2.4.

"Obligations" shall mean (a) all amounts owing by the Loan Parties to the Administrative Agent, any Issuing Bank, any Lender (including the Swingline Lender) or any Lead Arranger pursuant to or in connection with this Agreement or any other Loan Document or otherwise with respect to any Commitment, Loan or Letter of Credit, including, without limitation, all principal, interest (including any interest accruing after the filing of any petition in bankruptcy or the commencement of any insolvency, reorganization or like proceeding relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), reimbursement obligations, fees, expenses, indemnification and reimbursement payments, costs and expenses, whether direct or indirect, absolute or contingent, liquidated or unliquidated, now existing or hereafter arising hereunder or thereunder, (b) all Hedging Obligations owed by any Loan Party to any Lender-Related Hedge Provider, and (c) all Bank Product Obligations, together with all renewals, extensions, modifications or refinancings of any of the foregoing.

"OFAC" shall mean the U.S. Department of the Treasury's Office of Foreign Assets Control.

"Off-Balance Sheet Liabilities" of any Person shall mean (i) any repurchase obligation or liability of such Person with respect to accounts or notes receivable sold by such Person, (ii) any Synthetic Lease Obligation or (iii) any obligation arising with respect to any other transaction which is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the balance sheet of such Person other than, in the case of this clause (iii), any operating lease, including, for the avoidance of doubt, any other lease referred to in the provisos of the definition of "Capital Lease Obligations".

"OSHA" shall mean the Occupational Safety and Health Act of 1970, as amended and in effect from time to time, and any successor statute thereto.

"Other Refinancing Commitments" shall mean the Other Refinancing Revolving Commitments and the Other Refinancing Term Loan Commitments.

"Other Refinancing Loans" shall mean the Other Refinancing Revolving Loans and the Other Refinancing Term Loans.

"Other Refinancing Revolving Commitments" shall mean one or more classes of revolving commitments hereunder or extended Revolving Commitments that result from a Refinancing Amendment.

"Other Refinancing Revolving Loans" shall mean the Revolving Loans made pursuant to any Other Refinancing Revolving Commitment.

"Other Refinancing Term Loan Commitments" shall mean one or more classes of term loan commitments hereunder that result from a Refinancing Amendment.

"Other Refinancing Term Loans" shall mean one or more classes of Term Loans that result from a Refinancing Amendment.

"Other Taxes" shall mean any and all present or future stamp, court or documentary, intangible, recording, filing or similar Taxes that arise from any payment made hereunder or under any other Loan Document or from the execution, delivery, performance or enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, this Agreement or any other Loan Document.

"Parent Company" shall mean, with respect to a Lender, the "bank holding company" as defined in Regulation Y, if any, of such Lender, and/or any Person owning, beneficially or of record, directly or indirectly, a majority of the shares of such Lender.

"Participant" shall have the meaning set forth in Section 10.4(d).

"Pass-Through Foreign Holdco" shall mean (i) any Domestic Subsidiary that is a Subsidiary of a Foreign Subsidiary of the Borrower and (ii) any Domestic Subsidiary for which all or substantially all of its assets consist (directly or through Subsidiaries) of Capital Stock of one or more CFCs.

"Patent" shall have the meaning assigned to such term in the Guaranty and Security Agreement.

"Patent Security Agreement" shall mean any Patent Security Agreement executed by a Loan Party owning Patents or licenses of Patents in favor of the Administrative Agent for the benefit of the Secured Parties, both on the Closing Date and thereafter.

"Patriot Act" shall mean the USA PATRIOT Improvement and Reauthorization Act of 2005 (Pub. L. 109-177 (signed into law March 9, 2006)), as amended and in effect from time to time.

"Payment in Full" and "Paid in Full" shall mean the termination of all Revolving Commitments and all other commitments of the Lenders to lend funds or extend financial accommodations to the Borrower under the Loan Documents and the payment in full, in immediately available funds, of all of the Obligations (other than (a) contingent indemnification and expense reimbursement Obligations, in each case, to the extent no claim giving rise thereto has been asserted, (b) Hedging Obligations and Bank

Product Obligations to the extent arrangements satisfactory to the Lender-Related Hedge Provider or Bank Product Provider, as applicable, shall have been made and (c) contingent Obligations with respect to which the deposit of cash collateral (in the case of LC Exposure, which shall not exceed 103% of the face amount of the relevant Letters of Credit and in the case of other Obligations, which shall not exceed 100% of the amount thereof) (or, as an alternative to cash collateral in the case of any LC Exposure, receipt by the Administrative Agent of a back-up letter of credit reasonably satisfactory to the Administrative Agent and the applicable Issuing Bank), in amounts and on terms and conditions and with parties reasonably satisfactory to the Administrative Agent and each Indemnitee that is, or may be, owed such Obligations has been provided).

"Payment Office" shall mean the office of the Administrative Agent located at 303 Peachtree Street, N.E., Atlanta, Georgia 30308, or such other location as to which the Administrative Agent shall have given written notice to the Borrower and the other Lenders.

"PBGC" shall mean the U.S. Pension Benefit Guaranty Corporation referred to and defined in ERISA, and any successor entity performing similar functions.

"Pennant Business Assets" shall have the meaning assigned to such term in the definition of Pennant Transaction.

"Pennant Contribution Agreement" shall mean that certain Distribution and Contribution Agreement, dated as of [●], by and among Bridgestone Living, LLC, a Nevada limited liability company, Ensign, and Pinnacle Senior Living, LLC, a Delaware limited liability company.

"Pennant Employee Matters Agreement" shall mean that certain Employee Matters Agreement, dated as of [●], by and between the Borrower and Ensign.

"Pennant Guaranty" shall mean certain Guarantees of PropCo Master Leases entered into by the Borrower in favor of the PropCo Landlords, in each case in the form of such Guarantees in effect on the Closing Date or otherwise reasonably acceptable to the Administrative Agent.

"Pennant Master Separation Agreement" shall mean that certain Master Separation Agreement, dated as of [●], by and between the Borrower and Ensign.

"Pennant Preferred Provider Agreement" shall mean that certain [Preferred Provider Agreement, by and among subsidiaries of the Borrower and subsidiaries of Ensign].

"Pennant Tax Matters Agreement" shall mean that certain Tax Matters Agreement, dated as of [●], by and between the Borrower, by and on behalf of itself and each affiliate of the Borrower, and Ensign, by and behalf of itself and each affiliate of Ensign.

"Pennant Transaction" shall mean (a) the transfer by Ensign of substantially all of the existing assets of Ensign and its Subsidiaries (other than the Borrower and its Subsidiaries) related to their home health, hospice and select senior living businesses (collectively, the "Pennant Business Assets") to the Borrower and its Subsidiaries and (b) the spin-off of the Borrower and its Subsidiaries (which own the Pennant Business Assets) to Ensign's shareholders, in each case in accordance with the Pennant Transaction Documents.

"Pennant Transaction Documents" shall mean the Pennant Master Separation Agreement, the Pennant Transition Services Agreement, the Pennant Employee Matters Agreement, the Pennant Tax Matters Agreement, the Pennant Preferred Provider Agreement, the Pennant Contribution Agreement, the Ensign Master Leases, and the Pennant Guaranty.

"Pennant Transition Services Agreement" shall mean that certain Transition Services Agreement, dated as of [●], by and between the Borrower and Ensign.

"Perfection Certificate" shall have the meaning assigned to such term in the Guaranty and Security Agreement.

"Permitted Acquisition" shall mean any Acquisition by the Borrower or any of its Subsidiaries that occurs when the following conditions have been satisfied:

(i) subject, in the case of a Limited Condition Acquisition, to Section 1.5, before and after giving effect to such Acquisition, no Default or Event of Default has occurred and is continuing or would result therefrom; provided that (A) this clause (i) shall be limited to Events of Default referenced in Section 2.23(a)(iii) if an Incremental Commitment is being funded in connection with any such Permitted Acquisition and (B) if the Borrower makes an LCA Election pursuant to Section 1.5 and such condition is tested as of the applicable LCA Test Date, it shall also be a condition that no Event of Default under Section 8.1(a), (b), (g), (h) or (i) shall have occurred and be continuing or would result from such Acquisition and the transactions consummated in connection therewith (including the incurrence of any Indebtedness and the use proceeds thereof) on the date on which such Acquisition is consummated;

(ii) subject, in the case of a Limited Condition Acquisition, to Section 1.5, before and after giving effect to such Acquisition, on a Pro Forma Basis (giving effect to such Acquisition and any related debt incurrences), the Borrower is in compliance with each of the covenants set forth in Article VI, measuring Consolidated Total Net Debt for purposes of Section 6.1 as of the date of such Acquisition and otherwise recomputing the covenants set forth in Article VI as of the end of the most recently ended Test Period as if such Acquisition (and any other Acquisitions that have been consummated since the end of such Test Period and on or prior to the date of such Acquisition) had occurred, and any Indebtedness incurred in connection therewith was incurred, on the first day of the relevant period for testing compliance;

(iii) (A) at least five (5) days (or such shorter period of time as may be agreed to by the Administrative Agent) prior to the date of the consummation of any such Acquisition for which the aggregate consideration to be paid is at least $10,000,000, the Borrower shall have delivered to the Administrative Agent notice of such Acquisition and (B) at least five (5) days (or such shorter period of time as may be agreed to by the Administrative Agent) prior to the date of the consummation of any such Acquisition for which the aggregate consideration to be paid is at least $20,000,000, the Borrower shall have delivered to the Administrative Agent, to the extent available and received by the Borrower in connection with such Acquisition (including after request by the Borrower to the applicable seller), historical financial information with respect to the Person whose stock or assets are being acquired, the acquisition agreement and such other information in the possession of the Borrower that is reasonably requested by the Administrative Agent, and which is not subject to confidentiality agreements restricting the Borrower from providing such information;

(iv) such Acquisition is not opposed by the board of directors (or the equivalent thereof) of the Person whose stock or assets are being acquired;

(v) the Person or assets being acquired is in the same type of business conducted by the Borrower and its Subsidiaries on the date hereof or any business reasonably related thereto or ancillary or complementary thereto;

(vi) such Acquisition is consummated in compliance in all material respects with all Requirements of Law, and all material consents and approvals from any Governmental Authority and all material consents and approvals from any other Person in each case required in connection with such Acquisition have been obtained; and

(vii) at least five (5) days (or such shorter period of time as may be agreed to by the Administrative Agent) prior to the date of the consummation of any such Acquisition for which the aggregate consideration to be paid is at least $10,000,000, the Borrower shall have delivered to the Administrative Agent a certificate executed by a Responsible Officer certifying that each of the conditions set forth above has been satisfied (or, with respect to the condition set forth in clause (iv), that such condition will be satisfied by the date of the consummation of such Acquisition) if such a certificate is requested by the Administrative Agent after the Administrative Agent receives notice of such Acquisition; provided that, in the case of a Limited Condition Acquisition, the conditions set forth above that are tested as of the applicable LCA Test Date shall be certified in the applicable LCA Election Certificate instead of the certificate delivered pursuant to this clause (vii).

"Permitted Alternative Investments" shall mean any of the following, but excluding any Permitted Investment:

(i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States);

(ii)commercial paper having the highest rating, at the time of acquisition thereof, of S&P or Moody's and in either case maturing within one year from the date of acquisition thereof;

(iii)certificates of deposit, bankers' acceptances and time deposits maturing within one year from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any commercial bank organized under the laws of the United States or any state thereof which has a combined capital and surplus and undivided profits of not less than $500,000,000 (determined at the time of such investment);

(iv)other securities, including, without limitation, corporate debt, having the highest rating, at the time of acquisition thereof, of S&P or Moody's and in either case maturing within one year from the date of acquisition thereof; and

(v)mutual funds investing primarily in any one or more of the Permitted Alternative Investments described in clauses (i) through (iv) above (determined at the time of such investment).

"Permitted Encumbrances" shall mean:

(i) Liens imposed by law for taxes not yet due or which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves are being maintained in accordance with GAAP;

(ii) Liens of landlords, carriers, warehousemen, mechanics, materialmen and other Liens imposed by law which arise in the ordinary course of business for amounts not yet due or which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves are being maintained in accordance with GAAP;

(iii) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations;

(iv) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business;

(v) judgment and attachment liens not giving rise to an Event of Default or Liens created by or existing from any litigation or legal proceeding that are currently being contested in good faith by appropriate proceedings diligently conducted and with respect to which adequate reserves are being maintained in accordance with GAAP;

(vi) customary rights of set-off, revocation, refund or chargeback under deposit agreements or under the Uniform Commercial Code or common law of banks or other financial institutions where the Borrower or any of its Subsidiaries maintains deposits (other than deposits intended as cash collateral) in the ordinary course of business;

(vii) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not materially interfere with the ordinary conduct of business of the Borrower and its Subsidiaries taken as a whole;

(viii) (x) Liens solely on any cash earnest money deposits made by the Borrower or any of its Subsidiaries and (y) restrictions on transfers of assets that are subject to sale or transfer pursuant to purchase and sale arrangements, in each case, in connection with any letter of intent or purchase and sale agreement permitted hereunder;

(ix) in the case of any non-wholly owned Subsidiary or joint venture, any put and call arrangements or restrictions on disposition related to its Capital Stock set forth in its organizational documents or any related joint venture or similar agreement; and

(x) licenses and sublicenses of intellectual property granted by any Loan Party in the ordinary course of business and not interfering in any material respect with the ordinary conduct of business of the Loan Parties;

provided that the term "Permitted Encumbrances" shall not include any Lien securing Indebtedness.

"Permitted Investments" shall mean:

(i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States), in each case maturing within one year from the date of acquisition thereof;

(ii)commercial paper having the highest rating, at the time of acquisition thereof, of S&P or Moody's and in either case maturing within six months from the date of acquisition thereof;

(iii)certificates of deposit, bankers' acceptances and time deposits maturing within 180 days of the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any commercial bank organized under the laws of the United States or any state thereof which has a combined capital and surplus and undivided profits of not less than $500,000,000 (determined at the time of such investment);

(iv)fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (i) above and entered into with a financial institution satisfying the criteria described in clause (iii) above (determined at the time of such investment); and

(v)mutual funds investing primarily in any one or more of the Permitted Investments described in clauses (i) through (iv) above (determined at the time of such investment).

"Person" shall mean any individual, partnership, firm, corporation, association, joint venture, limited liability company, trust or other entity, or any Governmental Authority.

"Plan" shall mean any "employee benefit plan" as defined in Section 3 of ERISA (other than a Multiemployer Plan) maintained or contributed to by the Borrower or any ERISA Affiliate or to which the Borrower or any ERISA Affiliate has or may have an obligation to contribute, and each such plan that is subject to Title IV of ERISA for the five-year period immediately following the latest date on which the Borrower or any ERISA Affiliate maintained, contributed to or had an obligation to contribute to (or is deemed under Section 4069 of ERISA to have maintained or contributed to or to have had an obligation to contribute to, or otherwise to have liability with respect to) such plan.

"Proceeding" shall mean any investigation, inquiry, litigation, review, hearing, suit, claim, audit, arbitration, proceeding or action (in each case, whether civil, criminal, administrative, investigative or informal) commenced, brought, conducted or heard by or before, or otherwise involving, any Governmental Authority or arbitrator.

"Pro Forma Basis" shall mean, (i) with respect to any Person, business, property or asset acquired in a Permitted Acquisition or other Acquisition permitted hereunder or approved in writing by the Required Lenders, the inclusion as "Consolidated EBITDA" of the Consolidated EBITDA (determined by reference to such Person, business, property or asset) for such Person, business, property or asset as if such Acquisition had been consummated on the first day of the applicable period, based on historical results accounted for in accordance with GAAP, adjusted by (A) any credit received for acquisition-related costs and savings to the extent expressly permitted pursuant to Article 11 of Securities and Exchange Commission Regulation S-X and (B) other reasonable adjustments consistent with the operation by the Borrower or any of its Subsidiaries of comparable businesses, properties or assets that are in the same or reasonably related line of business in the same or similar geographies for (1) insurance expense savings, (2) bad debt expense savings, (3) any other non-recurring or non-cash charges that have been deducted from the EBITDA of or attributable to such Person, business, property or asset prior to such Acquisition and (4) cost savings and synergies reasonably expected to be achieved by the Borrower relating to such Acquisition; provided that in each case (x) the cost savings or synergies associated with such adjustments are reasonably expected by the Borrower in good faith to be realized within twelve (12) months of the consummation of such Acquisition and (y) for any such adjustments included twelve (12) months after the consummation of such Acquisition, the Borrower and its Subsidiaries have achieved annualized run-rate savings consistent with such adjustments; provided further that the aggregate amount added to Consolidated EBITDA pursuant to this clause (4) shall not exceed 20% of Consolidated EBITDA in any Test Period (calculated before giving effect to the addition of such amount); and (ii) with respect to any Person, business, property or asset sold, transferred or otherwise disposed of, the exclusion from "Consolidated EBITDA" of the portion of Consolidated EBITDA for such Person, business, property or asset so disposed of during such period as if such disposition had been consummated on the first day of the applicable period, in accordance with GAAP.

"Projected Income Statement" shall have the meaning set forth in Section 4.4.

"PropCo Landlord" shall mean CTRI and any Subsidiary of CTRI.

"PropCo Master Leases" shall mean the master leases entered into by the Borrower or any of its Subsidiaries with one or more PropCo Landlords, in each case, in substantially the form of such master leases delivered to the Administrative Agent on or prior to the Closing Date and any other master lease entered into by the Borrower or any of its Subsidiaries with a PropCo Landlord.

"Pro Rata Share" shall mean (i) with respect to any Class of Commitment or Loan of any Lender at any time, a percentage, the numerator of which shall be such Lender's Commitment of such Class (or, if such Commitment has been terminated or expired or the Loans have been declared to be due and payable, such Lender's Revolving Credit Exposure or Term Loan, as applicable), and the denominator of which shall be the sum of all Commitments of such Class of all Lenders (or, if such Commitments have been terminated or expired or the Loans have been declared to be due and payable, all Revolving Credit Exposure or Term Loans, as applicable, of all Lenders) and (ii) with respect to all Classes of Commitments and Loans of any Lender at any time, the numerator of which shall be the sum of such Lender's Revolving Commitment (or, if such Revolving Commitment has been terminated or expired or the Loans have been declared to be due and payable, such Lender's Revolving Credit Exposure) and Term Loan and the denominator of which shall be the sum of all Lenders' Revolving Commitments (or, if such Revolving Commitments have been terminated or expired or the Loans have been declared to be due and payable, all Revolving Credit Exposure of all Lenders funded under such Commitments) and Term Loans.

"PTE" shall mean a prohibited transaction class exemption issued by the U.S. Department of Labor, as any such exemption may be amended from time to time.

"Public Lender" shall mean any Lender who does not wish to receive Non-Public Information and who may be engaged in investment and other market related activities with respect to the Borrower, its Affiliates or any of their securities or loans.

"QFC" shall have the meaning assigned to the term "qualified financial contract" in, and shall be interpreted in accordance with, 12 U.S.C. 5390(c)(8)(D).

"QFC Credit Support" shall have the meaning set forth in Section 10.20.

"Qualified Capital Stock" shall mean, with respect to any Person, any Capital Stock of such Person that is not Disqualified Capital Stock.

"Real Estate" shall mean all real property owned or leased by the Borrower and its Subsidiaries.

"Real Estate Documents" shall mean, collectively, with respect to each parcel of Material Real Estate owned in fee by one or more of the Loan Parties, a Mortgage duly executed by the applicable Loan Party, together with (A) (i) an ALTA extended lender's policy of title insurance (including all endorsements reasonably requested by Administrative Agent) issued by a title insurance company reasonably satisfactory to Administrative Agent, insuring Administrative Agent as the holder of such Mortgage in the amount specified by Administrative Agent (the "Title Policy"), and any additional documentation and/or deliveries required by the title company in order to issue the Title Policy (such as owner's affidavits), (ii) a current as-built ALTA/ACSM Land Title survey certified to the Administrative

Agent and the title insurance company issuing the Title Policy, and (iii) a zoning report for such parcel of Material Real Estate reasonably satisfactory in form and substance to the Administrative Agent, (B) (i) a "Life of Loan" Federal Emergency Management Agency Standard Flood Hazard Determination that accurately identifies such Material Real Estate (including its address), (ii) a notice, in the form required under the Flood Insurance Laws, about special flood hazard area status and flood disaster assistance duly executed by the applicable Loan Party, and (iii) if such Material Real Estate constitutes improved real property located in a special flood hazard area, a policy of flood insurance from such providers, in such form, on such terms and in such amounts as required by the Flood Insurance Laws or as otherwise required by the Administrative Agent and/or any Lender, (C) an opinion of counsel in each state in which such Real Estate is located in form and substance and from counsel reasonably satisfactory to the Administrative Agent, (D) a duly executed environmental indemnity agreement with respect thereto, (E) a Phase I Environmental Site Assessment Report, consistent with American Society of Testing and Materials (ASTM) Standard E 1527-05, and applicable state requirements, with respect to such Material Real Estate, dated no more than six (6) months prior to the date of the applicable Mortgage (or such earlier date as may be agreed to by the Administrative Agent), prepared by environmental engineers reasonably satisfactory to the Administrative Agent, all in form and substance reasonably satisfactory to the Administrative Agent, and such environmental review and audit reports, including Phase II reports, with respect to such Material Real Estate as the Administrative Agent shall have reasonably requested, in each case together with letters executed by the environmental firms preparing such environmental reports, in form and substance reasonably satisfactory to the Administrative Agent, authorizing the Administrative Agent and the Lenders to rely on such reports, and (F) such other reports, documents, instruments and agreements as the Administrative Agent shall reasonably request, each in form and substance reasonably satisfactory to Administrative Agent.

"Recipient" shall mean, as applicable, (a) the Administrative Agent, (b) any Lender and (c) any Issuing Bank.

"Refinanced Indebtedness" shall mean all Loans (as defined in the Existing Credit Agreement) outstanding as of the Closing Date under the Existing Credit Agreement.

"Refinancing Amendment" shall mean an amendment to this Agreement in form and substance reasonably satisfactory to the Administrative Agent and the Borrower executed by each of (a) the Borrower, (b) the Administrative Agent, (c) each Issuing Bank (in the case of Other Refinancing Revolving Commitments or Other Refinancing Revolving Loans) and (d) each Refinancing Lender and Lender that agrees to provide any portion of the Credit Agreement Refinancing Indebtedness being incurred pursuant thereto, in accordance with Section 2.28.

"Refinancing Lender" shall mean, at any time, any bank, other financial institution or institutional investor that agrees to provide any portion of any Credit Agreement Refinancing Indebtedness pursuant to a Refinancing Amendment in accordance with Section 2.28; provided that each Refinancing Lender (other than any Person that is a Lender, an Affiliate of a Lender or an Approved Fund of a Lender at such time) shall be subject to the approval of the Administrative Agent and each Issuing Bank (in the case of Other Refinancing Revolving Commitments or Other Refinancing Revolving Loans) (such approval not to be unreasonably withheld or delayed), in each case to the extent any such consent would be required from the Administrative Agent and each Issuing Bank (in the case of Other Refinancing Revolving Commitments or Other Refinancing Revolving Loans) under Section 10.4(b) for an assignment of Loans or Commitments to such Refinancing Lender.

"Regulation D" shall mean Regulation D of the Board of Governors of the Federal Reserve System, as the same may be in effect from time to time, and any successor regulations.

"Regulation T" shall mean Regulation T of the Board of Governors of the Federal Reserve System, as the same may be in effect from time to time, and any successor regulations.

"Regulation U" shall mean Regulation U of the Board of Governors of the Federal Reserve System, as the same may be in effect from time to time, and any successor regulations.

"Regulation X" shall mean Regulation X of the Board of Governors of the Federal Reserve System, as the same may be in effect from time to time, and any successor regulations.

"Regulation Y" shall mean Regulation Y of the Board of Governors of the Federal Reserve System, as the same may be in effect from time to time, and any successor regulations.

"Related Parties" shall mean, with respect to any specified Person, such Person's Affiliates and the respective managers, administrators, trustees, partners, directors, officers, employees, agents, advisors or other representatives of such Person and such Person's Affiliates.

"Related Transaction Documents" shall mean the Loan Documents, the Pennant Transaction Documents and all other agreements or instruments executed in connection with the Related Transactions.

"Related Transactions" shall mean, collectively, the Closing Date Release, the making of the initial Loans on the Closing Date, the consummation of the Pennant Transaction, the payment of all fees, costs and expenses associated with all of the foregoing and the execution and delivery of all Related Transaction Documents.

"Release" shall mean any release, spill, emission, leaking, dumping, injection, pouring, deposit, disposal, discharge, dispersal, leaching or migration into the environment (including ambient air, surface water, groundwater, land surface or subsurface strata) or within any building, structure, facility or fixture.

"Required Lenders" shall mean, at any time, Lenders holding more than 50% of the aggregate outstanding Revolving Commitments and Term Loans at such time or, if the Lenders have no Commitments outstanding, then Lenders holding more than 50% of the aggregate outstanding Revolving Credit Exposure and Term Loans of the Lenders at such time; provided that, (x) if at any time there are at least two Lenders that are not Affiliates of each other, the Lenders constituting "Required Lenders" must include at least two Lenders that are not Affiliates of each other and (y) if at any time there are only two Lenders, "Required Lenders" shall mean both Lenders; provided further that to the extent that any Lender is a Defaulting Lender, such Defaulting Lender and all of its Revolving Commitments, Revolving Credit Exposure and Term Loans shall be excluded for purposes of determining Required Lenders.

"Required Revolving Lenders" shall mean, at any time, Lenders holding more than 50% of the aggregate outstanding Revolving Commitments at such time or, if the Lenders have no Revolving Commitments outstanding, then Lenders holding more than 50% of the aggregate outstanding Revolving Credit Exposure at such time; provided that, (x) if at any time there are at least two such Lenders that are not Affiliates of each other, the Lenders constituting "Required Revolving Lenders" must include at least two such Lenders that are not Affiliates of each other and (y) if at any time there are only two such Lenders, "Required Revolving Lenders" shall mean both such Lenders; provided further that to the extent that any Lender is a Defaulting Lender, such Defaulting Lender and all of its Revolving Commitments and Revolving Credit Exposure shall be excluded for purposes of determining Required Revolving Lenders.

"Requirement of Law" for any Person shall mean the articles or certificate of incorporation, bylaws, partnership certificate and agreement, or limited liability company certificate of organization and agreement, as the case may be, and other organizational and governing documents of such Person, and any law, treaty, rule or regulation, or determination of a Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject, including, without limitation, all Health Care Laws.

"Responsible Officer" shall mean (x) with respect to certifying compliance with the financial covenants set forth in Article VI, the chief financial officer or the treasurer of the Borrower and (y) with respect to all other provisions, any of the president, the chief executive officer, the chief operating officer, the chief financial officer, the treasurer or a vice president of the Borrower or such other representative of the Borrower as may be designated in writing by any one of the foregoing with the consent of the Administrative Agent.

"Restricted Payment" shall mean, for any Person, any dividend or distribution on any class of its Capital Stock, or any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, retirement, defeasance or other acquisition of any shares of its Capital Stock, any Indebtedness subordinated to the Obligations or any Guarantee thereof or any options, warrants or other rights to purchase such Capital Stock or such Indebtedness, whether now or hereafter outstanding.

"Revolving Commitment" shall mean, with respect to each Lender, the commitment of such Lender to make Revolving Loans to the Borrower and to acquire participations in Letters of Credit and Swingline Loans in an aggregate principal amount not exceeding the amount set forth with respect to such Lender on Schedule I, as such schedule may be amended pursuant to Section 2.23, Section 2.27 or Section 2.28, or, in the case of a Person becoming a Lender after the Closing Date, the amount of the assigned "Revolving Commitment" as provided in the Assignment and Acceptance executed by such Person as an assignee, or the amount provided in the Incremental Commitment Joinder or Refinancing Amendment executed by such Person, in each case as such commitment may subsequently be increased or decreased pursuant to the terms hereof. Unless the context shall otherwise require, the term "Revolving Commitment" shall include any Extended Revolving Commitment.

"Revolving Commitment Termination Date" shall mean the earliest of (a) (i) with respect to the Revolving Commitments (including any Incremental Revolving Commitments) of the Revolving Lenders (other than any portion constituting Extended Revolving Commitments or Other Refinancing Revolving Commitments), [●], 2024, (ii) with respect to any Extended Revolving Commitments, the maturity date specified therefor in the applicable Extended Facility Agreement and (iii) with respect to any Other Refinancing Revolving Commitments, the maturity date specified therefor in the applicable Refinancing Amendment, (b) the date on which the Revolving Commitments are terminated pursuant to Section 2.8 and (c) the date on which all amounts outstanding under this Agreement have been declared or have automatically become due and payable (whether by acceleration or otherwise).

"Revolving Credit Exposure" shall mean, with respect to any Lender at any time, the sum of the outstanding principal amount of such Lender's Revolving Loans, LC Exposure and Swingline Exposure.

"Revolving Lender" shall mean each Lender with a Revolving Commitment (or if the Revolving Commitments have terminated, who hold Revolving Credit Exposure).

"Revolving Loan" shall mean a loan made by a Lender (other than the Swingline Lender) to the Borrower under its Revolving Commitment, which may either be a Base Rate Loan or a Eurodollar Loan.

"S&P" shall mean Standard & Poor's, a division of The McGraw-Hill Companies, Inc.

"Sanctioned Country" shall mean, at any time, a country, region or territory that is, or whose government is, the subject or target of any Sanctions.

"Sanctioned Person" shall mean, at any time, (a) any Person listed in any Sanctions-related list of designated Persons maintained by OFAC, the U.S. Department of State, the United Nations Security Council, the European Union or any EU member state, (b) any Person located, organized or resident in a Sanctioned Country or (c) any Person controlled by any such Person.

"Sanctions" shall mean economic or financial sanctions or trade embargoes administered or enforced from time to time by (a) the U.S. government, including those administered by OFAC or the U.S. Department of State or (b) the United Nations Security Council, the European Union or Her Majesty's Treasury of the United Kingdom.

"Screen Rate" shall mean the rate specified in clause (i) of the definition of LIBOR.

"Secured Parties" shall mean the Administrative Agent, the Lenders, the Issuing Banks, the Lender-Related Hedge Providers and the Bank Product Providers.

"Solvent" shall mean, with respect to any Person on a particular date, that on such date (a) the fair value of the property of such Person is greater than the total amount of liabilities, including subordinated and contingent liabilities, of such Person; (b) the present fair saleable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts and liabilities, including subordinated and contingent liabilities as they become absolute and matured; (c) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay as such debts and liabilities mature; and (d) such Person is not engaged in a business or transaction, and is not about to engage in a business or transaction, for which such Person's property would constitute an unreasonably small capital. The amount of contingent liabilities (such as litigation, guaranties and pension plan liabilities) at any time shall be computed as the amount that, in light of all the facts and circumstances existing at the time, represents the amount that would reasonably be expected to become an actual or matured liability.

"Specified Representations" shall mean the representations and warranties set forth in Sections 4.1(i) and (ii), 4.2, 4.3(a), 4.3(b), 4.7, 4.9, 4.15, 4.17(a), 4.20, 4.21, and 4.22.

"Specified Subsidiary" shall mean (i) any Pass-Through Foreign Holdco, (ii) any JV Entity and (iii) any Subsidiary that is prohibited by applicable law, rule or regulation or by agreement, instrument or other undertaking to which such Subsidiary is a party or by which it or any of its property or assets is bound from guaranteeing the Obligations; provided that any such agreement, instrument or other undertaking (x) is in existence on the Closing Date and listed on Schedule 1.2 (or, with respect to a Subsidiary acquired after the Closing Date, as of the date of such acquisition) and (y) in the case of a Subsidiary acquired after the Closing Date, was not entered into in connection with or in anticipation of such acquisition. Notwithstanding the foregoing, in no event shall (i) any tenant under any Ensign Master Lease be a Specified Subsidiary other than to the extent such tenant is required to grant a Lien on its assets to secure Indebtedness of the applicable Ensign Landlord or (ii) any tenant under any PropCo Master Lease be a Specified Subsidiary.

"Specified Target Representations" shall have the meaning set forth in Section 2.23(a)(iii).

"Subsidiary" shall mean, with respect to any Person (the "parent") at any date, any corporation, partnership, joint venture, limited liability company, association or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, partnership, joint venture, limited liability company, association or other entity (i) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held, or (ii) that is, as of such date, otherwise controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent. Unless otherwise indicated, all references to "Subsidiary" hereunder shall mean a Subsidiary of the Borrower.

"Subsidiary Loan Party" shall mean any Subsidiary that executes or becomes a party to the Guaranty and Security Agreement, unless and until any such Subsidiary is released pursuant to Section 9.11.

"Supported QFC" shall have the meaning set forth in Section 10.20.

"Sweep Agreement" shall have the meaning set forth in Section 5.11.

"Swingline Commitment" shall mean the commitment of the Swingline Lender to make Swingline Loans in an aggregate principal amount at any time outstanding not to exceed $7,500,000.

"Swingline Exposure" shall mean, with respect to each Lender, the principal amount of the Swingline Loans in which such Lender is legally obligated either to make a Base Rate Loan or to purchase a participation in accordance with Section 2.4, which shall equal such Lender's Pro Rata Share of all outstanding Swingline Loans.

"Swingline Lender" shall mean SunTrust Bank in its capacity as such, together with any successor in such capacity.

"Swingline Loan" shall mean a loan made to the Borrower by the Swingline Lender under the Swingline Commitment.

"Synthetic Lease" shall mean a lease transaction under which the parties intend that (i) the lease will be treated as an "operating lease" by the lessee pursuant to Accounting Standards Codification Sections 840-10 and 840-20, as amended, and (ii) the lessee will be entitled to various tax and other benefits ordinarily available to owners (as opposed to lessees) of like property.

"Synthetic Lease Obligations" shall mean, with respect to any Person, the sum of (i) all remaining rental obligations of such Person as lessee under Synthetic Leases which are attributable to principal and, without duplication, *plus* (ii) all rental and purchase price payment obligations of such Person under such Synthetic Leases assuming such Person exercises the option to purchase the lease property at the end of the lease term.

"Taxes" shall mean any and all present or future taxes, levies, imposts, duties, deductions, assessments, fees, charges or withholdings imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

"Term Loan" shall mean any term loan made hereunder pursuant to Section 2.23, Section 2.27, or Section 2.28.

"Term Loan Commitment" shall mean, with respect to each Lender, such Lender's Incremental Term Loan Commitment, Extended Term Loan Commitment and/or Other Refinancing Term Loan Commitment, as the context may require.

"Term Lender" shall mean a Lender holding a Term Loan or a Term Loan Commitment.

"Test Period" shall mean, for any date of determination under this Agreement, the four consecutive Fiscal Quarters most recently ended as of such date of determination for which financial statements have been or are required to have been delivered pursuant to Section 5.1(a) or (b), provided, that for Test Periods prior to the first such required delivery after the Closing Date, "Test Period" shall refer to the most recently ended period of four consecutive Fiscal Quarters for which financial statements are available; provided, further, that for the purposes of determining quarterly compliance with Sections 6.1 and 6.2, Test Period shall mean the four consecutive Fiscal Quarters ending on the applicable date of determination.

"Third Party Payor" shall mean any Governmental Payor, private insurers, managed care plans, and any other person or entity which presently or in the future maintains Third Party Payor Programs.

"Third Party Payor Authorizations" shall mean all participation agreements, provider or supplier agreements, enrollments, accreditations and billing numbers necessary to participate in and receive reimbursement from a Third Party Payor Program, including all Medicare and Medicaid participation agreements.

"Third Party Payor Programs" shall mean all payment or reimbursement programs, sponsored or maintained by any Third Party Payor, in which the Borrower or any of its Subsidiaries participates.

"Trademark" shall have the meaning assigned to such term in the Guaranty and Security Agreement.

"Trademark Security Agreement" shall mean any Trademark Security Agreement executed by a Loan Party owning registered Trademarks or applications for Trademarks in favor of the Administrative Agent for the benefit of the Secured Parties, both on the Closing Date and thereafter.

"Trading with the Enemy Act" shall mean the Trading with the Enemy Act of the United States of America (50 U.S.C. App. §§ 1 et seq.), as amended and in effect from time to time.

"TRICARE" shall mean, collectively, a program of medical benefits covering former and active members of the uniformed services and certain of their dependents, financed and administered by the United States Departments of Defense, Health and Human Services and Transportation, and all laws applicable to such programs.

"Type", when used in reference to a Loan or a Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to LIBOR or the Base Rate.

"Unfunded Pension Liability" of any Plan shall mean the amount, if any, by which the value of the accumulated plan benefits under the Plan, determined on a plan termination basis in accordance with actuarial assumptions at such time consistent with those prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions).

"Uniform Commercial Code" or "UCC" shall mean the Uniform Commercial Code as amended and in effect from time to time in the State of New York.

"United States" or "U.S." shall mean the United States of America.

"U.S. Person" shall mean any Person that is a "United States person" as defined in Section 7701(a)(30) of the Code.

"U.S. Special Resolution Regimes" shall have the meaning set forth in Section 10.20.

"U.S. Tax Compliance Certificate" shall have the meaning set forth in Section 2.20(e)(ii).

"Weighted Average Life to Maturity" shall mean, when applied to any Indebtedness at any date, the number of years obtained by dividing (i) the sum of the products obtained by multiplying (x) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect thereof, by (y) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment by (ii) the then outstanding principal amount of such Indebtedness.

"Withdrawal Liability" shall mean liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

"Withholding Agent" shall mean the Borrower, any other Loan Party or the Administrative Agent, as applicable.

"Write-Down and Conversion Powers" shall mean, with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule.

Section 1.2. Classifications of Loans and Borrowings. For purposes of this Agreement, Loans may be classified and referred to by Class (e.g. "Revolving Loan" or "Term Loan") or by Type (e.g. "Eurodollar Loan" or "Base Rate Loan") or by Class and Type (e.g. "Revolving Eurodollar Loan"). Borrowings also may be classified and referred to by Class (e.g. "Revolving Borrowing") or by Type (e.g. "Eurodollar Borrowing") or by Class and Type (e.g. "Revolving Eurodollar Borrowing").

Section 1.3. Accounting Terms and Determination. Unless otherwise defined or specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared, in accordance with GAAP as in effect from time to time, applied, except as otherwise indicated therein, on a basis consistent with the most recent audited consolidated financial statement of the Borrower delivered pursuant to Section 5.1(a) (or, prior to the first delivery thereof, the audited financial statements of Ensign for the fiscal year ended December 31, 2018); provided that if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in Article VI to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Lenders wish to amend Article VI for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Lenders (and each party hereto agrees to negotiate in good faith with respect to such amendment). Notwithstanding any other provision contained herein, (i) all terms of an accounting or financial nature used herein shall be construed, and all computations of amounts and ratios referred to herein shall be made, without giving effect to any election under Accounting Standards Codification Section 825-10 (or any other Financial Accounting Standard having a similar result or effect) to value any Indebtedness or other liabilities of any Loan Party or any Subsidiary of any Loan Party at "fair value", as defined therein; and (ii) for purposes of this Agreement, any lease that was accounted for by any Person as an operating lease as of December 31, 2018 and any lease entered into after December 31, 2018 that would have been accounted for as an operating lease if such lease had been in effect on December 31, 2018 shall be accounted for as an operating lease consistent with GAAP as in effect on December 31, 2018.

Notwithstanding anything to the contrary herein, all financial ratios and tests contained in this Agreement that are calculated with respect to any Test Period during which any Permitted Acquisition or other Acquisition permitted hereunder occurs shall be calculated with respect to such Test Period and such Permitted Acquisition or other Acquisition permitted hereunder on a Pro Forma Basis. Further, if since the beginning of any such Test Period and on or prior to the date of any required calculation of any financial ratio or test (other than for compliance with the definition of "Permitted Acquisition") any Permitted Acquisition or other Acquisition permitted hereunder shall have occurred then any applicable financial ratio or test shall be calculated on a Pro Forma Basis for such Test Period as if such Permitted Acquisition or other Acquisition permitted hereunder had occurred at the beginning of the applicable Test Period (it being understood, for the avoidance of doubt, that solely for purposes of calculating quarterly compliance with Sections 6.1 and 6.2, the date of the required calculation shall be the end of the Test Period, and no Permitted Acquisition or other Acquisition permitted hereunder occurring thereafter shall be taken into account).

Section 1.4. Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the word "to" means "to but excluding". Unless the context requires otherwise (i) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as it was originally executed or as it may from time to time be amended, restated, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (ii) any reference herein to any Person shall be construed to include such Person's successors and permitted assigns, (iii) the words "hereof", "herein" and "hereunder" and words of similar import shall be construed to refer to this Agreement as a whole and not to any particular provision hereof, (iv) all references to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles, Sections, Exhibits and Schedules to this Agreement and (v) all references to a specific time shall be construed to refer to the time in Atlanta, Georgia, unless otherwise indicated. Any reference herein or in any other Loan Document to an assignment, sale, disposition or transfer, or similar term, shall be deemed to apply to a division of or by a limited liability company, limited partnership or trust, or an allocation of assets to a series of a limited liability company, limited partnership or trust, as if it were an assignment, sale, disposition or transfer, or similar term, as applicable, to, of or with a separate Person, and any reference herein to a merger, consolidation or amalgamation, or similar term, shall be deemed to apply to the unwinding of such a division or allocation, as if it were a merger, consolidation or amalgamation, or similar term, as applicable, with a separate Person. Any division of a limited liability company, limited partnership or trust shall constitute a separate Person hereunder (and each division of any limited liability company, limited partnership or trust that is a Subsidiary, an Excluded Subsidiary, a joint venture or any other like term shall also constitute such a Person unless, in the case of a Subsidiary or an Excluded Subsidiary, it is otherwise designated in accordance with the terms of this Agreement).

Section 1.5. Limited Condition Acquisitions. Notwithstanding anything to the contrary herein, for purposes of (i) determining compliance with Sections 6.1 and 6.2 on a pro forma basis and capacity under baskets (including baskets measured as a percentage of Consolidated EBITDA or based on a ratio test) with respect to the making of any Permitted Acquisitions or other Acquisitions permitted hereunder and the incurrence of any Indebtedness permitted hereunder in connection therewith (other than Indebtedness under or other use of the Revolving Commitment or the establishment of any Incremental Revolving Commitment) or (ii) determining compliance with representations and warranties or any Default

or Event of Default test with respect to the making of any Permitted Acquisitions or other Acquisitions permitted hereunder and the incurrence of any Indebtedness permitted hereunder in connection therewith (other than Indebtedness under or other use of the Revolving Commitment or the establishment of any Incremental Revolving Commitment), in the case of clauses (i) and (ii), in connection with a Limited Condition Acquisition, if the Borrower has made an LCA Election with respect to such Limited Condition Acquisition, the date of determination of whether any such action is permitted hereunder (including, in the case of calculating Consolidated EBITDA, the reference date for determining the most recently ended period of four consecutive fiscal quarters) shall be deemed to be the date the definitive agreement for such Limited Condition Acquisition (a "Limited Condition Acquisition Agreement") is entered into (the "LCA Test Date"), and if, after giving effect to such Limited Condition Acquisition and the other transactions to be entered into in connection therewith (including the incurrence of any Indebtedness and the use of proceeds thereof) on a pro forma basis, the Borrower could have taken such action on the relevant LCA Test Date in compliance with such financial covenant, basket, representation and warranty or Default or Event of Default test, such financial covenant, basket, representation and warranty or Default or Event of Default test shall be deemed to have been complied with. Upon making an LCA Election with respect to any Limited Condition Acquisition, the Borrower shall deliver a certificate of a Responsible Officer of the Borrower to the Administrative Agent (a) notifying the Administrative Agent of such LCA Election and (b) certifying that each of the conditions for such Limited Condition Acquisition and any related transactions that are tested as of the LCA Test Date have been satisfied (which shall include calculations in reasonable detail for any conditions requiring compliance on a pro forma basis with the covenants set forth in Article VI or with any relevant ratio tests) (such certificate, an "LCA Election Certificate"). For the avoidance of doubt, if the Borrower has made an LCA Election and any of the financial covenant, basket, representation and warranty or Default or Event of Default tests for which compliance was determined or tested as of the LCA Test Date would thereafter have failed to have been satisfied as a result of fluctuations in any such financial covenant or basket, including due to fluctuations in Consolidated EBITDA, or changes in compliance with such representation and warranty or Default or Event of Default test at or prior to the consummation of the relevant Limited Condition Acquisition, such financial covenant, basket, representation and warranty and Default or Event of Default tests will not be deemed to have failed to have been satisfied as a result of such fluctuations or changes. If the Borrower has made an LCA Election for any Limited Condition Acquisition, then in connection with any subsequent calculation of any ratio (other than testing of actual compliance with the covenants set forth in Article VI and determination of the Leverage Ratio for purposes of determining the Applicable Margin or the Maximum Attributable EBITDA Percentage) or basket on or following the relevant LCA Test Date and prior to the earlier of (i) the date on which such Limited Condition Acquisition is consummated or (ii) the date that the Limited Condition Acquisition Agreement therefor is terminated or expires without consummation of such Limited Condition Acquisition, any such ratio or basket shall be calculated (x) on a pro forma basis assuming such Limited Condition Acquisition and other transactions in connection therewith (including any incurrence of Indebtedness and the use of proceeds thereof) have been consummated and (y) with respect to Restricted Payments only, also on a standalone basis without giving effect to such Limited Condition Acquisition and the other transactions in connection therewith.

ARTICLE II

AMOUNT AND TERMS OF THE COMMITMENTS

Section 2.1. General Description of Facilities. Subject to and upon the terms and conditions herein set forth, (i) the Revolving Lenders hereby establish in favor of the Borrower a revolving credit facility pursuant to which each Revolving Lender severally agrees (to the extent of such Revolving Lender's Revolving Commitment) to make Revolving Loans to the Borrower in accordance with Section 2.2; (ii) each Issuing Bank may issue Letters of Credit in accordance with Section 2.22; (iii) the Swingline Lender may make Swingline Loans in accordance with Section 2.4; and (iv) each Revolving Lender agrees to

purchase a participation interest in the Letters of Credit and the Swingline Loans pursuant to the terms and conditions hereof; provided that in no event shall the aggregate principal amount of all outstanding Revolving Loans, Swingline Loans and outstanding LC Exposure exceed the Aggregate Revolving Commitment Amount in effect from time to time.

Section 2.2. Revolving Loans. Subject to the terms and conditions set forth herein, each Revolving Lender severally agrees to make Revolving Loans, ratably in proportion to its Pro Rata Share of the Aggregate Revolving Commitments, to the Borrower, from time to time during the Availability Period, in an aggregate principal amount outstanding at any time that will not result in (a) such Revolving Lender's Revolving Credit Exposure exceeding such Revolving Lender's Revolving Commitment or (b) the aggregate Revolving Credit Exposures of all Revolving Lenders exceeding the Aggregate Revolving Commitment Amount. During the Availability Period, the Borrower shall be entitled to borrow, prepay and reborrow Revolving Loans in accordance with the terms and conditions of this Agreement; provided that the Borrower may not borrow or reborrow should there exist a Default or Event of Default.

Section 2.3. Procedure for Revolving Borrowings. The Borrower shall give the Administrative Agent written notice (or telephonic notice promptly confirmed in writing) of each Revolving Borrowing, substantially in the form of Exhibit 2.3 attached hereto (a "Notice of Borrowing"), (x) prior to 1:00 p.m. one (1) Business Day prior to the requested date of each Base Rate Borrowing and (y) prior to 1:00 p.m. three (3) Business Days prior to the requested date of each Eurodollar Borrowing; provided that in the case of any Base Rate Borrowings on the Closing Date, such Notice of Borrowing may be provided on the Closing Date. Each Notice of Borrowing shall be irrevocable and shall specify (i) the aggregate principal amount of such Borrowing, (ii) the date of such Borrowing (which shall be a Business Day), (iii) the Class and Type of Loan comprising such Borrowing and (iv) in the case of a Eurodollar Borrowing, the duration of the initial Interest Period applicable thereto (subject to the provisions of the definition of Interest Period). Each Revolving Borrowing shall consist entirely of Base Rate Loans or Eurodollar Loans, as the Borrower may request. The aggregate principal amount of each Eurodollar Borrowing shall not be less than $5,000,000 or a larger multiple of $250,000, and the aggregate principal amount of each Base Rate Borrowing shall not be less than $1,000,000 or a larger multiple of $100,000; provided that Base Rate Loans made pursuant to Section 2.4 or Section 2.22(d) may be made in lesser amounts as provided therein. At no time shall the total number of Eurodollar Borrowings outstanding at any time exceed eight (8). Promptly following the receipt of a Notice of Borrowing in accordance herewith, the Administrative Agent shall advise each applicable Lender of the details thereof and the amount of such Lender's Loan to be made as part of the requested Borrowing.

Section 2.4. Swingline Commitment.

(a) Subject to the terms and conditions set forth herein, the Swingline Lender may, in its sole discretion, make Swingline Loans to the Borrower, from time to time during the Availability Period, in an aggregate principal amount outstanding at any time not to exceed the lesser of (i) the Swingline Commitment then in effect and (ii) the difference between the Aggregate Revolving Commitment Amount and the aggregate Revolving Credit Exposures of all Lenders; provided that the Swingline Lender shall not be required to make a Swingline Loan to refinance an outstanding Swingline Loan. The Borrower shall be entitled to borrow, repay and reborrow Swingline Loans in accordance with the terms and conditions of this Agreement.

(b) The Borrower shall give the Administrative Agent written notice (or telephonic notice promptly confirmed in writing) of each Swingline Borrowing, substantially in the form of Exhibit 2.4 attached hereto (a "Notice of Swingline Borrowing"), prior to 1:00 p.m. on the requested date of each Swingline Borrowing. Each Notice of Swingline Borrowing shall be irrevocable and shall specify (i) the principal amount of such Swingline Borrowing, (ii) the date of such Swingline Borrowing (which shall be

a Business Day) and (iii) the account of the Borrower to which the proceeds of such Swingline Borrowing should be credited. The Administrative Agent will promptly advise the Swingline Lender of each Notice of Swingline Borrowing. The aggregate principal amount of each Swingline Loan shall not be less than $100,000 or a larger multiple of $50,000, or such other minimum amounts agreed to by the Swingline Lender and the Borrower. The Swingline Lender will make the proceeds of each Swingline Loan available to the Borrower in Dollars in immediately available funds at the account specified by the Borrower in the applicable Notice of Swingline Borrowing not later than 3:00 p.m. on the requested date of such Swingline Borrowing.

(c) The Swingline Lender, at any time and from time to time in its sole discretion, may, but in no event no less frequently than once each calendar week shall, on behalf of the Borrower (which hereby irrevocably authorizes and directs the Swingline Lender to act on its behalf), give a Notice of Borrowing to the Administrative Agent requesting the Revolving Lenders (including the Swingline Lender) to make Base Rate Loans in an amount equal to the unpaid principal amount of any Swingline Loan. Each Revolving Lender will make the proceeds of its Base Rate Loan included in such Borrowing available to the Administrative Agent for the account of the Swingline Lender in accordance with Section 2.6, which will be used solely for the repayment of such Swingline Loan.

(d) If for any reason a Base Rate Borrowing may not be (as determined in the sole discretion of the Administrative Agent), or is not, made in accordance with the foregoing provisions, then each Revolving Lender (other than the Swingline Lender) shall purchase an undivided participating interest in such Swingline Loan in an amount equal to its Pro Rata Share thereof on the date that such Base Rate Borrowing should have occurred. On the date of such required purchase, each Revolving Lender shall promptly transfer, in immediately available funds, the amount of its participating interest to the Administrative Agent for the account of the Swingline Lender.

(e) Each Revolving Lender's obligation to make a Base Rate Loan pursuant to subsection (c) of this Section or to purchase participating interests pursuant to subsection (d) of this Section shall be absolute and unconditional and shall not be affected by any circumstance, including, without limitation, (i) any set-off, counterclaim, recoupment, defense or other right that such Revolving Lender or any other Person may have or claim against the Swingline Lender, the Borrower or any other Person for any reason whatsoever, (ii) the existence of a Default or an Event of Default or the termination of any Revolving Lender's Revolving Commitment, (iii) the existence (or alleged existence) of any event or condition which has had or could reasonably be expected to have a Material Adverse Effect, (iv) any breach of this Agreement or any other Loan Document by any Loan Party, the Administrative Agent or any Lender or (v) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing. If such amount is not in fact made available to the Swingline Lender by any Revolving Lender, the Swingline Lender shall be entitled to recover such amount on demand from such Revolving Lender, together with accrued interest thereon for each day from the date of demand thereof (x) at the Federal Funds Rate until the second Business Day after such demand and (y) at the Base Rate at all times thereafter. Until such time as such Revolving Lender makes its required payment, the Swingline Lender shall be deemed to continue to have outstanding Swingline Loans in the amount of the unpaid participation for all purposes of the Loan Documents. In addition, such Revolving Lender shall be deemed to have assigned any and all payments made of principal and interest on its Loans and any other amounts due to it hereunder to the Swingline Lender to fund the amount of such Revolving Lender's participation interest in such Swingline Loans that such Revolving Lender failed to fund pursuant to this Section, until such amount has been purchased in full.

(f) If a Revolving Credit Termination Date (the "Earlier Swingline Maturity Date") shall have occurred at a time when another tranche or tranches of Revolving Commitments is or are in effect with a longer Maturity Date, then, on the Earlier Swingline Maturity Date, all then outstanding Swingline Loans shall be repaid in full (and there shall be no adjustment to the participations in such Swingline Loans as a result of the occurrence of the Earlier Swingline Maturity Date); provided, however, that if on the occurrence of the Earlier Swingline Maturity Date (after giving effect to any repayments of Revolving Loans and any reallocation of Letter of Credit participations as contemplated in Section 2.22(a)), there shall exist sufficient unutilized Extended Revolving Commitments which will remain in effect after the occurrence of the Earlier Swingline Maturity Date so that the respective outstanding Swingline Loans could be incurred pursuant to such Extended Revolving Commitments, then (1) there shall be an automatic adjustment on the Earlier Swingline Maturity Date of the risk participations of the Revolving Lenders under such Extended Revolving Commitments pro rata according to such Revolving Lender's Pro Rata Share of the existing Extended Revolving Commitments and such outstanding Swingline Loans shall be deemed to have been incurred solely pursuant to such Extended Revolving Commitments and (2) such Swingline Loans shall not be required to be repaid in full on the Earlier Swingline Maturity Date.

Section 2.5. [Reserved].

Section 2.6. Funding of Borrowings.

(a) Each Lender will make available each Loan to be made by it hereunder on the proposed date thereof by wire transfer in immediately available funds by 11:00 a.m. to the Administrative Agent at the Payment Office; provided that the Swingline Loans will be made as set forth in Section 2.4. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts that it receives, in like funds by the close of business on such proposed date, to an account maintained by the Borrower with the Administrative Agent or, at the Borrower's option, by effecting a wire transfer of such amounts to an account designated by the Borrower to the Administrative Agent.

(b) Unless the Administrative Agent shall have been notified by any Lender prior to 5:00 p.m. one (1) Business Day prior to the date of a Borrowing in which such Lender is to participate that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such amount available to the Administrative Agent on such date, and the Administrative Agent, in reliance on such assumption, may make available to the Borrower on such date a corresponding amount. If such corresponding amount is not in fact made available to the Administrative Agent by such Lender on the date of such Borrowing, the Administrative Agent shall be entitled to recover such corresponding amount on demand from such Lender together with interest (x) at the Federal Funds Rate until the second Business Day after such demand and (y) at the Base Rate at all times thereafter. If such Lender does not pay such corresponding amount forthwith upon the Administrative Agent's demand therefor, the Administrative Agent shall promptly notify the Borrower, and the Borrower shall immediately pay such corresponding amount to the Administrative Agent together with interest at the rate specified for such Borrowing. Nothing in this subsection shall be deemed to relieve any Lender from its obligation to fund its Pro Rata Share of any Borrowing hereunder or to prejudice any rights which the Borrower may have against any Lender as a result of any default by such Lender hereunder.

(c) All Revolving Borrowings shall be made by the Revolving Lenders on the basis of their respective Pro Rata Shares of the Revolving Commitments. No Lender shall be responsible for any default by any other Lender in its obligations hereunder, and each Lender shall be obligated to make its Loans provided to be made by it hereunder, regardless of the failure of any other Lender to make its Loans hereunder.

Section 2.7. Interest Elections.

(a) Each Borrowing initially shall be of the Type specified in the applicable Notice of Borrowing. Thereafter, the Borrower may elect to convert such Borrowing into a different Type or to continue such Borrowing, all as provided in this Section. The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing.

(b) To make an election pursuant to this Section, the Borrower shall give the Administrative Agent written notice (or telephonic notice promptly confirmed in writing) of each Borrowing that is to be converted or continued, as the case may be, substantially in the form of Exhibit 2.7 attached hereto (a "Notice of Conversion/Continuation") (x) prior to 1:00 p.m. one (1) Business Day prior to the requested date of a conversion into a Base Rate Borrowing and (y) prior to 1:00 p.m. three (3) Business Days prior to a continuation of or conversion into a Eurodollar Borrowing. Each such Notice of Conversion/Continuation shall be irrevocable and shall specify (i) the Borrowing to which such Notice of Conversion/Continuation applies and, if different options are being elected with respect to different portions thereof, the portions thereof that are to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) shall be specified for each resulting Borrowing), (ii) the effective date of the election made pursuant to such Notice of Conversion/Continuation, which shall be a Business Day, (iii) whether the resulting Borrowing is to be a Base Rate Borrowing or a Eurodollar Borrowing, and (iv) if the resulting Borrowing is to be a Eurodollar Borrowing, the Interest Period applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of "Interest Period". If any such Notice of Conversion/Continuation requests a Eurodollar Borrowing but does not specify an Interest Period, the Borrower shall be deemed to have selected an Interest Period of one month. The principal amount of any resulting Borrowing shall satisfy the minimum borrowing amount for Eurodollar Borrowings and Base Rate Borrowings set forth in Section 2.3.

(c) If, on the expiration of any Interest Period in respect of any Eurodollar Borrowing, the Borrower shall have failed to deliver a Notice of Conversion/Continuation, then, unless such Borrowing is repaid as provided herein, the Borrower shall be deemed to have elected to convert such Borrowing to a Base Rate Borrowing. No Borrowing may be converted into, or continued as, a Eurodollar Borrowing if a Default or an Event of Default exists, unless the Administrative Agent and each of the Lenders holding Loans comprising such Borrowing shall have otherwise consented in writing. No conversion of any Eurodollar Loan shall be permitted except on the last day of the Interest Period in respect thereof.

(d) Upon receipt of any Notice of Conversion/Continuation, the Administrative Agent shall promptly notify each Lender of the details thereof and of such Lender's portion of each resulting Borrowing.

Section 2.8. Optional Reduction and Termination of Commitments.

(a) Unless previously terminated, all Revolving Commitments, Swingline Commitments and LC Commitments shall terminate on the Revolving Commitment Termination Date.

(b) Upon at least three (3) Business Days' prior written notice (or telephonic notice promptly confirmed in writing) to the Administrative Agent (which notice shall be irrevocable unless the Borrower provides in such notice (in connection with a termination in whole) that it is conditional on the occurrence of another financing or transaction, in which case such notice may be revoked if such financing or transaction does not occur on a timely basis; provided that the Borrower shall pay all amounts required to be paid pursuant to Section 2.19 as a result of such revocation), the Borrower may reduce the Aggregate Revolving Commitments in part or terminate the Aggregate Revolving Commitments in whole; provided that (i) any partial reduction shall apply to reduce proportionately and permanently the Revolving Commitment of each Lender, (ii) any partial reduction pursuant to this Section shall be in an amount of at least $5,000,000 and any larger multiple of $1,000,000, and (iii) no such reduction shall be permitted which

would reduce the Aggregate Revolving Commitment Amount to an amount less than the aggregate outstanding Revolving Credit Exposure of all Lenders. Any such reduction in the Aggregate Revolving Commitment Amount below the principal amount of the Swingline Commitment and the LC Commitment shall result in a dollar-for-dollar reduction in the Swingline Commitment and the LC Commitment, as applicable.

(c) With the written approval of the Administrative Agent, the Borrower may terminate (on a non-ratable basis) the unused amount of the Revolving Commitment of a Defaulting Lender, and in such event the provisions of Section 2.26 will apply to all amounts thereafter paid by the Borrower for the account of any such Defaulting Lender under this Agreement (whether on account of principal, interest, fees, indemnity or other amounts); provided that such termination will not be deemed to be a waiver or release of any claim that the Borrower, the Administrative Agent, any Issuing Bank, the Swingline Lender or any other Lender may have against such Defaulting Lender.

Section 2.9. Repayment of Loans.

(a) The outstanding principal amount of all Revolving Loans and Swingline Loans shall be due and payable (together with accrued and unpaid interest thereon) on the Revolving Commitment Termination Date.

(b) The Borrower unconditionally promises to repay any Incremental Term Loan on the applicable Maturity Date and on the applicable dates scheduled for the repayment of principal of any Incremental Term Loan and in the amounts set forth in the applicable Incremental Commitment Joinder. The Borrower unconditionally promises to repay any Extended Term Loan on the applicable Maturity Date and on the applicable dates scheduled for the repayment of principal of any Extended Term Loan and in the amounts set forth in the applicable Extended Facility Agreement. The Borrower promises to repay any Other Refinancing Term Loans on the applicable Maturity Date and on the applicable dates scheduled for the repayment of principal of any Other Refinancing Term Loan and in the amounts set forth in the applicable Refinancing Amendment.

Section 2.10. Evidence of Indebtedness.

(a) Each Lender shall maintain in accordance with its usual practice appropriate records evidencing the Indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable thereon and paid to such Lender from time to time under this Agreement. The Administrative Agent shall maintain appropriate records in which shall be recorded (i) the Revolving Commitment and the Term Loan Commitment of each Lender, (ii) the amount of each Loan made hereunder by each Lender, the Class and Type thereof and, in the case of each Eurodollar Loan, the Interest Period applicable thereto, (iii) the date of any continuation of any Loan pursuant to Section 2.7, (iv) the date of any conversion of all or a portion of any Loan to another Type pursuant to Section 2.7, (v) the date and amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder in respect of the Loans and (vi) both the date and amount of any sum received by the Administrative Agent hereunder from the Borrower in respect of the Loans and each Lender's Pro Rata Share thereof. The entries made in such records shall be *prima facie* evidence of the existence and amounts of the obligations of the Borrower therein recorded; provided that the failure or delay of any Lender or the Administrative Agent in maintaining or making entries into any such record or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans (both principal and unpaid accrued interest) of such Lender in accordance with the terms of this Agreement.

(b) This Agreement evidences the obligation of the Borrower to repay the Loans and is being executed as a "noteless" credit agreement. However, at the request of any Lender (including the Swingline Lender) at any time, the Borrower agrees that it will prepare, execute and deliver to such Lender a promissory note payable to such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment permitted hereunder) be represented by one or more promissory notes in such form payable to the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

Section 2.11. Optional Prepayments. The Borrower shall have the right at any time and from time to time to prepay any Borrowing, in whole or in part, without premium or penalty, by giving written notice (or telephonic notice promptly confirmed in writing) to the Administrative Agent no later than (i) in the case of any prepayment of any Eurodollar Borrowing, 1:00 p.m. not less than three (3) Business Days prior to the date of such prepayment, (ii) in the case of any prepayment of any Base Rate Borrowing, 1:00 p.m. not less than one (1) Business Day prior to the date of such prepayment, and (iii) in the case of any prepayment of any Swingline Borrowing, prior to 1:00 p.m. on the date of such prepayment. Each such notice shall be irrevocable (provided that (x) any such notice in connection with the repayment of all Loans may be conditioned on the occurrence of another financing or transaction, in which case such notice may be revoked if such financing or transaction does not occur on a timely basis and (y) the Borrower shall pay all amounts required to be paid pursuant to Section 2.19 as a result of such revocation) and shall specify the proposed date of such prepayment and the principal amount of each Borrowing or portion thereof to be prepaid. Upon receipt of any such notice, the Administrative Agent shall promptly notify each affected Lender of the contents thereof and of such Lender's Pro Rata Share of any such prepayment. If such notice is given, the aggregate amount specified in such notice shall be due and payable on the date designated in such notice (unless revoked as provided above), together with accrued interest to such date on the amount so prepaid in accordance with Section 2.13(d); provided that if a Eurodollar Borrowing is prepaid on a date other than the last day of an Interest Period applicable thereto, the Borrower shall also pay all amounts required pursuant to Section 2.19. Each partial prepayment of (i) each Eurodollar Borrowing shall not be less than $5,000,000 or a larger multiple of $250,000, (ii) each Base Rate Borrowing (other than a Base Rate Borrowing of Swingline Loans) shall not be less than $1,000,000 or a larger multiple of $100,000 and (iii) each Base Rate Borrowing of Swingline Loans shall not be less than $100,000 or a larger multiple of $50,000. Each prepayment of a Borrowing shall be applied ratably to the Loans comprising such Borrowing and, in the case of a prepayment of a Term Loan Borrowing, to principal installments in the manner directed by the Borrower.

Section 2.12. Mandatory Prepayments.

(a) Immediately upon receipt by the Borrower or any of its Subsidiaries of any proceeds of any sale or disposition by the Borrower or any of its Subsidiaries of any of its assets, or any proceeds from any casualty insurance policies or eminent domain, condemnation or similar proceedings, the Borrower shall prepay the Obligations in an amount equal to all such proceeds, net of commissions and other reasonable and customary transaction costs, fees and expenses properly attributable to such transaction and payable by the Borrower in connection therewith (in each case, paid to non-Affiliates); provided that the Borrower shall not be required to prepay the Obligations with respect to (i) proceeds from the sales of inventory in the ordinary course of business, (ii) proceeds from the sales of assets securing Indebtedness permitted under Section 7.1(c) to the extent such proceeds are used to repay such Indebtedness, (iii) proceeds from other asset sales permitted under Section 7.6(f) and (iv) proceeds that are reinvested in assets then used or usable in the business of the Borrower and its Subsidiaries within 180 days following receipt thereof, so long as such proceeds are held in deposit accounts and/or securities accounts that are, in each case, either (x) subject to Control Account Agreements in favor of the Administrative Agent or (y) Lender Accounts, in each case of clauses (x) and (y), until such proceeds are reinvested. Any such prepayment shall be applied in accordance with subsection (c) of this Section.

(b) In the event that the Borrower or any of its Subsidiaries receives proceeds from the issuance or incurrence of Indebtedness by the Borrower or any of its Subsidiaries that is not permitted under Section 7.1, the Borrower shall, substantially simultaneously with (and in any event not later than the fifth succeeding Business Day) the receipt of such proceeds by the Borrower or its applicable Subsidiary, apply an amount equal to 100% of such proceeds, net of all fees, commissions, costs, underwriting discounts and other fees and expenses incurred in connection therewith, to prepay the Obligations in accordance with subsection (c) of this Section. In the event that the Borrower or any of its Subsidiaries receives proceeds from the issuance or incurrence of Indebtedness that constitutes (i) Incremental Term Loans or Revolving Loans in respect of Incremental Revolving Commitments, in each case incurred to refinance all or any portion of the Term Loans, (ii) Extended Term Loans or Revolving Loans in respect of Extended Revolving Commitments, in each case incurred to refinance all or any portion of the Term Loans or (iii) Other Refinancing Loans incurred to refinance all or any portion of the Term Loans, the Borrower shall, substantially simultaneously with (and in any event not later than the fifth succeeding Business Day) the receipt of such proceeds by the Borrower or its applicable Subsidiary, apply an amount equal to 100% of such proceeds, net of all fees, commissions, costs, underwriting discounts and other fees and expenses incurred in connection therewith, to prepay the outstanding principal amount of the relevant Term Loans and, thereafter, to prepay the Obligations in accordance with subsection (c) of this Section.

(c) Any prepayments made by the Borrower pursuant to subsection (a) or (b) of this Section shall be applied as follows: first, to the Administrative Agent's fees and reimbursable expenses then due and payable pursuant to any of the Loan Documents; second, to all reimbursable expenses of the Lenders and all fees and reimbursable expenses of the Issuing Bank then due and payable pursuant to any of the Loan Documents, *pro rata* to the Lenders and the Issuing Bank based on their respective *pro rata* shares of such fees and expenses; third, to interest and fees then due and payable hereunder, *pro rata* to the Lenders based on their respective *pro rata* shares of such interest and fees; fourth, unless otherwise provided in the applicable Incremental Commitment Joinder, Extended Facility Agreement or Refinancing Amendment, as applicable, to the principal balance of any then outstanding Term Loans, until the same shall have been paid in full, *pro rata* to the Lenders based on their Pro Rata Shares of such Term Loans, and applied to installments of such Term Loans on a *pro rata* basis (including, without limitation, the final payment due on the Maturity Date); fifth, to the principal balance of the Swingline Loans, until the same shall have been paid in full, to the Swingline Lender; sixth, to the principal balance of the Revolving Loans, until the same shall have been paid in full, *pro rata* to the Lenders based on their respective Revolving Commitments; and seventh, to Cash Collateralize the Letters of Credit in an amount in cash equal to the LC Exposure as of such date plus any accrued and unpaid fees thereon.

(d) If at any time the aggregate Revolving Credit Exposure of all Lenders exceeds the Aggregate Revolving Commitment Amount, as reduced pursuant to Section 2.8 or otherwise increased pursuant to Section 2.23, the Borrower shall immediately repay the Swingline Loans and the Revolving Loans in an amount equal to such excess, together with all accrued and unpaid interest on such excess amount and any amounts due under Section 2.19. Each prepayment shall be applied as follows: first, to the Swingline Loans to the full extent thereof; second, to the Revolving Loans that are Base Rate Loans to the full extent thereof; and third, to the Revolving Loans that are Eurodollar Loans to the full extent thereof. If, after giving effect to prepayment of all Swingline Loans and Revolving Loans, the aggregate Revolving Credit Exposure of all Lenders exceeds the Aggregate Revolving Commitment Amount, the Borrower shall Cash Collateralize its reimbursement obligations with respect to all Letters of Credit in an amount equal to such excess plus any accrued and unpaid fees thereon.

Section 2.13. Interest on Loans.

(a) The Borrower shall pay interest on (i) each Base Rate Loan at the Base Rate plus the Applicable Margin in effect from time to time and (ii) each Eurodollar Loan at LIBOR for the applicable Interest Period in effect for such Loan plus the Applicable Margin in effect from time to time.

(b) The Borrower shall pay interest on each Swingline Loan at the Base Rate plus the Applicable Margin in effect from time to time.

(c) Notwithstanding subsections (a) and (b) of this Section, automatically upon the occurrence and during the continuance of an Event of Default, the Borrower shall pay interest ("Default Interest") with respect to all overdue principal and interest and all other Obligations not paid when due at the rate *per annum* equal to 200 basis points above the otherwise applicable interest rate with respect thereto (i.e., for Eurodollar Loans at the rate *per annum* equal to 200 basis points above the otherwise applicable interest rate for such Eurodollar Loans for the then-current Interest Period until the last day of such Interest Period, and thereafter, and with respect to all Base Rate Loans and all other Obligations hereunder (other than Loans), at the rate *per annum* equal to 200 basis points above the otherwise applicable interest rate for Base Rate Loans). Notwithstanding the foregoing, automatically upon the occurrence and during the continuance of an Event of Default under Sections 8.1(g), (h) or (i) with respect to the Borrower, the Borrower shall pay Default Interest in accordance with the preceding sentence with respect to all Obligations whether or not overdue.

(d) Interest on the principal amount of all Loans shall accrue from and including the date such Loans are made to but excluding the date of any repayment thereof. Interest on all outstanding Base Rate Loans and Swingline Loans shall be payable quarterly in arrears on the last day of each March, June, September and December and on the applicable Maturity Date. Interest on all outstanding Eurodollar Loans shall be payable on the last day of each Interest Period applicable thereto, and, in the case of any Eurodollar Loans having an Interest Period in excess of three months, on each day which occurs every three months after the initial date of such Interest Period, and on the applicable Maturity Date. Interest on any Loan which is converted into a Loan of another Type or which is repaid or prepaid shall be payable on the date of such conversion or on the date of any such repayment or prepayment (on the amount repaid or prepaid) thereof. All Default Interest shall be payable on demand.

(e) The Administrative Agent shall determine each interest rate applicable to the Loans hereunder and shall promptly notify the Borrower and the Lenders of such rate in writing (or by telephone, promptly confirmed in writing). Any such determination shall be conclusive and binding for all purposes, absent manifest error.

Section 2.14. Fees.

(a) The Borrower shall pay to the Administrative Agent for its own account fees in the amounts and at the times previously agreed upon in writing by the Borrower and the Administrative Agent.

(b) The Borrower agrees to pay to the Administrative Agent for the account of each Revolving Lender a commitment fee, which shall accrue at the Applicable Percentage *per annum* (determined daily in accordance with the Pricing Grid) on the daily amount of the unused Revolving Commitment of such Revolving Lender during the Availability Period. For purposes of computing the commitment fee, the Revolving Commitment of each Revolving Lender shall be deemed used to the extent of the outstanding Revolving Loans and LC Exposure, but not Swingline Exposure, of such Revolving Lender.

(c) The Borrower agrees to pay (i) to the Administrative Agent, for the account of each Revolving Lender, a letter of credit fee with respect to its participation in each Letter of Credit, which shall accrue at a rate *per annum* equal to the Applicable Margin for Eurodollar Loans then in effect on the

average daily amount of such Revolving Lender's LC Exposure attributable to such Letter of Credit during the period from and including the date of issuance of such Letter of Credit to but excluding the date on which such Letter of Credit expires or is drawn in full (including, without limitation, any LC Exposure that remains outstanding after the Revolving Commitment Termination Date) and (ii) to each Issuing Bank for its own account a facing fee, which shall accrue at the rate separately agreed to by the Borrower and such Issuing Bank on the average daily amount of the LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the Availability Period (or until the date that such Letter of Credit is irrevocably cancelled, whichever is later), as well as such Issuing Bank's standard fees with respect to issuance, amendment, renewal or extension of any Letter of Credit or processing of drawings thereunder. Notwithstanding the foregoing, if the Borrower, in accordance with Section 2.13(c), is obligated to pay Default Interest with respect to the Obligations whether or not overdue, the fee payable pursuant to this subsection (c) shall increase by two percent (2.00%) per annum.

(d) [Intentionally Omitted].

(e) The Borrower shall pay on the Closing Date to the Administrative Agent and its Affiliates all fees in the Fee Letter that are due and payable on the Closing Date. The Borrower shall pay on the Closing Date to the Lenders all upfront fees previously agreed in writing.

(f) Accrued fees under subsections (b) and (c) of this Section shall be payable quarterly in arrears on the last day of each March, June, September and December, commencing on December 31, 2019, and on the Revolving Commitment Termination Date (and, if later, the date the Revolving Loans and LC Exposure shall be repaid in their entirety); provided that any such fees accruing after the Revolving Commitment Termination Date shall be payable on demand.

(g) Anything herein to the contrary notwithstanding, during such period as a Lender is a Defaulting Lender, such Defaulting Lender will not be entitled to commitment fees accruing with respect to its Revolving Commitment during such period pursuant to subsection (b) of this Section or letter of credit fees accruing during such period pursuant to subsection (c) of this Section (without prejudice to the rights of the Lenders other than Defaulting Lenders in respect of such fees), provided that (x) to the extent that a portion of the LC Exposure of such Defaulting Lender is reallocated to the Non-Defaulting Lenders pursuant to Section 2.26, such fees that would have accrued for the benefit of such Defaulting Lender will instead accrue for the benefit of and be payable to such Non-Defaulting Lenders, *pro rata* in accordance with their respective Revolving Commitments, and (y) to the extent any portion of such LC Exposure cannot be so reallocated, such fees will instead accrue for the benefit of and be payable to the applicable Issuing Bank (unless such LC exposure has been Cash Collateralized). The *pro rata* payment provisions of Section 2.21 shall automatically be deemed adjusted to reflect the provisions of this subsection.

Section 2.15. Computation of Interest and Fees.

Interest hereunder based on the prime lending rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed (including the first day but excluding the last day). All other interest and all fees hereunder shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day). Each determination by the Administrative Agent of an interest rate or fee hereunder shall be made in good faith and, except for manifest error, shall be final, conclusive and binding for all purposes.

Section 2.16. Inability to Determine Interest Rates.

(a) If, prior to the commencement of any Interest Period for any Eurodollar Borrowing:

(i) the Administrative Agent shall have determined (which determination shall be conclusive and binding upon the Borrower) that, by reason of circumstances affecting the relevant interbank market, adequate means do not exist for ascertaining LIBOR (including, without limitation, because the Screen Rate is not available or published on a current basis) for such Interest Period, or

(ii) the Administrative Agent shall have received notice from the Required Lenders that LIBOR does not adequately and fairly reflect the cost to such Lenders of making, funding or maintaining their Eurodollar Loans for such Interest Period,

the Administrative Agent shall give written notice (or telephonic notice, promptly confirmed in writing) to the Borrower and to the Lenders as soon as practicable thereafter. Until the Administrative Agent shall notify the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) the obligations of the Lenders to make Eurodollar Loans or to continue or convert outstanding Loans as or into Eurodollar Loans shall be suspended and (ii) all such affected Loans shall be converted into Base Rate Loans on the last day of the then current Interest Period applicable thereto unless the Borrower prepays such Loans in accordance with this Agreement. Unless the Borrower notifies the Administrative Agent at least one (1) Business Day before the date of any Eurodollar Borrowing for which a Notice of Borrowing or a Notice of Conversion/ Continuation has previously been given that it elects not to borrow, continue or convert to a Eurodollar Borrowing on such date, then such Borrowing shall be made as, continued as or converted into a Base Rate Borrowing.

(b) If at any time the Administrative Agent determines (which determination shall be conclusive absent manifest error) that (i) the circumstances set forth in clause (a)(i) above have arisen and such circumstances are unlikely to be temporary or (ii) the circumstances set forth in clause (a)(i) above have not arisen but the supervisor for the administrator of the Screen Rate or a Governmental Authority having jurisdiction over the Administrative Agent has made a public statement identifying a specific date after which the Screen Rate shall no longer be used for determining interest rates for loans, then the Administrative Agent and the Borrower shall endeavor to establish an alternate rate of interest to the Screen Rate that gives due consideration to the then prevailing market convention for determining a rate of interest for syndicated loans in the United States at such time, and shall enter into an amendment to this Agreement to reflect such alternate rate of interest and such other related changes to this Agreement as may be applicable (but for the avoidance of doubt, such related changes shall not include a reduction of the Applicable Margin). Notwithstanding anything to the contrary in Section 10.2, such amendment shall become effective without any further action or consent of any other party to this Agreement so long as the Administrative Agent shall not have received, within five (5) Business Days of the date notice of such alternate rate of interest is provided to the Lenders, a written notice from the Required Lenders stating that such Required Lenders object to such amendment. Until an alternate rate of interest shall be determined in accordance with this clause (b) (but, in the case of the circumstances described in clause (ii) of the first sentence of this Section 2.16(b), only to the extent the Screen Rate for the applicable currency and/or such Interest Period is not available or published at such time on a current basis), (x) any Notice of Conversion/Continuation that requests the conversion of any Borrowing to, or continuation of any Borrowing as, a Eurodollar Borrowing shall be ineffective, and (y) if any Notice of Borrowing requests a Eurodollar Borrowing, such Borrowing shall be made as a Base Rate Borrowing; provided, that, if such alternate rate of interest shall be less than zero, such rate shall be deemed to be zero for the purposes of this Agreement.

Section 2.17. Illegality. If any Change in Law shall make it unlawful or impossible for any Lender to make, maintain or fund any Eurodollar Loan and such Lender shall so notify the Administrative Agent, the Administrative Agent shall promptly give notice thereof to the Borrower and the other Lenders, whereupon until such Lender notifies the Administrative Agent and the Borrower that the circumstances

giving rise to such suspension no longer exist, the obligation of such Lender to make Eurodollar Loans, or to continue or convert outstanding Loans as or into Eurodollar Loans, shall be suspended. In the case of the making of a Eurodollar Borrowing, such Lender's Loan shall be made as a Base Rate Loan as part of the same Borrowing for the same Interest Period and, if the affected Eurodollar Loan is then outstanding, such Loan shall be converted to a Base Rate Loan either (i) on the last day of the then current Interest Period applicable to such Eurodollar Loan if such Lender may lawfully continue to maintain such Loan to such date or (ii) immediately if such Lender shall determine that it may not lawfully continue to maintain such Eurodollar Loan to such date. Notwithstanding the foregoing, the affected Lender shall, prior to giving such notice to the Administrative Agent, designate a different Applicable Lending Office if such designation would avoid the need for giving such notice and if such designation would not otherwise be disadvantageous to such Lender in the good faith exercise of its discretion.

Section 2.18. Increased Costs.

(a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement that is not otherwise included in the determination of LIBOR hereunder against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in LIBOR) or any Issuing Bank;

(ii) impose on any Lender, any Issuing Bank or the eurodollar interbank market any other condition affecting this Agreement or any Eurodollar Loans made by such Lender or any Letter of Credit or any participation therein; or

(iii) subject any Recipient to any Taxes (other than Indemnified Taxes and Excluded Taxes) on its loans, loan principal, letters of credit, commitments or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto;

and the result of any of the foregoing is to increase the cost to such Lender of making, converting into, continuing or maintaining a Eurodollar Loan or to increase the cost to such Lender or such Issuing Bank of participating in or issuing any Letter of Credit or to reduce the amount received or receivable by such Lender or such Issuing Bank hereunder (whether of principal, interest or any other amount), then, from time to time, such Lender or such Issuing Bank may provide the Borrower (with a copy thereof to the Administrative Agent) with written notice and demand with respect to such increased costs or reduced amounts and within five (5) Business Days after receipt of the certificate required under subsection (c) below, the Borrower shall pay to such Lender or such Issuing Bank, as the case may be, such additional amounts as will compensate such Lender or such Issuing Bank for any such increased costs incurred or reduction suffered.

(b) If any Lender or any Issuing Bank shall have determined that on or after the date of this Agreement any Change in Law regarding capital and liquidity requirements has or would have the effect of reducing the rate of return on such Lender's or such Issuing Bank's capital or assets (or on the capital or assets of the Parent Company of such Lender or such Issuing Bank) as a consequence of its obligations hereunder or under or in respect of any Letter of Credit to a level below that which such Lender, such Issuing Bank or such Parent Company could have achieved but for such Change in Law (taking into consideration such Lender's or such Issuing Bank's policies or the policies of such Parent Company with respect to capital adequacy and liquidity), then, from time to time, such Lender or such Issuing Bank may provide the Borrower (with a copy thereof to the Administrative Agent) with written notice and demand with respect to such reduced amounts, and within five (5) Business Days after receipt of the certificate required under subsection (c) below, the Borrower shall pay to such Lender or such Issuing Bank, as the case may be, such additional amounts as will compensate such Lender, such Issuing Bank or such Parent Company for any such reduction suffered.

(c) A certificate of such Lender or such Issuing Bank setting forth (x) the amount or amounts necessary to compensate such Lender, such Issuing Bank or the Parent Company of such Lender or such Issuing Bank, as the case may be, specified in subsection (a) or (b) of this Section and (y) a reasonably detailed explanation of the applicable Change in Law, shall be delivered to the Borrower (with a copy to the Administrative Agent) and shall be conclusive, absent manifest error.

(d) Failure or delay on the part of any Lender or any Issuing Bank to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's or such Issuing Bank's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender or Issuing Bank pursuant to this Section for any increased costs incurred or reductions suffered more than six months prior to the date that such Lender or Issuing Bank notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or Issuing Bank's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the six-month period referred to above shall be extended to include the period of retroactive effect thereof).

Section 2.19. Funding Indemnity. In the event of (a) the payment of any principal of a Eurodollar Loan other than on the last day of the Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion or continuation of a Eurodollar Loan other than on the last day of the Interest Period applicable thereto, or (c) the failure by the Borrower to borrow, prepay, convert or continue any Eurodollar Loan on the date specified in any applicable notice (regardless of whether such notice is withdrawn or revoked), then, in any such event, the Borrower shall compensate each Lender, within five (5) Business Days after written demand from such Lender, for any loss, cost or expense attributable to such event. In the case of a Eurodollar Loan, such loss, cost or expense shall be deemed to include an amount determined by such Lender to be the excess, if any, of (A) the amount of interest that would have accrued on the principal amount of such Eurodollar Loan if such event had not occurred at LIBOR applicable to such Eurodollar Loan for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Eurodollar Loan) over (B) the amount of interest that would accrue on the principal amount of such Eurodollar Loan for the same period if LIBOR were set on the date such Eurodollar Loan was prepaid or converted or the date on which the Borrower failed to borrow, convert or continue such Eurodollar Loan. A certificate as to any additional amount payable under this Section submitted to the Borrower by any Lender (with a copy to the Administrative Agent) shall be conclusive, absent manifest error.

Section 2.20. Taxes.

(a) Any and all payments by or on account of any obligation of the Borrower or any other Loan Party hereunder or under any other Loan Document shall be made free and clear of and without deduction or withholding for any Indemnified Taxes or Other Taxes; provided that if any applicable law requires the deduction or withholding of any Tax from any such payment, then the applicable Withholding Agent shall make such deduction and timely pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law and, if such Tax is an Indemnified Tax or Other Tax, then the sum payable by the Borrower or other Loan Party, as applicable, shall be increased as necessary so that after making all required deductions and withholdings (including deductions and withholdings applicable to additional sums payable under this Section) the applicable Recipient shall receive an amount equal to the sum it would have received had no such deductions or withholdings been made.

(b) In addition, without limiting the provisions of subsection (a) of this Section, the Borrower shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify each Recipient, within five (5) Business Days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid or payable by such Recipient (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by the applicable Recipient shall be conclusive, absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower or any other Loan Party to a Governmental Authority, the Borrower or other Loan Party, as applicable, shall deliver to the Administrative Agent an original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Tax Forms.

(i) Any Lender that is a U.S. Person shall deliver to the Borrower and the Administrative Agent, on or prior to the date on which such Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower or the Administrative Agent), duly executed copies of IRS Form W-9 certifying, to the extent such Lender is legally entitled to do so, that such Lender is exempt from U.S. federal backup withholding tax.

(ii) Any Lender that is a Foreign Person and that is entitled to an exemption from or reduction of withholding tax under the Code or any treaty to which the United States is a party with respect to payments under this Agreement shall deliver to the Borrower and the Administrative Agent, at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent as will permit such payments to be made without withholding or at a reduced rate of withholding. Without limiting the generality of the foregoing, each Lender that is a Foreign Person shall, to the extent it is legally entitled to do so, (w) on or prior to the date such Lender becomes a Lender under this Agreement, (x) on or prior to the date on which any such form or certification expires or becomes obsolete, (y) after the occurrence of any event requiring a change in the most recent form or certification previously delivered by it pursuant to this subsection, and (z) from time to time upon the reasonable request by the Borrower or the Administrative Agent, deliver to the Borrower and the Administrative Agent (in such number of copies as shall be requested by the Borrower or the Administrative Agent), whichever of the following is applicable:

(A) if such Lender is claiming eligibility for benefits of an income tax treaty to which the United States is a party (x) with respect to payments of interest under any Loan Document, duly executed copies of IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable, or any successor form thereto, establishing an exemption from, or reduction of, U.S. federal withholding tax pursuant to the "interest" article of such tax treaty, and (y) with respect to any other applicable payments under any Loan Document, duly executed copies of IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable, or any successor form thereto, establishing an exemption from, or reduction of, U.S. federal withholding tax pursuant to the "business profits" or "other income" article of such tax treaty;

(B) duly executed copies of IRS Form W-8ECI, or any successor form thereto, certifying that the payments received by such Lender are effectively connected with such Lender's conduct of a trade or business in the United States;

(C) if such Lender is claiming the benefits of the exemption for portfolio interest under Section 871(h) or Section 881(c) of the Code, duly executed copies of IRS Form W-8BEN or IRS Form W-8BEN-E, as applicable, or any successor form thereto, together with a certificate (a "U.S. Tax Compliance Certificate") upon which such Lender certifies that (1) such Lender is not a bank for purposes of Section 881(c)(3)(A) of the Code, or the obligation of the Borrower hereunder is not, with respect to such Lender, a loan agreement entered into in the ordinary course of its trade or business, within the meaning of that Section, (2) such Lender is not a 10% shareholder of the Borrower within the meaning of Section 871(h)(3) or Section 881(c)(3)(B) of the Code, (3) such Lender is not a controlled foreign corporation that is related to the Borrower within the meaning of Section 881(c)(3)(C) of the Code, and (4) the interest payments in question are not effectively connected with a U.S. trade or business conducted by such Lender; or

(D) if such Lender is not the beneficial owner (for example, a partnership or a participating Lender granting a typical participation), duly executed copies of IRS Form W-8IMY, or any successor form thereto, accompanied by IRS Form W-9, IRS Form W-8ECI, IRS Form W-8BEN, IRS Form W-8BEN-E, a U.S. Tax Compliance Certificate, and/or other certification documents from each beneficial owner, as applicable.

(iii) Each Lender agrees that if any form or certification it previously delivered under this Section expires or becomes obsolete or inaccurate in any respect and such Lender is not legally entitled to provide an updated form or certification, it shall promptly notify the Borrower and the Administrative Agent of its inability to update such form or certification.

(f) If a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment.

(g) Treatment of Certain Refunds. If any party determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes as to which it has been indemnified pursuant to this Section 2.20 (including by the payment of additional amounts pursuant to this Section 2.20), it shall pay to the indemnifying party an amount equal to such refund (but only to the extent of indemnity payments made under this Section 2.20 with respect to the Taxes giving rise to such refund), net of all out-of-pocket expenses (including Taxes) of such indemnified party and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund). Such indemnifying party, upon the request of such indemnified party, shall repay to such indemnified party the amount paid over pursuant to this paragraph (g) (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) in the event that such indemnified party is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this paragraph (g) in no event will the indemnified party be required to pay any amount to an indemnifying party pursuant to this paragraph (g) the payment

of which would place the indemnified party in a less favorable net after-Tax position than the indemnified party would have been in if the Tax subject to indemnification and giving rise to such refund had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts with respect to such Tax had never been paid. This paragraph shall not be construed to require any indemnified party to make available its Tax returns (or any other information relating to its Taxes that it deems confidential) to the indemnifying party or any other Person.

(h) Survival. Each party's obligations under this Section 2.20 shall survive the resignation or replacement of the Administrative Agent or any assignment of rights by, or the replacement of, a Lender, the termination of the Commitments and the repayment, satisfaction or discharge of all obligations under any Loan Document.

Section 2.21. Payments Generally; Pro Rata Treatment; Sharing of Set-offs.

(a) The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, fees or reimbursement of LC Disbursements, or of amounts payable under Section 2.18, 2.19 or 2.20, or otherwise) prior to 12:00 noon on the date when due, in immediately available funds, free and clear of any defenses, rights of set-off, counterclaim, or withholding or deduction of taxes. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at the Payment Office, except payments to be made directly to the applicable Issuing Bank or the Swingline Lender as expressly provided herein and except that payments pursuant to Sections 2.18, 2.19, 2.20 and 10.3 shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be made payable for the period of such extension. All payments hereunder shall be made in Dollars.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements, interest and fees then due hereunder, such funds shall be applied as follows: first, to all fees and reimbursable expenses of the Administrative Agent then due and payable pursuant to any of the Loan Documents; second, to all reimbursable expenses of the Lenders and all fees and reimbursable expenses of the Issuing Banks then due and payable pursuant to any of the Loan Documents, *pro rata* to the Lenders and the Issuing Banks based on their respective *pro rata* shares of such fees and expenses; third, to all interest and fees then due and payable hereunder, *pro rata* to the Lenders based on their respective *pro rata* shares of such interest and fees; and fourth, to all principal of the Loans and unreimbursed LC Disbursements then due and payable hereunder, *pro rata* to the parties entitled thereto based on their respective *pro rata* shares of such principal and unreimbursed LC Disbursements.

(c) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Loans or participations in LC Disbursements or Swingline Loans then due that would result in such Lender receiving payment of a greater proportion of the aggregate amount of its Revolving Credit Exposure, Term Loans and accrued interest and fees thereon (as applicable) than the proportion received by any other Lender with respect to its Revolving Credit Exposure or Term Loans (as applicable), then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Revolving Credit Exposure and Term Loans (as applicable) of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Revolving Credit Exposure and Term Loans (as applicable); provided that (i) if any such

participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this subsection shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Revolving Credit Exposure or Term Loans to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this subsection shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the Issuing Banks hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the Issuing Banks, as the case may be, the amount or amounts due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the Issuing Banks, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or such Issuing Bank with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

Section 2.22. Letters of Credit.

(a) During the Availability Period, each Issuing Bank, in reliance upon the agreements of the other Revolving Lenders pursuant to subsections (d) and (e) of this Section, shall issue, at the request of the Borrower, Letters of Credit for the account of the Borrower on the terms and conditions hereinafter set forth; provided that (i) each Letter of Credit shall expire on the earlier of (A) the date one year after the date of issuance of such Letter of Credit (or, in the case of any renewal or extension thereof (which may be an automatically renewing or extending Letter of Credit), one year after such renewal or extension) and (B) the date that is five (5) Business Days prior to the latest Revolving Commitment Termination Date; (ii) each Letter of Credit shall be in a stated amount of at least $50,000; and (iii) the Borrower may not request any Letter of Credit if, after giving effect to such issuance, (A) the aggregate LC Exposure would exceed the LC Commitment or (B) the aggregate Revolving Credit Exposure of all Lenders would exceed the Aggregate Revolving Commitment Amount. Each Lender with a Revolving Commitment shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the applicable Issuing Bank without recourse a participation in each Letter of Credit equal to such Lender's Pro Rata Share of the aggregate amount available to be drawn under such Letter of Credit on the date of issuance. Each issuance of a Letter of Credit shall be deemed to utilize the Revolving Commitment of each Lender by an amount equal to the amount of such participation. If the Maturity Date in respect of any tranche of Revolving Commitments occurs prior to the expiration of any Letter of Credit (such maturity date, the "Earlier LC Maturity Date"), then (i) on such Earlier LC Maturity Date, if one or more other tranches of Revolving Commitments in respect of which the Maturity Date shall not have occurred are then in effect, such Letters of Credit shall automatically be deemed to have been issued (including for purposes of the obligations of the Revolving Lenders to purchase participations therein and to make Revolving Loans and payments in respect thereof pursuant to this Section) under (and ratably participated in by Revolving Lenders pursuant to) the Revolving Commitments in respect of such non-terminating tranches up to an aggregate amount not to exceed the aggregate principal amount of the unutilized Revolving Commitments thereunder at such time (it being understood that no partial face amount of any Letter of Credit may be so reallocated) and (ii) to

the extent not reallocated pursuant to the immediately preceding clause (i), the Borrower shall Cash Collateralize any such Letter of Credit. Except to the extent of reallocations of participations pursuant to clause (i) of the immediately preceding sentence, the occurrence of a Maturity Date with respect to a given tranche of Revolving Commitments shall have no effect upon (and shall not diminish) the percentage participations of the Revolving Lenders in any Letter of Credit issued before such Maturity Date.

(b) To request the issuance of a Letter of Credit (or any amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall give the applicable Issuing Bank and the Administrative Agent irrevocable written notice prior to 1:00 p.m. at least three (3) Business Days prior to the requested date of such issuance specifying the date (which shall be a Business Day) such Letter of Credit is to be issued (or amended, renewed or extended, as the case may be), the expiration date of such Letter of Credit, the amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. In addition to the satisfaction of the conditions in Section 3.2, the issuance of such Letter of Credit (or any amendment which increases the amount of such Letter of Credit) will be subject to the further conditions that such Letter of Credit shall be in such form and contain such terms as the applicable Issuing Bank shall approve and that the Borrower shall have executed and delivered any additional applications, agreements and instruments relating to such Letter of Credit as such Issuing Bank shall reasonably require; provided that in the event of any conflict between such applications, agreements or instruments and this Agreement, the terms of this Agreement shall control.

(c) At least two (2) Business Days prior to the issuance of any Letter of Credit, the applicable Issuing Bank will confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has received such notice, and, if not, such Issuing Bank will provide the Administrative Agent with a copy thereof. Unless such Issuing Bank has received notice from the Administrative Agent, on or before the Business Day immediately preceding the date such Issuing Bank is to issue the requested Letter of Credit, directing such Issuing Bank not to issue the Letter of Credit because such issuance is not then permitted hereunder because of the limitations set forth in subsection (a) of this Section or that one or more conditions specified in Section 3.2 are not then satisfied, then, subject to the terms and conditions hereof, such Issuing Bank shall, on the requested date, issue such Letter of Credit in accordance with such Issuing Bank's usual and customary business practices.

(d) Each Issuing Bank shall examine all documents purporting to represent a demand for payment under a Letter of Credit promptly following its receipt thereof. The applicable Issuing Bank shall notify the Borrower and the Administrative Agent of such demand for payment and whether such Issuing Bank has made or will make a LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse such Issuing Bank and the Revolving Lenders with respect to such LC Disbursement. The Borrower shall be irrevocably and unconditionally obligated to reimburse such Issuing Bank for any LC Disbursements paid by such Issuing Bank in respect of such drawing, without presentment, demand or other formalities of any kind. Unless the Borrower shall have notified the applicable Issuing Bank and the Administrative Agent prior to 11:00 a.m. on the Business Day immediately following the date on which such drawing is honored that the Borrower intends to reimburse such Issuing Bank for the amount of such drawing in funds other than from the proceeds of Revolving Loans, the Borrower shall be deemed to have timely given a Notice of Borrowing to the Administrative Agent requesting the Revolving Lenders to make a Base Rate Borrowing on such date in an exact amount due to such Issuing Bank; provided that for purposes solely of such Borrowing, the conditions precedent set forth in Section 3.2 hereof shall not be applicable. The Administrative Agent shall notify the Revolving Lenders of such Borrowing in accordance with Section 2.3, and each Revolving Lender shall make the proceeds of its Base Rate Loan included in such Borrowing available to the Administrative Agent for the account of such Issuing Bank in accordance with Section 2.6. The proceeds of such Borrowing shall be applied directly by the Administrative Agent to reimburse such Issuing Bank for such LC Disbursement.

(e) If for any reason a Base Rate Borrowing may not be (as determined in the sole discretion of the Administrative Agent), or is not, made in accordance with the foregoing provisions, then each Revolving Lender (other than the applicable Issuing Bank) shall be obligated to fund the participation that such Revolving Lender purchased pursuant to subsection (a) of this Section in an amount equal to its Pro Rata Share of such LC Disbursement on and as of the date which such Base Rate Borrowing should have occurred. Each Revolving Lender's obligation to fund its participation shall be absolute and unconditional and shall not be affected by any circumstance, including, without limitation, (i) any set-off, counterclaim, recoupment, defense or other right that such Revolving Lender or any other Person may have against the applicable Issuing Bank or any other Person for any reason whatsoever, (ii) the existence of a Default or an Event of Default or the termination of the Aggregate Revolving Commitments, (iii) any adverse change in the condition (financial or otherwise) of the Borrower or any of its Subsidiaries, (iv) any breach of this Agreement by the Borrower or any other Lender, (v) any amendment, renewal or extension of any Letter of Credit or (vi) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing. On the date that such participation is required to be funded, each Revolving Lender shall promptly transfer, in immediately available funds, the amount of its participation to the Administrative Agent for the account of the applicable Issuing Bank. Whenever, at any time after the applicable Issuing Bank has received from any such Revolving Lender the funds for its participation in a LC Disbursement, such Issuing Bank (or the Administrative Agent on its behalf) receives any payment on account thereof, the Administrative Agent or such Issuing Bank, as the case may be, will distribute to such Revolving Lender its Pro Rata Share of such payment; provided that if such payment is required to be returned for any reason to the Borrower or to a trustee, receiver, liquidator, custodian or similar official in any bankruptcy proceeding, such Revolving Lender will return to the Administrative Agent or such Issuing Bank any portion thereof previously distributed by the Administrative Agent or such Issuing Bank to it.

(f) To the extent that any Revolving Lender shall fail to pay any amount required to be paid pursuant to subsection (d) or (e) of this Section on the due date therefor, such Revolving Lender shall pay interest to the applicable Issuing Bank (through the Administrative Agent) on such amount from such due date to the date such payment is made at a rate *per annum* equal to the Federal Funds Rate; provided that if such Revolving Lender shall fail to make such payment to the applicable Issuing Bank within three (3) Business Days of such due date, then, retroactively to the due date, such Revolving Lender shall be obligated to pay interest on such amount at the rate set forth in Section 2.13(c).

(g) If any Event of Default shall occur and be continuing, on the Business Day that the Borrower receives notice from the Administrative Agent or the Required Lenders demanding that its reimbursement obligations with respect to the Letters of Credit be Cash Collateralized pursuant to this subsection, the Borrower shall deposit in an account with the Administrative Agent, in the name of the Administrative Agent and for the benefit of each Issuing Bank and the Revolving Lenders, an amount in cash equal to 103% of the aggregate LC Exposure of all Lenders as of such date plus any accrued and unpaid fees thereon; provided that such obligation to Cash Collateralize the reimbursement obligations of the Borrower with respect to the Letters of Credit shall become effective immediately, and such deposit shall become immediately due and payable, without demand or notice of any kind, upon the occurrence of any Event of Default with respect to the Borrower described in Section 8.1(h) or (i). Such deposit shall be held by the Administrative Agent as collateral for the payment and performance of the obligations of the Borrower under this Agreement. The Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. The Borrower agrees to execute any documents and/or certificates to effectuate the intent of this subsection. Other than any interest earned on the investment of such deposits, which investments shall be made at the option and sole discretion of the Administrative Agent and at the Borrower's risk and expense, such deposits shall not bear interest. Interest

and profits, if any, on such investments shall accumulate in such account. Moneys in such account shall be applied by the Administrative Agent to reimburse the applicable Issuing Bank for LC Disbursements for which it had not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of the Borrower for the LC Exposure at such time or, if the maturity of the Loans has been accelerated, with the consent of the Required Lenders, be applied to satisfy other obligations of the Borrower under this Agreement and the other Loan Documents. If the Borrower is required to Cash Collateralize its reimbursement obligations with respect to the Letters of Credit as a result of the occurrence of an Event of Default, such cash collateral so posted (to the extent not so applied as aforesaid) shall be returned to the Borrower within three (3) Business Days after all Events of Default have been cured or waived.

(h) Upon the request of any Revolving Lender, but no more frequently than quarterly, each Issuing Bank shall deliver (through the Administrative Agent) to each Revolving Lender and the Borrower a report describing the aggregate Letters of Credit issued by such Issuing Bank and then outstanding. Upon the request of any Revolving Lender from time to time, each Issuing Bank shall deliver to such Revolving Lender any other information reasonably requested by such Revolving Lender with respect to each Letter of Credit issued by such Issuing Bank and then outstanding.

(i) The Borrower's obligation to reimburse LC Disbursements hereunder shall be absolute, unconditional and irrevocable and shall be performed strictly in accordance with the terms of this Agreement under all circumstances whatsoever and irrespective of any of the following circumstances:

(i) any lack of validity or enforceability of any Letter of Credit or this Agreement;

(ii) the existence of any claim, set-off, defense or other right which the Borrower or any Subsidiary or Affiliate of the Borrower may have at any time against a beneficiary or any transferee of any Letter of Credit (or any Persons or entities for whom any such beneficiary or transferee may be acting), any Lender (including any Issuing Bank) or any other Person, whether in connection with this Agreement or the Letter of Credit or any document related hereto or thereto or any unrelated transaction;

(iii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect;

(iv) payment by any Issuing Bank under a Letter of Credit against presentation of a draft or other document to such Issuing Bank that does not comply with the terms of such Letter of Credit;

(v) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of set-off against, the Borrower's obligations hereunder; or

(vi) the existence of a Default or an Event of Default.

Neither the Administrative Agent, any Issuing Bank, any Lender nor any Related Party of any of the foregoing shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to above), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any

consequence arising from causes beyond the control of the applicable Issuing Bank; provided that the foregoing shall not be construed to excuse any Issuing Bank from liability to the Borrower to the extent of any actual direct damages (as opposed to special, indirect (including claims for lost profits or other consequential damages), or punitive damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by such Issuing Bank's failure to exercise due care when determining whether drafts or other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that, in the absence of gross negligence or willful misconduct on the part of any Issuing Bank (as finally determined by a court of competent jurisdiction), such Issuing Bank shall be deemed to have exercised due care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented that appear on their face to be in substantial compliance with the terms of a Letter of Credit, the applicable Issuing Bank may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(j) Unless otherwise expressly agreed by the applicable Issuing Bank and the Borrower when a Letter of Credit is issued and subject to applicable laws, (i) each standby Letter of Credit shall be governed by the "International Standby Practices 1998" (ISP98) (or such later revision as may be published by the Institute of International Banking Law & Practice on any date any Letter of Credit may be issued), (ii) each documentary Letter of Credit shall be governed by the Uniform Customs and Practices for Documentary Credits (2007 Revision), International Chamber of Commerce Publication No. 600 (or such later revision as may be published by the International Chamber of Commerce on any date any Letter of Credit may be issued) and (iii) the Borrower shall specify the foregoing in each letter of credit application submitted for the issuance of a Letter of Credit.

Section 2.23. Increase of Commitments; Additional Lenders.

(a) From time to time after the Closing Date and in accordance with this Section, the Borrower and one or more Increasing Lenders or Additional Lenders (each as defined below) may enter into an agreement to (i) increase the aggregate principal amount of the Revolving Commitments and/or (ii) establish one or more tranches of Incremental Term Loan Commitments hereunder (each such increase or additional tranche, an "Incremental Commitment" and the principal amount thereof, the "Incremental Commitment Amount") so long as the following conditions are satisfied:

(i) subject, in the case of an Incremental Term Loan (and related Incremental Term Loan Commitments) used to finance a Limited Condition Acquisition, to Section 1.5, the aggregate principal amount of all such Incremental Commitments made pursuant to this Section shall not exceed $30,000,000;

(ii) the Borrower shall execute and deliver such documents and instruments and take such other actions as may be reasonably required by the Administrative Agent in connection with and at the time of any such proposed increase;

(iii) subject, in the case of an Incremental Term Loan (and related Incremental Term Loan Commitments) used to finance a Limited Condition Acquisition, to Section 1.5, at the time of and immediately after giving effect to any such Incremental Commitment, (x) no Event of Default shall exist; provided that (A) in the case of any Incremental Commitment obtained for the purposes of financing an Acquisition not prohibited by this Agreement, the Lenders providing such Incremental Commitment and the Administrative Agent may agree that such condition shall be limited to an absence of an Event of Default under Section 8.1(a), (b), (g), (h) or (i) and (B) if the Borrower makes an LCA Election pursuant to Section 1.5 and such condition is tested as of the

applicable LCA Test Date, it shall also be a condition that no Event of Default under Section 8.1(a), (b), (g), (h) or (i) shall have occurred and be continuing or would result from the incurrence of such Incremental Term Loan (and related Term Loan Commitments) and the transactions consummated in connection therewith (including the incurrence of any Indebtedness and the use proceeds thereof) on the date on which such Incremental Term Loan (and related Incremental Term Loan Commitments) is incurred and the applicable Limited Condition Acquisition is consummated, and (y) all representations and warranties of each Loan Party set forth in the Loan Documents shall be true and correct in all material respects (other than those representations and warranties that are expressly qualified by Material Adverse Effect or other materiality, in which case such representations and warranties shall be true and correct in all respects) as of the date of the establishment of such Incremental Commitment (or, if such representation or warranty relates to an earlier date, as of such earlier date); provided that in the case of any Incremental Commitment obtained for the purposes of financing an Acquisition or other Investment not prohibited by this Agreement, the Lenders providing such Incremental Commitment may agree that the only representations and warranties the accuracy of which shall be a condition to such Incremental Commitment (and the Incremental Term Loans or Revolving Loans provided thereunder) shall be (I) the Specified Representations and (II) the representations and warranties made by or on behalf of the applicable target in the purchase, acquisition or similar agreement governing such Acquisition or other Investment as are material to the interests of the Lenders, but only to the extent that the Borrower (or the Borrower's applicable Affiliates or Subsidiaries) has the right (determined without regard to any notice requirement) not to consummate or the right to terminate (or cause the termination of) the Borrower's (or such Affiliates' or Subsidiaries') obligations under such purchase, acquisition or other agreement as a result of a breach of such representations or warranties in such purchase, acquisition or other agreement (or the failure of such representations or warranties to be accurate or to satisfy the closing conditions in such purchase, acquisition or other agreement applicable to such representations or warranties) (such representations and warranties, the "Specified Target Representations");

(iv) (x) any incremental term loans made pursuant to this Section (the "Incremental Term Loans" and, the commitments with respect thereto, the "Incremental Term Loan Commitments") shall have a maturity date no earlier than the latest Maturity Date in effect at the time such Incremental Term Loans are incurred, shall have a Weighted Average Life to Maturity no shorter than that of any then-outstanding Term Loans (without giving effect to previous reductions in and previously made amortization payments on such Term Loans) and shall otherwise have terms (other than pricing and any representations, warranties, covenants and other provisions applicable only to periods after the latest Maturity Date hereunder at such time) that either are consistent with the applicable terms of the existing Loans and Commitments hereunder or are reasonably satisfactory to the Administrative Agent (it being understood and agreed that to the extent that any more restrictive terms are added for the benefit of any Incremental Term Loan Commitments and related Incremental Term Loans, no consent shall be required from the Administrative Agent or any Lender to the extent that such terms are also added for the benefit of the existing Loans and Commitments (to the extent applicable)), and (y) any incremental Revolving Commitments provided pursuant to this Section (the "Incremental Revolving Commitments") shall have identical terms (including pricing and termination date; provided that upfront fees for any Incremental Revolving Commitments will be permitted and shall be determined by the Borrower and the Lenders providing such Incremental Revolving Commitments) to the Revolving Commitments and be treated as the same Class as the Revolving Commitments and the Borrower shall, after the establishment of any Incremental Revolving Commitments pursuant to this Section, repay and incur Revolving Loans ratably as between the Incremental Revolving Commitments and the Revolving Commitments outstanding immediately prior to such increase (provided that such repayment and incurrence may, with the Administrative Agent's consent, be effectuated through

assignments among Lenders with Revolving Commitments, which shall not require an Assignment and Acceptance and may be effectuated by the Administrative Agent through changes in the Register and fundings from such Lenders providing Incremental Commitments); provided, further, that Interest Periods applicable to Incremental Term Loans or Revolving Loans advanced pursuant to Incremental Revolving Commitments may, at the election of the Administrative Agent and the Borrower, be made with Interest Period(s) identical to the then remaining Interest Period(s) applicable to any existing Term Loans of the relevant Class or existing Revolving Loans of the applicable Class (and allocated to such Interest Period(s) on a proportional basis);

(v) subject, in the case of an Incremental Term Loan (and related Incremental Term Loan Commitments) used to finance a Limited Condition Acquisition, to Section 1.5, the Borrower and its Subsidiaries shall be in *pro forma* compliance with each of the financial covenants set forth in Article VI as of the most recently ended Test Period, calculated as if all such Incremental Term Loans had been made and all such Incremental Revolving Commitments had been established (and fully funded) as of the first day of the relevant period for testing compliance (including giving effect to any Acquisitions on a Pro Forma Basis that are contemplated to be funded with such Incremental Term Loans or Incremental Revolving Commitments); and

(vi) any collateral securing any such Incremental Commitments shall also secure all other Obligations on a *pari passu* basis.

(b) The Borrower shall provide at least ten (10) days' (or such shorter period of time as may be agreed to by the Administrative Agent in its sole discretion) written notice to the Administrative Agent (who shall promptly provide a copy of such notice to each Lender) of any proposal to establish an Incremental Commitment. The Borrower may also, but is not required to, specify any fees offered to those Lenders (the "Increasing Lenders") that agree to increase the principal amount of their Revolving Commitments and/or provide Incremental Term Loan Commitments, which fees may be variable based upon the amount by which any such Lender is willing to increase the principal amount of its Revolving Commitment and/or the principal amount of the Incremental Term Loan Commitment such Lender is willing to provide, as applicable. No Lender (or any successor thereto) shall have any obligation, express or implied, to offer to increase the aggregate principal amount of its Revolving Commitment and/or provide an Incremental Term Loan Commitment, and any decision by a Lender to increase its Revolving Commitment and/or provide an Incremental Term Loan Commitment shall be made in its sole discretion independently from any other Lender. Only the consent of each Increasing Lender shall be required for Incremental Commitments pursuant to this Section. No Lender which declines to increase the principal amount of its Revolving Commitment and/or provide an Incremental Term Loan Commitment may be replaced with respect to its existing Revolving Commitment, its existing Term Loan Commitment (if any) and/or its existing Term Loans (if any), as applicable, as a result thereof without such Lender's consent. The Borrower may accept some or all of the offered amounts from existing Lenders or designate new lenders that are acceptable to the Administrative Agent (any such consent to be required only to the extent required under Section 10.4(b) for an assignment of Loans or Commitments of such Type to such new lender), the Borrower and, in the case of any Incremental Revolving Commitments, each Issuing Bank (such approvals of the Administrative Agent, the Borrower and the Issuing Banks not to be unreasonably withheld) as additional Lenders hereunder in accordance with this Section (the "Additional Lenders"), which Additional Lenders may assume all or a portion of such Incremental Commitment. The Borrower shall have discretion to adjust the allocation of such Incremental Revolving Commitments and/or such Incremental Term Loans among the then-existing Lenders and the Additional Lenders (as it may elect). The sum of the increase in the principal amount of the Revolving Commitments and the aggregate principal amount of the Incremental Term Loan Commitments of the Increasing Lenders plus the principal amount of the Revolving Commitments and the aggregate principal amount of the Term Loan Commitments of the Additional Lenders shall not in the aggregate exceed the unsubscribed amount of the Incremental Commitment Amount.

(c) Subject to subsections (a) and (b) of this Section, any increase requested by the Borrower shall be effective upon delivery to the Administrative Agent of each of the following documents:

(i) an originally executed copy of an instrument of joinder (each, an "Incremental Commitment Joinder"), in form and substance reasonably acceptable to the Administrative Agent, executed by the Administrative Agent, by the Borrower, by each Additional Lender and by each Increasing Lender, setting forth the Incremental Revolving Commitments and/or Incremental Term Loan Commitments, as applicable, of such Lenders and setting forth the agreement of each Additional Lender to become a party to this Agreement and to be bound by all of the terms and provisions hereof;

(ii) such evidence of appropriate corporate authorization on the part of the Borrower with respect to such Incremental Commitment and such opinions of counsel for the Borrower with respect to such Incremental Commitment as the Administrative Agent may reasonably request;

(iii) a certificate of the Borrower signed by a Responsible Officer, in form and substance reasonably acceptable to the Administrative Agent, certifying that each of the conditions in subsection (a) of this Section has been satisfied; provided that, in the case of an Incremental Term Loan (and related Incremental Term Loan Commitments) used to finance a Limited Condition Acquisition, the conditions set forth in subsection (a) of this Section that are tested as of the applicable LCA Test Date shall be certified in the applicable LCA Election Certificate instead of the certificate delivered pursuant to this subsection (iii);

(iv) to the extent requested by any Additional Lender or any Increasing Lender, executed promissory notes evidencing such Incremental Revolving Commitments and/or such Incremental Term Loans, issued by the Borrower in accordance with Section 2.10; and

(v) any other certificates or documents that the Administrative Agent shall reasonably request, in form and substance reasonably satisfactory to the Administrative Agent.

Upon the effectiveness of any such Incremental Commitment, the Commitments and Pro Rata Share of each Lender will be adjusted to give effect to the Incremental Commitments and/or the Incremental Term Loans, as applicable, and Schedule I shall automatically be deemed amended accordingly.

(d) If any Incremental Term Loan Commitments are to be established pursuant to this Section, other than as set forth herein, all terms with respect thereto shall be as set forth in the applicable Incremental Commitment Joinder, the execution and delivery of which agreement shall be a condition to the effectiveness of the establishment of the Incremental Term Loan Commitments. Notwithstanding anything to the contrary in Section 10.2, the Administrative Agent is expressly permitted to amend the Loan Documents to the extent necessary to give effect to any increase in Commitments and/or establishment of a new Incremental Term Loan Commitment pursuant to this Section and mechanical changes necessary or advisable in connection therewith (including amendments to implement the requirements in the preceding sentence or the foregoing clause (a)(iv) of this Section, amendments to ensure *pro rata* allocations of Eurodollar Loans and Base Rate Loans between Loans incurred pursuant to this Section and Loans outstanding immediately prior to any such incurrence and amendments to implement ratable participation in Letters of Credit between the Incremental Revolving Commitments and the Revolving Commitments outstanding immediately prior to any such incurrence).

(e) This Section 2.23 shall supersede any provisions in Section 2.21 or 10.2 to the contrary.

Section 2.24. Mitigation of Obligations. If any Lender requests compensation under Section 2.18, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.20, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or Affiliates, if, in the sole judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable under Section 2.18 or Section 2.20, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all costs and expenses incurred by any Lender in connection with such designation or assignment.

Section 2.25. Replacement of Lenders. If (a) any Lender requests compensation under Section 2.18, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.20 or any Lender has failed to approve an amendment or waiver that requires the consent of all Lenders or all Lenders of a particular Class or all affected Lenders (and such amendment or waiver has been approved by Requisite Lenders or Lenders with a majority of the Commitments or Loans of a particular Class or a majority of affected Lenders), or (b) any Lender is a Defaulting Lender, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions set forth in Section 10.4(b)), all of its interests, rights (other than its existing rights to payments pursuant to Section 2.18 or 2.20, as applicable) and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender) (a "Replacement Lender"); provided that (i) the Borrower shall have received the prior written consent of the Administrative Agent, which consent shall not be unreasonably withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal amount of all Loans owed to it, accrued interest thereon, accrued fees and all other amounts payable to it hereunder from the assignee (in the case of such outstanding principal and accrued interest) and from the Borrower (in the case of all other amounts), and (iii) in the case of a claim for compensation under Section 2.18 or payments required to be made pursuant to Section 2.20, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply. If a Lender fails to execute an Assignment and Assumption Acceptance giving effect to the assignment contemplated under this Section 2.25, such Assignment and Acceptance may be executed by the Borrower, the Administrative Agent and any Replacement Lender and become effective without the consent of such replaced Lender.

Section 2.26. Defaulting Lenders.

(a) Cash Collateral

(i) At any time that there shall exist a Defaulting Lender, within one Business Day following the written request of the Administrative Agent or any Issuing Bank (with a copy to the Administrative Agent) the Borrower shall Cash Collateralize each Issuing Bank's LC Exposure with respect to such Defaulting Lender (determined after giving effect to Section 2.26(b)(iv) and any Cash Collateral provided by such Defaulting Lender) in an amount not less than 103% of such Issuing Bank's LC Exposure with respect to such Defaulting Lender.

(ii) The Borrower, and to the extent provided by any Defaulting Lender, such Defaulting Lender, hereby grants to the Administrative Agent, for the benefit of the Issuing Banks, and agrees to maintain, a first priority security interest in all such Cash Collateral as security for the Defaulting Lenders' obligation to fund participations in respect of Letters of Credit, to be applied pursuant to clause (iii) below. If at any time the Administrative Agent determines that Cash Collateral is subject to any right or claim of any Person other than the Administrative Agent and the Issuing Banks as herein provided, or that the total amount of such Cash Collateral is less than the minimum amount required pursuant to clause (i) above, the Borrower will, promptly upon demand by the Administrative Agent, pay or provide to the Administrative Agent additional Cash Collateral in an amount sufficient to eliminate such deficiency (after giving effect to any Cash Collateral provided by the Defaulting Lender).

(iii) Notwithstanding anything to the contrary contained in this Agreement, Cash Collateral provided under this Section 2.26(a) or Section 2.26(b) in respect of Letters of Credit shall be applied to the satisfaction of the Defaulting Lender's obligation to fund participations in respect of Letters of Credit or LC Disbursements (including, as to Cash Collateral provided by a Defaulting Lender, any interest accrued on such obligation) for which the Cash Collateral was so provided, prior to any other application of such property as may otherwise be provided for herein.

(iv) Cash Collateral (or the appropriate portion thereof) provided to reduce any Issuing Bank's LC Exposure shall no longer be required to be held as Cash Collateral pursuant to this Section 2.26(a) following (A) the elimination of the applicable LC Exposure (including by the termination of Defaulting Lender status of the applicable Lender), or (ii) the determination by the Administrative Agent and each Issuing Bank that there exists excess Cash Collateral; provided that, subject to Section 2.26(b) through (d), the Person providing Cash Collateral and each Issuing Bank may agree that Cash Collateral shall be held to support future anticipated LC Exposure or other obligations and provided further that to the extent that such Cash Collateral was provided by the Borrower, such Cash Collateral shall remain subject to the security interest granted pursuant to the Loan Documents.

(b) Defaulting Lender Adjustments. Notwithstanding anything to the contrary contained in this Agreement, if any Lender becomes a Defaulting Lender, then, until such time as such Lender is no longer a Defaulting Lender, to the extent permitted by applicable law:

(i) Such Defaulting Lender's right to approve or disapprove any amendment, waiver or consent with respect to this Agreement shall be restricted as set forth in the definition of Required Lenders and in Section 10.2.

(ii) Any payment of principal, interest, fees or other amounts received by the Administrative Agent for the account of such Defaulting Lender (whether voluntary or mandatory, at maturity, pursuant to Article VIII or otherwise) or received by the Administrative Agent from a Defaulting Lender pursuant to Section 10.7 shall be applied at such time or times as may be determined by the Administrative Agent as follows: first, to the payment of any amounts owing by such Defaulting Lender to the Administrative Agent hereunder; second, to the payment on a pro rata basis of any amounts owing by such Defaulting Lender to each Issuing Bank or the Swingline Lender hereunder; third, to Cash Collateralize the Issuing Banks' LC Exposure with respect to such Defaulting Lender in accordance with Section 2.26(a); fourth, as the Borrower may request (so long as no Default or Event of Default exists), to the funding of any Loan in respect of which such Defaulting Lender has failed to fund its portion thereof as required by this Agreement, as determined by the Administrative Agent; fifth, if so determined by the Administrative Agent and the Borrower, to be held in a deposit account and released pro rata in order to (x) satisfy such

Defaulting Lender's potential future funding obligations with respect to Loans under this Agreement and (y) Cash Collateralize the Issuing Banks' future LC Exposure with respect to such Defaulting Lender with respect to future Letters of Credit issued under this Agreement, in accordance with Section 2.26(a); sixth, to the payment of any amounts owing to the Lenders, the Issuing Banks or the Swingline Lender as a result of any judgment of a court of competent jurisdiction obtained by any Lender, any Issuing Bank or the Swingline Lender against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement; seventh, so long as no Default or Event of Default exists, to the payment of any amounts owing to the Borrower as a result of any judgment of a court of competent jurisdiction obtained by the Borrower against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement; and eighth, to such Defaulting Lender or as otherwise directed by a court of competent jurisdiction; provided that if (x) such payment is a payment of the principal amount of any Loans or LC Disbursements in respect of which such Defaulting Lender has not fully funded its appropriate share, and (y) such Loans were made or the related Letters of Credit were issued at a time when the conditions set forth in Section 3.2 were satisfied or waived, such payment shall be applied solely to pay the Loans of, and LC Disbursements owed to, all Non-Defaulting Lenders on a pro rata basis prior to being applied to the payment of any Loans of, or LC Disbursements owed to, such Defaulting Lender until such time as all Loans and funded and unfunded participations in respect of Letters of Credit and Swingline Loans are held by the Lenders pro rata in accordance with the Commitments without giving effect to sub-section (iv) below. Any payments, prepayments or other amounts paid or payable to a Defaulting Lender that are applied (or held) to pay amounts owed by a Defaulting Lender or to post Cash Collateral pursuant to this Section 2.26(b)(ii) shall be deemed paid to and redirected by such Defaulting Lender, and each Lender irrevocably consents hereto.

(iii) (A) No Defaulting Lender shall be entitled to receive any commitment fees pursuant to Section 2.14(b) for any period during which that Lender is a Defaulting Lender (and the Borrower shall not be required to pay any such fee that otherwise would have been required to have been paid to that Defaulting Lender).

(B) Each Defaulting Lender shall be entitled to receive letter of credit fees pursuant to Section 2.14(c) for any period during which that Lender is a Defaulting Lender only to the extent allocable to that portion of its LC Exposure for which it has provided Cash Collateral pursuant to Section 2.26(a).

(C) With respect to any letter of credit fee not required to be paid to any Defaulting Lender pursuant to clause (A) or (B) above, the Borrower shall (x) pay to each Non-Defaulting Lender that portion of any such fee otherwise payable to such Defaulting Lender with respect to such Defaulting Lender's participation in Letters of Credit or Swingline Loans that has been reallocated to such Non-Defaulting Lender pursuant to clause (iv) below, (y) pay to each Issuing Bank and the Swingline Lender, as applicable, the amount of any such fee otherwise payable to such Defaulting Lender to the extent allocable to such Issuing Bank's LC Exposure or Swingline Lender's Swingline Exposure with respect to such Defaulting Lender that has not been Cash Collateralized, and (z) not be required to pay the remaining amount of any such fee.

(iv) All or any part of such Defaulting Lender's participation in Letters of Credit and Swingline Loans shall be reallocated among the Non-Defaulting Lenders in accordance with their respective Pro Rata Shares of the Revolving Commitments (calculated without regard to such Defaulting Lender's Revolving Commitment) but only to the extent that (x) the conditions set forth in Section 3.2 are satisfied at the time of such reallocation (and, unless the Borrower shall have otherwise notified the Administrative Agent at such time, the Borrower shall be deemed to

have represented and warranted that such conditions are satisfied at such time), and (y) such reallocation does not cause the aggregate Revolving Credit Exposure of any Non-Defaulting Lender to exceed such Non-Defaulting Lender's Revolving Commitment. No reallocation hereunder shall constitute a waiver or release of any claim of any party hereunder against a Defaulting Lender arising from that Lender having become a Defaulting Lender, including any claim of a Non-Defaulting Lender as a result of such Non-Defaulting Lender's increased exposure following such reallocation.

(v) If the reallocation described in clause (iv) above cannot, or can only partially, be effected, the Borrower shall, without prejudice to any right or remedy available to it hereunder or under law, (x) first, prepay Swingline Loans in an amount equal to the Swingline Lender's Swingline Exposure with respect to such Defaulting Lender and (y) second, Cash Collateralize the Issuing Banks' LC Exposure with respect to such Defaulting Lender in accordance with the procedures set forth in Section 2.26(a).

(c) Defaulting Lender Cure. If the Borrower, the Administrative Agent, Swingline Lender and Issuing Banks agree in writing that a Lender is no longer a Defaulting Lender, the Administrative Agent will so notify the parties hereto, whereupon as of the effective date specified in such notice and subject to any conditions set forth therein (which may include arrangements with respect to any Cash Collateral), that Lender will, to the extent applicable, purchase at par that portion of outstanding Loans of the other Lenders or take such other actions as the Administrative Agent may determine to be necessary to cause the Loans and funded and unfunded participations in Letters of Credit and Swingline Loans to be held pro rata by the Lenders in accordance with the applicable Commitments (without giving effect to Section 2.26(b)(iv)), whereupon such Lender will cease to be a Defaulting Lender; provided that no adjustments will be made retroactively with respect to fees accrued or payments made by or on behalf of the Borrower while that Lender was a Defaulting Lender; and provided, further, that except to the extent otherwise expressly agreed by the affected parties, no change hereunder from Defaulting Lender to Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender's having been a Defaulting Lender.

(d) New Swingline Loans/Letters of Credit. So long as any Lender is a Defaulting Lender, (i) the Swingline Lender shall not be required to fund any Swingline Loans unless it is satisfied that it will have no Swingline Exposure after giving effect to such Swingline Loan and (ii) no Issuing Bank shall be required to issue, extend, renew or increase any Letter of Credit unless it is satisfied that it will have no LC Exposure after giving effect thereto.

Section 2.27. Request for Extended Facilities. Notwithstanding anything to the contrary in this Agreement, pursuant to one or more offers (each, an "Extension Offer") made from time to time by the Borrower to all Lenders of Term Loans with a like Maturity Date or all Lenders with Revolving Commitments of the same Class, in each case on a pro rata basis (based on the outstanding amount of the respective Loans or the aggregate amount of the Revolving Commitments, as the case may be, with the same Maturity Date) and on the same terms to each such Lender, the Borrower may from time to time offer (but no Lender is obligated to accept such offer) to extend the maturity date, modify the interest rate or fees payable in respect of such Term Loans and/or Revolving Commitments (and related outstandings) and/or modify the amortization schedule in respect of such Term Loans (each, an "Extension", and each group of Term Loans or Revolving Commitments, as applicable, in each case as so extended, as well as the original Term Loans and Revolving Commitments (in each case not so extended),

being a tranche; any Extended Term Loans shall constitute a separate tranche of Term Loans from the tranche of Term Loans from which they were converted, and any Extended Revolving Commitments shall constitute a separate tranche of Revolving Commitments from the tranche of Revolving Commitments from which they were converted), all as set forth in greater detail in an Extended Facility Agreement so long as the terms set forth below are satisfied:

(i) (A) no Event of Default shall have occurred and be continuing at the time an Extension Offer is delivered to the Lenders or at the time of the Extended Facility Closing Date and (B) all representations and warranties of each Loan Party set forth in the Loan Documents shall be true and correct in all material respects (other than those representations and warranties that are expressly qualified by Material Adverse Effect or other materiality, in which case such representations and warranties shall be true and correct in all respects) as of the Extended Facility Closing Date (or, if such representation or warranty relates to an earlier date, as of such earlier date);

(ii) except as to interest rates, fees and final maturity, the Revolving Commitment of any Lender (an "Extending Revolving Lender") extended pursuant to an Extension (an "Extended Revolving Commitment"), and the related outstandings, shall be a Revolving Commitment (or related Revolving Loan outstandings, as the case may be) with the same terms as the original Revolving Commitments (and related Revolving Loan outstandings); provided that (x) subject to the provisions of Sections 2.22(a) and 2.4(f) to the extent dealing with Letters of Credit and Swingline Loans which mature or expire after a Maturity Date when there exist Extended Revolving Commitments with a longer Maturity Date, all Letters of Credit and Swingline Loans shall be participated in on a pro rata basis by all Lenders with Revolving Commitments in accordance with their Pro Rata Share of the Aggregate Revolving Commitment Amount (and except as provided in Sections 2.22(a) and 2.4(f), without giving effect to changes thereto on an earlier Maturity Date with respect to Swingline Loans and Letters of Credit theretofore incurred or issued) and all Borrowings under Revolving Commitments and repayments thereunder shall be made on a pro rata basis (except for (A) payments of interest and fees at different rates on Extended Revolving Commitments (and related outstandings) and (B) repayments required upon the Maturity Date for the non-extending Revolving Commitments) and (y) at no time shall there be Revolving Commitments hereunder (including Extended Revolving Commitments and any original Revolving Commitments) which have more than five (5) different Maturity Dates;

(iii) except as to interest rates, fees, amortization schedule, final maturity date, premium, required prepayment dates and participation in prepayments, the Term Loans of any Lender (an "Extending Term Loan Lender") extended pursuant to any Extension ("Extended Term Loans") shall have the same terms as the tranche of Term Loans subject to such Extension Offer except to the extent that such terms are less favorable to the Extending Term Loan Lenders than to the Lenders of the non-extended Term Loans or apply solely to periods after the Maturity Date of the non-extended Term Loans;

(iv) the final maturity date for any Extended Term Loans shall be no earlier than the then latest Maturity Date hereunder or under any existing Extended Facility Agreement and the amortization schedule applicable to such Extended Term Loans for periods prior to the maturity date of the Term Loans extended thereby may not be increased from any then existing amortization schedule applicable to Term Loans;

(v) the Weighted Average Life to Maturity of any Extended Term Loans shall be no shorter than the remaining Weighted Average Life to Maturity of the Term Loans extended thereby;

(vi) any Extended Term Loans may participate on a pro rata basis or a less than pro rata basis (but not greater than a pro rata basis) in any voluntary or mandatory repayments or prepayments hereunder, in each case as specified in the respective Extended Facility Agreement;

(vii) if the aggregate principal amount of applicable Term Loans (calculated on the face amount thereof) or Revolving Commitments, as the case may be, in respect of which applicable Lenders holding Term Loans or Lenders holding Revolving Commitments, as the case may be, shall have accepted the relevant Extension Offer shall exceed the maximum aggregate principal amount of applicable Term Loans or Revolving Commitments, as the case may be, offered to be extended by Borrower pursuant to such Extension Offer, then the applicable Term Loans or Revolving Commitments, as the case may be, of the applicable Lenders holding Term Loans or Lenders holding Revolving Commitments, as the case may be, shall be extended ratably up to such maximum amount based on the respective principal amounts (but not to exceed actual holdings of record) with respect to which such Lenders holding Term Loans or Lenders holding Revolving Commitments, as the case may be, have accepted such Extension Offer;

(viii) all documentation in respect of such Extension shall be consistent with the foregoing;

(ix) any Extended Facility requested by the Borrower shall be in a minimum amount of $20,000,000; and

(x) the Administrative Agent and the lenders party thereto shall enter into an Extended Revolving Credit Facility Agreement or an Extended Term Facility Agreement, as the case may be, and the conditions precedent set forth therein shall have been satisfied or waived in accordance with its terms.

Subject to compliance with the terms of this Section 2.27, the Administrative Agent, each Issuing Bank and the Lenders hereby consent to the Extensions and the other transactions contemplated by this Section 2.27 (including, for the avoidance of doubt, payment of any interest, fees or premium in respect of any Extended Term Loans and/or Extended Revolving Commitments on such terms as may be set forth in the relevant Extended Facility Agreement) and hereby waive the requirements of any provision of this Agreement (including, without limitation, Sections 2.21, 10.2, or any other provisions regarding the sharing of payments) or any other Loan Document that may otherwise prohibit any such Extension or any other transaction contemplated by this Section 2.27. The Lenders hereto agree that the Extended Facility Lenders party to any Extended Facility Agreement may, from time to time, make amendments to such Extended Facility Agreement or to this Agreement and the other Loan Documents to give effect to the Extended Facility Agreement without the consent of any other Lenders so long as such Extended Facility Agreement, as amended, complies with the terms set forth in this Section 2.27.

Section 2.28. Refinancing Amendment. At any time after the Closing Date, the Borrower may obtain, from any Lender or any Refinancing Lender, Credit Agreement Refinancing Indebtedness in respect of all or any portion of the Loans or Revolving Commitments then outstanding under this Agreement (which for purposes of this Section 2.28 will be deemed to include any then outstanding Other Refinancing Term Loans, Other Refinancing Revolving Commitments, Incremental Term Loans, Incremental Revolving Commitments, Extended Term Loans or Extended Revolving Commitments), in the form of Other Refinancing Loans or Other Refinancing Commitments in each case pursuant to a Refinancing Amendment; provided that such Credit Agreement Refinancing Indebtedness (i) will rank pari passu or junior in right of payment and of security with the other Loans and Commitments hereunder and (ii) will have such pricing, premiums and optional prepayment or redemption terms as may be agreed by the Borrower and the Lenders thereof. Any Other Refinancing Loans or Other Refinancing Commitments, as applicable, may participate

on a pro rata basis or on a less than pro rata basis (but not on a greater than pro rata basis) in any voluntary or mandatory prepayments hereunder, as specified in the applicable Refinancing Amendment. The effectiveness of any Refinancing Amendment shall be subject to the satisfaction or waiver on the date thereof of each of the conditions set forth in Section 3.2 and, to the extent reasonably requested by the Administrative Agent, receipt by the Administrative Agent of (a) board resolutions, officers' certificates and/or reaffirmation agreements consistent with those delivered on the Closing Date under Section 3.1 and (b) customary legal opinions reasonably acceptable to the Administrative Agent. Each issuance of Credit Agreement Refinancing Indebtedness incurred under this Section 2.28 shall be in an aggregate principal amount that is not less than $25,000,000. The Administrative Agent shall promptly notify each Lender as to the effectiveness of each Refinancing Amendment. Each of the parties hereto hereby agrees that, upon the effectiveness of any Refinancing Amendment, this Agreement shall be deemed amended to the extent (but only to the extent) necessary or advisable to reflect the existence and terms of the Credit Agreement Refinancing Indebtedness incurred pursuant thereto (including any amendments necessary to treat the Loans and Commitments subject thereto as Other Refinancing Loans and/or Other Refinancing Commitments). Any Refinancing Amendment may, without the consent of any other Lenders, effect such amendments to this Agreement and the other Loan Documents as may be necessary or appropriate, in the reasonable opinion of the Administrative Agent and the Borrower, to effect the provisions of this Section 2.28. This Section 2.28 shall supersede any provisions in Sections 2.21 or 10.2 to the contrary.

ARTICLE III

CONDITIONS PRECEDENT TO LOANS AND LETTERS OF CREDIT

Section 3.1. Conditions to Effectiveness. The obligations of the Lenders (including the Swingline Lender) to make Loans and the obligation of each Issuing Bank to issue any Letters of Credit hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 10.2 or otherwise permitted to be satisfied after the Closing Date pursuant to Section 5.16):

(a) The Administrative Agent shall have received payment of all fees, expenses and other amounts due and payable on or prior to the Closing Date, including, without limitation, reimbursement or payment of all out-of-pocket expenses of the Administrative Agent, the Lead Arrangers and their Affiliates (including reasonable fees, charges and disbursements of one primary counsel to the Administrative Agent, one local counsel in each applicable jurisdiction and any special regulatory counsel) required to be reimbursed or paid by the Borrower hereunder, under any other Loan Document and under any agreement with the Administrative Agent or the Lead Arrangers.

(b) The Administrative Agent (or its counsel) shall have received the following, each to be in form and substance satisfactory to the Administrative Agent:

(i) a counterpart of this Agreement signed by or on behalf of each party hereto or written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement;

(ii) a certificate of the Secretary or Assistant Secretary of each Loan Party in the form of Exhibit 3.1(b)(ii), attaching and certifying copies of (A) such Loan Party's articles or certificate of incorporation, formation, organization or limited partnership, or other registered organizational documents, certified as of a recent date by the Secretary of State of the jurisdiction of organization of such Loan Party, (B) such Loan Party's bylaws, limited liability company agreement or partnership agreement, as applicable, (C) the resolutions of such Loan Party's board

of directors, managers, members, general partner or other equivalent governing body, authorizing the execution, delivery and performance of the Loan Documents to which it is a party, (D) certificates of good standing or existence, as applicable, from the Secretary of State of the jurisdiction of incorporation or organization of such Loan Party and each other jurisdiction where the failure of such Loan Party to be qualified to do business as a foreign company would have a Material Adverse Effect, in each case as of a recent date, and (E) a certificate of incumbency containing the name, title and true signature of each officer of such Loan Party executing the Loan Documents to which such Loan Party is a party;

(iii) favorable written opinions of Kirkland & Ellis LLP, counsel to the Loan Parties, and [●], Nevada counsel to the Loan Parties, in each case, addressed to the Administrative Agent, each Issuing Bank and each of the Lenders, and covering such matters relating to the Loan Parties, the Loan Documents and the transactions contemplated therein as the Administrative Agent or the Required Lenders shall reasonably request;

(iv) a certificate in the form of Exhibit 3.1(b)(iv), dated the Closing Date and signed by a Responsible Officer, certifying that after giving effect to the Related Transactions, (A) no Default or Event of Default has occurred and is continuing on the Closing Date, (B) all representations and warranties of each Loan Party set forth in the Loan Documents are true and correct in all material respects (other than those representations and warranties that are expressly qualified by Material Adverse Effect or other materiality, in which case such representations and warranties shall be true and correct in all respects), (C) since December 31, 2018, there has been no change which has had or could reasonably be expected to have a Material Adverse Effect and (D) the conditions set forth in clause (b)(vii) and (xiii) below have been satisfied;

(v) a duly executed Notice of Borrowing for each Borrowing on the Closing Date;

(vi) a report setting forth the sources and uses of the proceeds hereof;

(vii) all consents, approvals, authorizations, registrations and filings and orders required to be made or obtained under any Requirement of Law, or by any Contractual Obligation of any Loan Party, in connection with the execution, delivery, performance, validity and enforceability of the Loan Documents, the other Related Transaction Documents or any of the transactions contemplated thereby, and such consents, approvals, authorizations, registrations, filings and orders shall be in full force and effect and all applicable waiting periods shall have expired, and no investigation or inquiry by any governmental authority regarding the Commitments or any transaction being financed with the proceeds thereof shall be ongoing;

(viii) copies of (A) the quarterly financial statements of the Borrower and its Subsidiaries on a combined basis for the Fiscal Quarter ended March 31, 2019 and the Fiscal Quarter ended June 30, 2019, including, in each case, the related statements of income and cash flows, (B) the audited combined financial statements for the Borrower and its Subsidiaries for the Fiscal Year ended December 31, 2018, including in each case the related statements of income, shareholders' equity and cash flows, (C) a pro forma balance sheet and related pro forma statements of income and cash flows of the Borrower and its Subsidiaries (for the avoidance of doubt, excluding Ensign and its Subsidiaries) as of and for (x) the twelve-month period ending on December 31, 2018 and (y) the twelve-month period ending on the last day of each Fiscal Quarter ending after December 31, 2018 and at least 60 days prior to the Closing Date, in each case, prepared so as to give effect to the Related Transactions as if the Related Transactions had occurred as of such date (in the case of such balance sheet) or at the beginning of such period (in the case of such other financial statements) and (D) financial projections of the Borrower and its Subsidiaries (for the avoidance of doubt, excluding Ensign and its Subsidiaries) on an annual basis through December 31, 2024;

(ix) a duly completed and executed Compliance Certificate, including calculations of the financial covenants set forth in Article VI hereof as of June 30, 2019, calculated on a *pro forma* basis as if the initial Borrowing(s) had been funded and the Pennant Transaction and the other Related Transactions had occurred, in each case, as of the first day of the relevant period for testing compliance (and setting forth in reasonable detail such calculations);

(x) a certificate, dated the Closing Date and signed by the chief financial officer of the Borrower, confirming that the Borrower is, and the Borrower and its Subsidiaries, on a consolidated basis, are, Solvent before and after giving effect to the funding of the initial Borrowing(s) and the consummation of the Pennant Transaction and the other Related Transactions contemplated to occur on the Closing Date;

(xi) the Guaranty and Security Agreement, duly executed by the Borrower and each of its Domestic Subsidiaries (other than the Excluded Subsidiaries), together with (A) UCC financing statements and other applicable documents under the laws of all necessary or appropriate jurisdictions with respect to the perfection of the Liens granted under the Guaranty and Security Agreement, as requested by the Administrative Agent in order to perfect such Liens, duly authorized by the Loan Parties, (B) copies of favorable UCC, tax and judgment lien search reports in all necessary or appropriate jurisdictions, as requested by the Administrative Agent, indicating that there are no prior Liens on any of the Collateral other than Permitted Encumbrances and other Liens permitted under Section 7.2 and Liens to be released on the Closing Date, (C) a Perfection Certificate, duly completed and executed by the Borrower, (D) duly executed Patent Security Agreements, Trademark Security Agreements and Copyright Security Agreements, (E) original certificates evidencing all issued and outstanding shares of Capital Stock of all Subsidiaries (other than the Excluded Subsidiaries) owned directly by any Loan Party; provided that, in the case of Capital Stock of any Foreign Subsidiary that is a CFC and Capital Stock of any Pass-Through Foreign Holdco, such original certificates shall be limited to 65% of the issued and outstanding voting Capital Stock and 100% of the issued and outstanding non-voting Capital Stock of such Foreign Subsidiary or such Pass-Through Foreign Holdco, as applicable, (F) stock or membership interest powers or other appropriate instruments of transfer executed in blank and (G) a master intercompany promissory note duly executed by the Borrower and its Subsidiaries;

(xii) certificates of insurance, in form and detail acceptable to the Administrative Agent, describing the types and amounts of insurance (property and liability) maintained by any of the Loan Parties, in each case naming the Administrative Agent as loss payee or additional insured, as the case may be, together with a endorsements in form and substance reasonably satisfactory to the Administrative Agent;

(xiii) evidence that (A) Ensign has declared the dividend or distribution constituting the Pennant Transaction and (B) the Pennant Transaction has been consummated or will be consummated substantially concurrently with the effectiveness of this Agreement on the Closing Date, in each case, in form and substance satisfactory to the Administrative Agent;

(xiv) at least three (3) days prior to the Closing Date, (A) all documentation and other information with respect to the Borrower and each other Loan Party that the Administrative Agent or any Lender reasonably determines is required by regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations, including, without

limitation, the Patriot Act and the Beneficial Ownership Regulation, to the extent reasonably requested by the Administrative Agent at least ten (10) days before the Closing Date, and (B) if the Borrower qualifies as a "legal entity customer" under the Beneficial Ownership Regulation, a Beneficial Ownership Certification in relation to the Borrower;

(xv) an executed payoff or release letter, executed by the administrative agent under the Ensign Credit Agreement, together with (a) UCC-3 or other appropriate termination statements releasing all Liens of the administrative agent and lenders under the Ensign Credit Agreement and related loan documents upon any of the personal property of the Borrower and its Subsidiaries granted pursuant thereto and (b) any other releases, terminations or other documents reasonably required by the Administrative Agent to evidence the release of the Borrower and its Subsidiaries from their respective obligations under the Ensign Credit Agreement and related loan documents, in each case of the foregoing, in form and substance reasonably satisfactory to the Administrative Agent (such documents, and the release of the Borrower and its Subsidiaries pursuant thereto, the "Closing Date Release"); and

(xvi) all Control Account Agreements and Sweep Agreements required under Section 5.11, duly executed by the applicable Loan Parties, the applicable depositary or securities intermediary and the Administrative Agent.

Without limiting the generality of the provisions of this Section, for purposes of determining compliance with the conditions specified in this Section, each Lender that has signed this Credit Agreement shall be deemed to have consented to, approved of, accepted or been satisfied with each document or other matter required thereunder to be consented to, approved by or acceptable or satisfactory to a Lender unless the Administrative Agent shall have received notice from such Lender prior to the proposed Closing Date specifying its objection thereto.

Section 3.2. Conditions to Each Credit Event. The obligation of each Lender to make a Loan on the occasion of any Borrowing and of each Issuing Bank to issue, amend, renew or extend any Letter of Credit is subject to Section 2.26(c) and the satisfaction of the following conditions:

(a) at the time of and immediately after giving effect to such Borrowing or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, no Default or Event of Default shall exist;

(b) at the time of and immediately after giving effect to such Borrowing or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, all representations and warranties of each Loan Party set forth in the Loan Documents shall be true and correct in all material respects, unless such representation or warranty expressly relates to an earlier date, in which case such representation or warranty shall be true and correct in all material respects as of such earlier date (other than those representations and warranties that are expressly qualified by a Material Adverse Effect or other materiality, in which case such representations and warranties shall be true and correct in all respects); and

(c) the Borrower shall have delivered the required Notice of Borrowing.

Each Borrowing and each issuance, amendment, renewal or extension of any Letter of Credit shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in subsections (a) and (b) of this Section. Notwithstanding the foregoing, the incurrence of Incremental Commitments and the initial borrowing of Incremental Term Loans (but not Revolving Loans) thereunder shall be subject solely to the conditions set forth in Section 2.23.

Section 3.3. Delivery of Documents. All of the Loan Documents, certificates, legal opinions and other documents and papers referred to in Section 3.1, unless otherwise specified, shall be delivered to the Administrative Agent for the account of each of the Lenders and, if requested by a Lender, in sufficient counterparts or copies for each such Lender.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants, both before and after giving effect to the Related Transactions, to the Administrative Agent, each Lender and each Issuing Bank as follows:

Section 4.1. Existence; Power. The Borrower and each of its Subsidiaries (i) is duly organized, validly existing and in good standing as a corporation, partnership or limited liability company under the laws of the jurisdiction of its organization, (ii) has all requisite power and authority to carry on its business as now conducted, and (iii) is duly qualified to do business, and is in good standing, in each jurisdiction where such qualification is required, except where a failure to be so qualified could not reasonably be expected to result in a Material Adverse Effect.

Section 4.2. Organizational Power; Authorization. The execution, delivery and performance by each Loan Party of the Loan Documents and the other Related Transaction Documents to which it is a party are within such Loan Party's organizational powers and have been duly authorized by all necessary organizational and, if required, shareholder, partner or member action. This Agreement has been duly executed and delivered by the Borrower and constitutes, and each other Loan Document and Related Transaction Document to which any Loan Party is a party, when executed and delivered by such Loan Party, will constitute, valid and binding obligations of the Borrower or such Loan Party (as the case may be), enforceable against it in accordance with their respective terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general principles of equity.

Section 4.3. Governmental Approvals; No Conflicts. The execution, delivery and performance by each Loan Party of the Loan Documents and the other Related Transaction Documents to which it is a party (a) do not require any consent or approval of, registration or filing with, or any action by, any Governmental Authority, except those as have been obtained or made and are in full force and effect and except for filings necessary to perfect or maintain perfection of the Liens created under the Loan Documents, (b) will not violate any Requirement of Law applicable to the Borrower or any of its Subsidiaries or any judgment, order or ruling of any Governmental Authority, (c) will not violate or result in a default under any Contractual Obligation of the Borrower or any of its Subsidiaries or any of its assets or give rise to a right thereunder to require any payment to be made by the Borrower or any of its Subsidiaries, (d) will not result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries, except Liens (if any) created under the Loan Documents, and (e) do not affect the Borrower's or any Subsidiary's right to receive, or reduce the amount of, payments and reimbursements from Third Party Payors, or materially adversely affect any Health Care Permit.

Section 4.4. Financial Statements. The Borrower has furnished to each Lender (i) the audited combined balance sheet of the Borrower and its Subsidiaries as of December 31, 2018, and the related audited combined statements of income, shareholders' equity and cash flows for the Fiscal Year then ended, audited by Deloitte & Touche, LLP and (ii) the unaudited combined balance sheet of the Borrower and its Subsidiaries as of June 30, 2019, and the related unaudited combined statements of income and cash flows for the Fiscal Quarter and year-to-date period then ended, certified by a Responsible Officer. Such financial statements fairly present the combined financial condition of the Borrower and its Subsidiaries as of such dates and the combined results of operations for such periods in conformity with GAAP consistently

applied, subject to year-end audit adjustments and the absence of footnotes in the case of the statements referred to in clause (ii). Since December 31, 2018, there have been no changes with respect to the Borrower and its Subsidiaries which have had or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect.

Section 4.5. Litigation and Environmental Matters.

(a) No litigation, investigation or proceeding of or before any arbitrators or Governmental Authorities is pending against or, to the knowledge of the Borrower, threatened in writing against or affecting the Borrower or any of its Subsidiaries (i) as to which there is a reasonable possibility of an adverse determination that could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect or (ii) which could reasonably be expected to result in the invalidity or unenforceability of this Agreement or any other Loan Document or any other Related Transaction Document.

(b) Neither the Borrower nor any of its Subsidiaries (i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) has become subject to any Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability or (iv) knows of any basis for any Environmental Liability, in the case of each of clauses (i), (ii), (iii) and (iv) which have had or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect.

Section 4.6. Compliance with Laws and Agreements. The Borrower and each of its Subsidiaries is in compliance with (a) all Requirements of Law and all judgments, decrees and orders of any Governmental Authority and (b) all indentures, agreements or other instruments binding upon it or its properties, except where non-compliance, either individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

Section 4.7. Investment Company Act. Neither the Borrower nor any of its Subsidiaries is (a) an "investment company" or is "controlled" by an "investment company", as such terms are defined in, or subject to regulation under, the Investment Company Act of 1940, as amended and in effect from time to time, or (b) otherwise subject to any other regulatory scheme limiting its ability to incur debt or requiring any approval or consent from, or registration or filing with, any Governmental Authority in connection therewith.

Section 4.8. Taxes. The Borrower and its Subsidiaries and each other Person for whose Taxes the Borrower or any of its Subsidiaries could become liable have timely filed or caused to be filed all Federal income tax returns and all other material tax returns that are required to be filed by them, and have paid all Taxes shown to be due and payable on such returns or on any assessments made against it or its property and all other Taxes, fees or other charges imposed on it or any of its property by any Governmental Authority, except where the same are currently being contested in good faith by appropriate proceedings and for which the Borrower or such Subsidiary, as the case may be, has set aside on its books adequate reserves in accordance with GAAP.

Section 4.9. Use of Proceeds; Margin Regulations. None of the proceeds of any of the Loans or Letters of Credit will be used, directly or indirectly, for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of such terms under Regulation U or for any purpose that violates the provisions of Regulation T, Regulation U or Regulation X. Neither the Borrower nor any of its Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying "margin stock". The Borrower will use the Revolving Loans and the Swingline Loans for working capital, capital expenditures, dividends, distributions and Permitted Acquisitions not prohibited by this Agreement, for other general corporate purposes of the Borrower and its Subsidiaries and for any other purpose not prohibited by this Agreement. The Borrower will use the proceeds of any Incremental Term Loans or Other Refinancing Term Loans for the purposes set forth in any Incremental Commitment Joinder or Refinancing Amendment.

Section 4.10. ERISA. Except as would not reasonably be expected to have a Material Adverse Effect, each Plan is in substantial compliance in form and operation with its terms and with ERISA and the Code (including, without limitation, the Code provisions compliance with which is necessary for any intended favorable tax treatment) and all other applicable laws and regulations. Each Plan (and each related trust, if any) which is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service to the effect that it meets the requirements of Sections 401(a) and 501(a) of the Code covering all applicable tax law changes, or is comprised of a master or prototype plan that has received a favorable opinion letter from the Internal Revenue Service, and, except as would not reasonably be expected to have a Material Adverse Effect, nothing has occurred since the date of such determination that would adversely affect such determination (or, in the case of a Plan with no determination, nothing has occurred that would adversely affect the issuance of a favorable determination letter or otherwise adversely affect such qualification). No ERISA Event has occurred or is reasonably expected to occur. There exists no Unfunded Pension Liability with respect to any Plan. None of the Borrower, any of its Subsidiaries or any ERISA Affiliate is making or accruing an obligation to make contributions, or has, within any of the five calendar years immediately preceding the date this assurance is given or deemed given, made, or accrued an obligation to make, contributions to any Multiemployer Plan. There are no actions, suits or claims pending against or involving a Plan (other than routine claims for benefits) or, to the knowledge of the Borrower, any of its Subsidiaries or any ERISA Affiliate, threatened in writing, which would reasonably be expected to be asserted successfully against any Plan and, if so asserted successfully, would reasonably be expected either singly or in the aggregate to result in a Material Adverse Effect. Except as would not reasonably be expected either individually or in the aggregate to have a Material Adverse Effect, the Borrower, each of its Subsidiaries and each ERISA Affiliate have made all contributions to or under each Plan and Multiemployer Plan required by law within the applicable time limits prescribed thereby, by the terms of such Plan or Multiemployer Plan, respectively, or by any contract or agreement requiring contributions to a Plan or Multiemployer Plan. No Plan which is subject to Section 412 of the Code or Section 302 of ERISA has applied for or received an extension of any amortization period within the meaning of Section 412 of the Code or Section 303 or 304 of ERISA. None of the Borrower, any of its Subsidiaries or any ERISA Affiliate have ceased operations at a facility so as to become subject to the provisions of Section 4068(a) of ERISA, withdrawn as a substantial employer so as to become subject to the provisions of Section 4063 of ERISA or ceased making contributions to any Plan subject to Section 4064(a) of ERISA to which it made contributions. None of the Borrower or any of its Subsidiaries has established, contributes to or maintains any Non-U.S. Plan.

Section 4.11. Ownership of Property; Insurance.

(a) Each of the Borrower and its Subsidiaries has good title to, or valid leasehold interests in or other right to occupy, all of its real and personal property material to the operation of its business, including all such properties reflected in the most recent audited consolidated balance sheet of the Borrower referred to in Section 4.4 or purported to have been acquired by the Borrower or any of its Subsidiaries after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement. All leases that individually or in the aggregate are material to the business or operations of the Borrower and its Subsidiaries taken as a whole are valid and subsisting and are in full force. The Borrower has delivered to Administrative Agent a true, complete and correct copy of each Master Lease.

(b) Each of the Borrower and its Subsidiaries owns, or is licensed or otherwise has the right to use, all patents, trademarks, service marks, trade names, copyrights and other intellectual property material to its business, and the use thereof by the Borrower and its Subsidiaries does not infringe on the rights of any other Person, except in any manner to the extent that such failure to do so or such infringement would not reasonably be expected to result in a Material Adverse Effect.

(c) The properties of the Borrower and its Subsidiaries are insured with financially sound and reputable insurance companies which are not Affiliates of the Borrower, in such amounts with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where the Borrower or any applicable Subsidiary operates.

(d) Set forth on Schedule 4.11 are all the locations where the Borrower or any other Loan Party (i) maintains fee-owned Real Estate or (ii) maintains leased Real Estate that is leased under any PropCo Master Lease, any Ensign Master Lease or any other lease pursuant to which annual payments are in excess of $2,000,000.

Section 4.12. Disclosure. None of the reports (including, without limitation, all reports that the Borrower is required to file with the Securities and Exchange Commission), financial statements (including, for the avoidance of doubt, the pro forma financial statements referred to in Section 3.1(b)(viii)(C)), certificates or other information furnished by or on behalf of the Borrower to the Administrative Agent or any Lender in connection with the negotiation or syndication of this Agreement or any other Loan Document or delivered hereunder or thereunder (as modified or supplemented by any other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, taken as a whole in light of the circumstances under which they were made, not materially misleading; provided that, with respect to projected financial information, the Borrower represents only that such projected information was prepared in good faith based upon assumptions believed to be reasonable at the time, it being understood and agreed that such projected information is subject to contingencies and assumptions, many of which are not within the control of the Borrower, and no assurances can be given that any projections will be realized, and any divergences from projected results may be material. As of the Closing Date, the information included in the Beneficial Ownership Certification is true and correct in all respects.

Section 4.13. Labor Relations. There are no strikes, lockouts or other labor disputes or grievances against the Borrower or any of its Subsidiaries, or, to the Borrower's knowledge, threatened in writing against or affecting the Borrower or any of its Subsidiaries, and no unfair labor practice charges or grievances are pending against the Borrower or any of its Subsidiaries, or, to the Borrower's knowledge, threatened in writing against any of them before any Governmental Authority, in each case, that would, either individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect. All payments due from the Borrower or any of its Subsidiaries pursuant to the provisions of any collective bargaining agreement have been paid or accrued as a liability on the books of the Borrower or any such Subsidiary, except where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 4.14. Subsidiaries. As of the Closing Date and as of each date on which such schedule is subsequently updated pursuant to the terms of this Agreement, Schedule 4.14 sets forth the name of, the ownership interest of the applicable owner in, the jurisdiction of incorporation or organization of, and the type of each Subsidiary of the Borrower and the other Loan Parties and identifies each Subsidiary that is a Subsidiary Loan Party and each Subsidiary that is an Excluded Subsidiary.

Section 4.15. Solvency. After giving effect to the execution and delivery of the Loan Documents and the other Related Transaction Documents and the making of the Loans under this Agreement and the consummation of the other Related Transactions, the Borrower is, and the Borrower and its Subsidiaries, on a consolidated basis, are, Solvent.

Section 4.16. [Reserved].

Section 4.17. Collateral Documents.

(a) The Guaranty and Security Agreement is effective to create in favor of the Administrative Agent for the ratable benefit of the Secured Parties a legal, valid and enforceable security interest in the Collateral (as defined therein), and when UCC financing statements in appropriate form are filed in the offices specified on Schedule 3 to the Guaranty and Security Agreement, the Guaranty and Security Agreement shall constitute a fully perfected Lien (to the extent that such Lien may be perfected by the filing of a UCC financing statement) on, and security interest in, all right, title and interest of the grantors thereunder in such Collateral, in each case prior and superior in right to any other Person, other than with respect to Liens expressly permitted by Section 7.2. When the certificates evidencing all Capital Stock pledged pursuant to the Guaranty and Security Agreement are delivered to the Administrative Agent, together with appropriate stock powers or other similar instruments of transfer duly executed in blank, the Liens in such Capital Stock shall be fully perfected first priority security interests, perfected by "control" as defined in the UCC.

(b) When the filings in subsection (a) of this Section are made and when, if applicable, the Patent Security Agreements and the Trademark Security Agreements are filed in the United States Patent and Trademark Office and the Copyright Security Agreements are filed in the United States Copyright Office, the Guaranty and Security Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the Loan Parties in the Patents, Trademarks and Copyrights, if any, in which a security interest may be perfected by filing, recording or registering a security agreement, financing statement or analogous document in the United States Patent and Trademark Office or the United States Copyright Office, as applicable, in each case prior and superior in right to any other Person, subject to inchoate Liens permitted hereunder that do not secure Indebtedness.

(c) Each Mortgage, when duly executed and delivered by the relevant Loan Party, will be effective to create in favor of the Administrative Agent for the ratable benefit of the Secured Parties a legal, valid and enforceable Lien on all of such Loan Party's right, title and interest in and to the Real Estate of such Loan Party covered thereby and the proceeds thereof, and when such Mortgage is filed in the real estate records where the respective Mortgaged Property is located, such Mortgage shall give constructive notice to third parties of the Lien and security interest created by such Mortgage on all right, title and interest of such Loan Party in such Real Estate and the proceeds thereof, in each case prior and superior in right to any other Person, other than with respect to Liens expressly permitted by Section 7.2.

(d) No Mortgage encumbers improved real property that is located in an area that has been identified by the Secretary of Housing and Urban Development as an area having special flood hazards and in which flood insurance has been made available under the Flood Insurance Laws, except to the extent that the applicable Loan Party maintains flood insurance with respect to such improved real property in compliance with the requirements of Section 5.8.

Section 4.18. [Reserved].

Section 4.19. Healthcare Matters.

(a) Compliance with Health Care Laws. The Borrower and each of its Subsidiaries is, and at all times during the four calendar years immediately preceding the Closing Date has been, in compliance with all Health Care Laws and requirements of Third Party Payor Programs applicable to it, its assets, business or operations, except where the failure to do so has not had or could not reasonably be expected to have, in the aggregate, a Material Adverse Effect. No circumstance exists or event has occurred which could result in a violation of any Health Care Law or any requirement of any Third Party Payor Program that could reasonably be expected to result in a Material Adverse Effect.

(b) Health Care Permits. The Borrower and each of its Subsidiaries holds, and at all times during the four calendar years immediately preceding the Closing Date has held, all Health Care Permits necessary for it to own, lease, sublease or operate its assets or to conduct its business or operations for the period covered by such Health Care Permit. All such Health Care Permits are, and at all times during the four calendar years immediately preceding the Closing Date have been, in full force and effect and there is and has been no material default under, violation of, or other noncompliance with the terms and conditions of any such Health Care Permit. No condition exists or event has occurred which, in itself or with the giving of notice or lapse of time or both, has resulted or would result in the suspension, revocation, termination, restriction, limitation, modification or non-renewal of any Health Care Permit that could reasonably be expected to have, in the aggregate, a Material Adverse Effect. Other than as set forth on Schedule 4.19, no Governmental Authority has taken, or to the knowledge of the Borrower or any of its Subsidiaries intends to take, action to suspend, revoke, terminate, place on probation, restrict, limit, modify or not renew any Health Care Permit of the Borrower or any of its Subsidiaries. As of the Closing Date, Schedule 4.19 sets forth an accurate, complete and current list of all material Health Care Permits, and all Third Party Payor Authorizations for Third Party Payor Programs in which the Borrower or any of its Subsidiaries participates.

(c) Third Party Payor Authorizations. The Borrower and each of its Subsidiaries holds, and at all times during the four calendar years immediately preceding the Closing Date has held, in full force and effect, all Third Party Payor Authorizations necessary to participate in and be reimbursed by all Third Party Payor Programs in which the Borrower or any of its Subsidiaries participates, except where the failure to do so has not had or could not reasonably be expected to have, in the aggregate, a Material Adverse Effect. There is no investigation, audit, claim review, or other action pending or, to the knowledge of the Borrower or any of its Subsidiaries, threatened in writing, which could result in a suspension, revocation, termination, restriction, limitation, modification or non-renewal of any Third Party Payor Authorization or result in the exclusion of the Borrower or any of its Subsidiaries from any Third Party Payor Program that could reasonably be expected to have, in the aggregate, a Material Adverse Effect.

(d) Licensed Personnel. The Licensed Personnel have complied and currently are in compliance with all applicable Health Care Laws and hold, and, at all times that such Persons have been Licensed Personnel of the Borrower or any of its Subsidiaries, have held, all professional licenses and other Health Care Permits and all Third Party Payor Authorizations required in the performance of such Licensed Personnel's duties for the Borrower or any of its Subsidiaries, and each such Health Care Permit and Third Party Payor Authorization is in full force and effect and, to the knowledge of the Borrower and its Subsidiaries, no suspension, revocation, termination, impairment, modification or non-renewal of any such Health Care Permit or Third Party Payor Authorization is pending or threatened in writing, except where the failure to do so has not had or could not reasonably be expected to have, in the aggregate, a Material Adverse Effect.

(e) Accreditation. The Borrower and each of its Subsidiaries has obtained and maintains accreditation in good standing and without limitation or impairment by all applicable accrediting organizations, to the extent prudent and customary in the industry in which it is engaged or required by law (including any foreign law or equivalent regulation), except where the failure to have or maintain such accreditation in good standing or imposition of limitation or impairment would not have, in the aggregate, a Material Adverse Effect.

(f) Proceedings; Audits. There are no pending (or, to the knowledge of the Borrower or any of its Subsidiaries, threatened) Proceedings against or affecting the Borrower or any of its Subsidiaries or, to the knowledge of the Borrower or any of its Subsidiaries, any Licensed Personnel, relating to any actual or alleged non-compliance with any Health Care Law or requirement of any Third Party Payor Program, in each case, that could reasonably be expected to have, in the aggregate, a Material Adverse Effect. There are no facts, circumstances or conditions that would reasonably be expected to form the basis for any such Proceeding against or affecting any Loan Party or, to the knowledge of the Borrower or any of its Subsidiaries, any Licensed Personnel that could reasonably be expected to have, in the aggregate, a Material Adverse Effect. There currently exist no restrictions, deficiencies, required plans of correction or other such remedial measures with respect to any Health Care Permit of the Borrower or any of its Subsidiaries, or the participation by the Borrower or any of its Subsidiaries in any Third Party Payor Program, in each case, that could reasonably be expected to have, in the aggregate, a Material Adverse Effect. Without limiting the foregoing, no validation review, program integrity review, audit or other investigation related to the Borrower or any of its Subsidiaries or its operations, or the consummation of the transactions contemplated in the Loan Documents or related to the Collateral, (i) has been conducted by or on behalf of any Governmental Authority, or (ii) is scheduled, pending or, to the knowledge of the Borrower or any of its Subsidiaries, threatened in writing, in each case that could reasonably be expected to have, in the aggregate, a Material Adverse Effect.

(g) Overpayments. Neither the Borrower nor any of its Subsidiaries (i) has knowingly retained an overpayment received from, or failed to refund any amount due to, any Third Party Payor in material violation of any Health Care Law or contract; or (ii) except as set forth on Schedule 4.19, has received written notice of, or has knowledge of, any material overpayment or refunds due to any Third Party Payor.

(h) Material Statements. Neither the Borrower nor any of its Subsidiaries, nor any officer, Affiliate, employee or agent of the Borrower or any of its Subsidiaries, has made an untrue statement of a material fact or fraudulent statement to any Governmental Authority, failed to disclose a material fact that must be disclosed to any Governmental Authority, or committed an act, made a statement or failed to make a statement that, at the time such statement, disclosure or failure to disclose occurred, in each case, that could reasonably be expected to have, in the aggregate, a Material Adverse Effect.

(i) Prohibited Transactions. Except as where any of the following could not be reasonably expected to result in a Material Adverse Effect, neither the Borrower nor any of its Subsidiaries, nor any officer, Affiliate or managing employee of the Borrower or any of its Subsidiaries, directly or indirectly, has (i) offered or paid or solicited or received any remuneration, in cash or in kind, or made any financial arrangements, in violation of any Health Care Law; (ii) given or agreed to give, or is aware that there has been made or that there is any agreement to make, any gift or gratuitous payment of any kind, nature or description (whether in money, property or services) in violation of any Health Care Law; (iii) made or agreed to make, or is aware that there has been made or that there is any agreement to make, any contribution, payment or gift of funds or property to, or for the private use of, any governmental official, employee or agent where either the contribution, payment or gift or the purpose of such contribution, payment or gift is or was illegal under the laws of any Governmental Authority having jurisdiction over such payment, contribution or gift; (iv) established or maintained any unrecorded fund or asset for any purpose or made any misleading, false or artificial entries on any of its books or records for any reason; or (v) made, or agreed to make, or is aware that there has been made or that there is any agreement to make, any payment to any person with the intention or understanding that any part of such payment would be in violation of any Health Care Law or used or was given for any purpose other than that described in the documents supporting such payment. To the knowledge of the Borrower and its Subsidiaries, no Person has filed or has threatened in writing to file against the Borrower, any of its Subsidiaries or any of their Affiliates an action under any federal or state whistleblower statute, including, without limitation, under the False Claims Act of 1863 (31 U.S.C. § 3729 et seq.), to the extent such a filing, if adversely determined, would reasonably be expected to result in a Material Adverse Effect.

(j) Exclusion. Except as where any of the following could not be reasonably expected to result in a Material Adverse Effect, neither the Borrower nor any of its Subsidiaries, nor any owner, officer, director, partner, agent, managing employee or Person with a "direct or indirect ownership interest" (as that phrase is defined in 42 C.F.R. § 420.201) in the Borrower or any of its Subsidiaries, nor any Licensed Personnel of the Borrower or any of its Subsidiaries, has been (or has been threatened to be) (i) excluded from any Third Party Payor Program pursuant to 42 U.S.C. § 1320a-7 and related regulations, (ii) "suspended" or "debarred" from selling products to the U.S. government or its agencies pursuant to the Federal Acquisition Regulation, relating to debarment and suspension applicable to federal government agencies generally (42 C.F.R. Subpart 9.4), or other applicable laws or regulations, (iii) debarred, disqualified, suspended or excluded from participation in any Third Party Payor Program or is listed on the General Services Administration list of excluded parties, nor is any such debarment, disqualification, suspension or exclusion threatened or pending, or (iv) made a party to any other action by any Governmental Authority that may prohibit it from selling products or providing services to any governmental or other purchaser pursuant to any federal, state or local laws or regulations.

Section 4.20. Sanctions. Neither any Loan Party nor any of its Subsidiaries or Affiliates or, to the knowledge of any Loan Party, any of their respective directors, officers, employees or agents, is an individual or entity that is, or is owned or controlled by any individual or entity that is, (i) currently the subject or target of any Sanctions, (ii) a Sanctioned Person or (iii) located, organized or resident in a Sanctioned Country.

Section 4.21. Anti-Corruption Laws. The Loan Parties and their Subsidiaries and Affiliates have conducted their businesses in compliance in all material respects with the United States Foreign Corrupt Practices Act of 1977, the UK Bribery Act of 2010, and other similar and applicable anti-corruption legislation or laws in other jurisdictions and have instituted and maintained policies and procedures designed to promote and achieve compliance with such laws.

Section 4.22. Patriot Act. Neither any Loan Party nor any of its Subsidiaries is an "enemy" or an "ally of the enemy" within the meaning of Section 2 of the Trading with the Enemy Act or any enabling legislation or executive order relating thereto. Neither any Loan Party nor any or its Subsidiaries is in violation of (a) the Trading with the Enemy Act, (b) any of the foreign assets control regulations of the United States Treasury Department (31 C.F.R., Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto or (c) the Patriot Act. None of the Loan Parties (i) is a blocked person described in Section 1 of the Anti-Terrorism Order or (ii) to the best of its knowledge, engages in any dealings or transactions, or is otherwise associated, with any such blocked person.

Section 4.23. EEA Financial Institutions. Neither the Borrower nor any Subsidiary is an EEA Financial Institution.

ARTICLE V

AFFIRMATIVE COVENANTS

The Borrower covenants and agrees that until Payment in Full of the Obligations:

Section 5.1. Financial Statements and Other Information. The Borrower will deliver to the Administrative Agent:

(a) as soon as available and in any event within 90 days after the end of each Fiscal Year of the Borrower (or if the Borrower is no longer required to file periodic reports under Section 13(a) or Section 15(d) of the Exchange Act, then 120 days after the end of each Fiscal Year) (commencing with the Fiscal Year ending December 31, 2019), a copy of the annual audited report for such Fiscal Year for the Borrower and its Subsidiaries, containing a consolidated balance sheet of the Borrower and its Subsidiaries as of the end of such Fiscal Year and the related consolidated statements of income, stockholders' equity and cash flows (together with all footnotes thereto) of the Borrower and its Subsidiaries for such Fiscal Year, setting forth in each case in comparative form the figures for the previous Fiscal Year, all in reasonable detail and reported on by Deloitte & Touche, LLP or other independent public accountants of nationally recognized standing (without a "going concern" or like qualification, exception or explanation and without any qualification or exception as to the scope of such audit (other than any "going concern" or similar qualification or exception related to the maturity or refinancing of the Obligations)) to the effect that such financial statements present fairly in all material respects the financial condition and the results of operations of the Borrower and its Subsidiaries for such Fiscal Year on a consolidated basis in accordance with GAAP, and that the examination by such accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards;

(b) as soon as available and in any event within 45 days after the end of each of the first three Fiscal Quarters of the Borrower (or if the Borrower is no longer required to file periodic reports under Section 13(a) or Section 15(d) of the Exchange Act, then 60 days after the end of each Fiscal Quarter) (commencing with the Fiscal Quarter ending September 30, 2019), an unaudited consolidated balance sheet of the Borrower and its Subsidiaries as of the end of such Fiscal Quarter and the related unaudited consolidated statements of income and cash flows of the Borrower and its Subsidiaries for such Fiscal Quarter and the then elapsed portion of such Fiscal Year, setting forth in each case in comparative form the figures for the corresponding Fiscal Quarter and the corresponding portion of the Borrower's previous Fiscal Year;

(c) concurrently with the delivery of the financial statements referred to in subsections (a) and (b) of this Section, a Compliance Certificate signed by the principal executive officer or the principal financial officer of the Borrower (i) certifying that such financial statements fairly present the financial condition, results of operations, shareholders' equity and cash flows of the Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP, in the case of quarterly financial statements subject only to normal year-end audit adjustments and the absence of footnotes, (ii) certifying as to whether there exists a Default or Event of Default on the date of such certificate and, if a Default or an Event of Default then exists, specifying the details thereof and the action which the Borrower has taken or proposes to take with respect thereto, (iii) setting forth in reasonable detail calculations demonstrating compliance with the financial covenants set forth in Article VI (beginning with the Fiscal Quarter ended September 30, 2019), (iv) specifying any change in the identity of the Borrower or any of its Subsidiaries as of the end of such Fiscal Year or Fiscal Quarter from the Borrower or any of its Subsidiaries identified to the Lenders on the Closing Date or as of the most recent Fiscal Year or Fiscal Quarter, as the case may be, (v) stating whether any change in GAAP or the application thereof has occurred since the date of the mostly recently delivered audited financial statements of the Borrower and its Subsidiaries, and, if any change has occurred, specifying the effect of such change on the financial statements accompanying such Compliance Certificate, (vi) setting forth a list of all Subsidiaries of the Borrower (other than Excluded Subsidiaries and Specified Subsidiaries) that are not Subsidiary Loan Parties as of such date and setting forth in reasonable detail calculations of total assets of such Subsidiaries as of such date (and the percentage obtained by dividing such total assets by the total assets of the Borrower and its Subsidiaries (other than Excluded Subsidiaries) as of such date) and the total revenue of such Subsidiaries for the Test Period then ended (and the percentage obtained by dividing such total revenue by the total revenue of the Borrower and its Subsidiaries (other than Excluded Subsidiaries) for the Test Period then ended)and (vii) setting forth a list of all Excluded Subsidiaries as of such date and setting forth in reasonable detail calculations of (x) Indebtedness of such

Excluded Subsidiaries incurred pursuant to Section 7.1(h) that remains outstanding as of such date, (y) the total amount of Investments made in Excluded Subsidiaries pursuant to Section 7.4(h) as of such date and (z) that portion of Consolidated EBITDA that is attributable to such Excluded Subsidiaries (and their respective Subsidiaries) with respect to the applicable Fiscal Year or Fiscal Quarter end;

(d) as soon as available and in any event within 60 days after the end of the calendar year, a budget for the succeeding Fiscal Year, containing an income statement, balance sheet and statement of cash flow;

(e) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed with the Securities and Exchange Commission, or any Governmental Authority succeeding to any or all functions of said Commission, or with any national securities exchange, or distributed by the Borrower to its shareholders generally, as the case may be; and

(f) promptly following any request therefor, such other information regarding the results of operations, business affairs and financial condition of the Borrower or any of its Subsidiaries (including information and documentation for purposes of compliance with applicable "know your customer" and anti-money-laundering rules and regulations, including, without limitation, the Patriot Act and the Beneficial Ownership Regulation) as the Administrative Agent may reasonably request (provided that no such information shall be required to be provided if providing such information would violate confidentiality agreements or result in a loss of attorney-client privilege or a claim of attorney work product with respect to such information so long as the Borrower notifies the Administrative Agent that such information is being withheld and the reason therefor).

So long as the Borrower is required to file periodic reports under Section 13(a) or Section 15(d) of the Exchange Act, the Borrower shall be deemed to have satisfied its obligation to deliver the financial statements referred to in clauses (a), (b) and (e) upon the filing of such reports with the Securities and Exchange Commission.

Section 5.2. Notices of Material Events. The Borrower will furnish to the Administrative Agent (for distribution to each Lender) prompt written notice of the following:

(a) the occurrence of any Default or Event of Default;

(b) the filing or commencement of, or any material development in, any action, suit, proceeding, audit, claim, demand, order or dispute with, by or before any arbitrator or Governmental Authority against or, to the knowledge of the Borrower, affecting the Borrower or any of its Subsidiaries that (i) seeks injunctive or similar relief, (ii) alleges potential or actual violations of any Health Care Law by the Borrower or any of its Subsidiaries or any of its Licensed Personnel and (iii) would, either individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect;

(c) the occurrence of any event or any other development by which the Borrower or any of its Subsidiaries (i) fails to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) becomes subject to any Environmental Liability, (iii) receives notice of any claim with respect to any Environmental Liability, or (iv) becomes aware of any basis for any Environmental Liability, in each case which, either individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect;

(d) promptly and in any event within 15 days after (i) the Borrower, any of its Subsidiaries or any ERISA Affiliate knows or has reason to know that any ERISA Event has occurred, a certificate of the chief financial officer of the Borrower describing such ERISA Event and the action, if any, proposed to be taken with respect to such ERISA Event and a copy of any notice filed with the PBGC

or the IRS pertaining to such ERISA Event and any notices received by the Borrower, such Subsidiary or such ERISA Affiliate from the PBGC or any other governmental agency with respect thereto, and (ii) becoming aware (1) that there has been a material increase in Unfunded Pension Liabilities (not taking into account Plans with negative Unfunded Pension Liabilities) since the date the representations hereunder are given or deemed given, or from any prior notice, as applicable, (2) of the existence of any material Withdrawal Liability, (3) of the adoption of, or the commencement of contributions to, any Plan subject to Section 412 of the Code by the Borrower, any of its Subsidiaries or any ERISA Affiliate, or (4) of the adoption of any amendment to a Plan subject to Section 412 of the Code which results in a material increase in contribution obligations of the Borrower, any of its Subsidiaries or any ERISA Affiliate, a detailed written description thereof from the chief financial officer of the Borrower;

(e) the occurrence of any event of default, or the receipt by the Borrower or any of its Subsidiaries of any written notice of an alleged event of default, with respect to any Material Indebtedness of the Borrower or any of its Subsidiaries;

(f) any termination, expiration or loss of any Material Agreement that, individually or in the aggregate, could reasonably be expected to result in a reduction in Consolidated EBITDA of 10% or more on a consolidated basis from the prior Fiscal Year; and

(g) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect.

The Borrower will furnish to the Administrative Agent and each Lender the following:

(x) notice of any change (i) in any Loan Party's legal name (but, for the avoidance of doubt, excluding any trade names), (ii) in any Loan Party's chief executive office, (iii) in any Loan Party's organizational existence or (iv) in any Loan Party's federal taxpayer identification number or organizational number or jurisdiction of organization, in each case, prior to or concurrently with such change; and

(y) promptly and in any event no later than three (3) Business Days after any Responsible Officer of the Borrower or any of its Subsidiaries has actual knowledge of:

(i) the voluntary disclosure by the Borrower or any of its Subsidiaries to the Office of the Inspector General of the United States Department of Health and Human Services, or any Third Party Payor Program (including to any intermediary, carrier or contractor of such Program), of an actual overpayment matter involving the submission of claims to a Third Party Payor in an amount greater than $1,000,000;

(ii) that the Borrower or any of its Subsidiaries, or an owner, officer, manager, employee or Person with a "direct or indirect ownership interest" (as that phrase is defined in 42 C.F.R. §420.201) in the Borrower or any of its Subsidiaries, (i) has had a civil monetary penalty assessed against him or her pursuant to 42 U.S.C. §1320a-7a or is the subject of a proceeding seeking to assess such penalty; (ii) has been excluded from participation in a Federal Health Care Program (as that term is defined in 42 U.S.C. §1320a-7b) or is the subject of a proceeding seeking to assess such penalty; (iii) has been convicted (as that term is defined in 42 C.F.R. §1001.2) of any of those offenses described in 42 U.S.C. §1320a-7b or 18 U.S.C. §§669, 1035, 1347, 1518 or is the subject of a proceeding seeking to assess such penalty; or (iv) has been involved or named in a U.S. Attorney complaint made or any other action taken pursuant to the False Claims Act under 31 U.S.C. §§3729-3731 or in any qui tam action brought pursuant to 31 U.S.C. §3729 et seq.;

(iii) any claim to recover any alleged overpayments (other than any such claim made against the Borrower or any of its Subsidiaries that relates to a period during which the Borrower or such Subsidiary did not operate the respective facility) with respect to any receivables in excess of $500,000;

(iv) notice of any final and documented material reduction in the level of reimbursement expected to be received with respect to receivables;

(v) any allegations of licensure violations or fraudulent acts or omissions involving the Borrower or any of its Subsidiaries, or, to the knowledge of the Borrower or any of its Subsidiaries, any Licensed Personnel that would, in the aggregate, have a Material Adverse Effect;

(vi) the pending or threatened imposition of any material fine or penalty by any Governmental Authority under any Health Care Law against the Borrower or any of its Subsidiaries, or, to the knowledge of the Borrower or any of its Subsidiaries, any Licensed Personnel;

(vii) any changes in any Health Care Law (including the adoption of a new Health Care Law) known to the Borrower or any of its Subsidiaries that would, in the aggregate, have a Material Adverse Effect;

(viii) any pending or threatened (in writing) revocation, suspension, termination, probation, restriction, limitation, denial, or non-renewal with respect to any Health Care Permit or Third Party Payor Authorization;

(ix) any non-routine and material inspection of any facility of the Borrower or any of its Subsidiaries by any Governmental Authority; and

(x) without duplication, any failure of the Borrower or any of its Subsidiaries to comply with the covenants and conditions of Section 5.15.

Each notice or other document delivered under this Section shall be accompanied by a written statement of a Responsible Officer setting forth the details of the event or development requiring such notice or other document and any action taken or proposed to be taken with respect thereto.

Section 5.3. Existence; Conduct of Business. The Borrower will, and will cause each of its Subsidiaries to, do or cause to be done all things necessary to (i) maintain in full force and effect its legal existence and (ii) preserve, renew and maintain its respective rights, licenses, permits, privileges, franchises, patents, copyrights, trademarks and trade names material to the conduct of its business (except, in the case of this clause (ii), as would not reasonably be expected to result in a Material Adverse Effect); provided that nothing in this Section shall prohibit any merger, consolidation, liquidation or dissolution permitted under Section 7.3.

Section 5.4. Compliance with Laws. The Borrower will, and will cause each of its Subsidiaries to, comply with all laws, rules, regulations and requirements of any Governmental Authority applicable to its business and properties, including, without limitation, all Environmental Laws, ERISA and OSHA, except where the failure to do so, either individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. The Borrower will, and will cause each of its Subsidiaries to, comply in all material respects with the laws, rules, regulations and requirements referenced in Sections 4.20, 4.21, and 4.22.

Section 5.5. Payment of Obligations. The Borrower will, and will cause each of its Subsidiaries to, pay and discharge at or before maturity all of its obligations and liabilities (including, without limitation, all taxes, assessments and other governmental charges, levies and all other claims that could result in a statutory Lien) before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings and the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP or (b) the failure to make any such payment could not reasonably be expected to result in a Material Adverse Effect.

Section 5.6. Books and Records. The Borrower will, and will cause each of its Subsidiaries to, keep proper books of record and account in which full, true and correct entries shall be made of all dealings and transactions in relation to its business and activities to the extent necessary to prepare the consolidated financial statements of the Borrower in conformity with GAAP.

Section 5.7. Visitation and Inspection. The Borrower will, and will cause each of its Subsidiaries to, permit any representative of the Administrative Agent or any Lender to visit and inspect its properties, to examine its books and records and to make copies and take extracts therefrom, and to discuss its affairs, finances and accounts with any of its officers and with its independent certified public accountants, all at such reasonable times as the Administrative Agent or any Lender may reasonably request after reasonable prior notice to the Borrower; provided that (a) so long as no Event of Default shall have occurred and be continuing, the Administrative Agent and the Lenders shall not make more than one (1) such visit and inspection in any Fiscal Year; (b) if an Event of Default has occurred and is continuing, no prior notice shall be required and the limitation on the number of visits and inspections shall no longer apply; (c) any such inspection and examination, copies and discussions shall not be permitted to the extent it would violate confidentiality agreements or result in a loss of attorney-client privilege or claim of attorney work product so long as the Borrower notifies the Administrative Agent of such limitation and the reason therefor; and (d) any such inspection and examination, copies and discussions shall be subject to the terms of any applicable Master Lease and the accompanying Collateral Access Agreement.

Section 5.8. Maintenance of Properties; Insurance. The Borrower will, and will cause each of its Subsidiaries to, (a) keep and maintain all property material to the conduct of its business in good working order and condition, ordinary wear and tear, force majeure, casualty and condemnation events excepted, (b) maintain with financially sound and reputable insurance companies, or with Affiliates of the Borrower (as permitted in Section 4.11(c)(ii)), (i) insurance with respect to its properties and business, and the properties and business of its Subsidiaries, against loss or damage of the kinds customarily insured against by companies in the same or similar businesses operating in the same or similar locations (including, in any event, flood insurance as described in the definition of Real Estate Documents for any Mortgaged Property) and (ii) all insurance required to be maintained pursuant to the Collateral Documents, and will, upon request of the Administrative Agent, furnish to each Lender a certificate of a Responsible Officer setting forth the nature and extent of all insurance maintained by the Borrower and its Subsidiaries in accordance with this Section, and (c) at all times shall name the Administrative Agent as additional insured on all liability policies of the Borrower and the other Loan Parties and as loss payee (pursuant to a loss payee endorsement approved by the Administrative Agent) on all casualty and property insurance policies of the Borrower and the other Loan Parties; provided that, so long as no Event of Default shall have occurred and be continuing, the Administrative Agent shall not make more than two requests for a certificate pursuant to clause (b)(ii) of this Section in any Fiscal Year; provided, further, that if an Event of Default has occurred and is continuing, the limitation on the number of requests for such a certificate shall no longer apply.

Section 5.9. Use of Proceeds; Margin Regulations. The Borrower (i) will use the proceeds of the initial Borrowing(s) on the Closing Date to pay transaction costs and expenses arising in connection with this Agreement and the Related Transactions and for working capital and other general corporate purposes, and (ii) after the Closing Date, will use the proceeds of the Revolving Loans and the Swingline Loans for working capital, capital expenditures, dividends, distributions and Permitted Acquisitions not prohibited by this Agreement, for other general corporate purposes of the Borrower and its Subsidiaries and for any other purpose not prohibited by this Agreement. The Borrower will use the proceeds of any Incremental Term Loans or Other Refinancing Term Loans for the purposes set forth in the applicable

Incremental Commitment Joinder or Refinancing Amendment. No part of the proceeds of any Loan will be used, whether directly or indirectly, for any purpose that would violate any rule or regulation of the Board of Governors of the Federal Reserve System, including Regulation T, Regulation U or Regulation X. All Letters of Credit will be used for general corporate purposes.

Section 5.10. [Reserved].

Section 5.11. Cash Management.

(a) The Borrower shall, and shall cause each Loan Party to, execute and deliver to the Administrative Agent, and thereafter maintain in effect, Control Account Agreements with respect to all deposit accounts and securities accounts (other than any (i) such accounts that are used solely to fund payroll and payroll taxes and other employee wage and benefit payments in the ordinary course of business on a current basis, (ii) escrow accounts (to the extent maintained exclusively by any Loan Party for the purpose of establishing or maintaining escrow amounts for third parties), (iii) trust accounts (to the extent maintained exclusively by any Loan Party for the purpose of establishing or maintaining trust amounts for third parties), (iv) such accounts not located in the United States or any of its states or territories, (v) zero-balance accounts for the purpose of managing local disbursements, payroll, withholding and other fiduciary accounts, (vi) Lender Accounts, (vii) such accounts (other than such accounts referred to in the foregoing clauses (i) through (vi)) that have an average daily account balance of less than $500,000 individually and less than $1,000,000 in the aggregate for all such accounts, (viii) any deposit or securities account established by a Subsidiary of the Borrower, and into which amounts are deposited, in the ordinary course of business the balance of which is swept at the end of each Business Day into a Controlled Account or a Lender Account and (ix) Governmental Deposit Accounts) (each, a "Controlled Account"); each Controlled Account shall be a cash collateral account, with all cash, checks and other similar items of payment in such account securing payment of the Obligations, and in which the Borrower and each other Loan Party shall have granted a first priority Lien to the Administrative Agent, on behalf of the Secured Parties, pursuant to such Control Account Agreements.

(b) The Borrower shall, and shall cause each Loan Party to, execute and deliver to the Administrative Agent, and thereafter maintain in effect, a "sweep" agreement (each, a "Sweep Agreement") with respect to each Governmental Deposit Account pursuant to which the applicable depository bank will agree to sweep amounts deposited therein on a daily basis to a Controlled Account or a Lender Account as and when funds clear and become available in accordance with such depository bank's customary procedures, each with such financial institution and each in form and substance reasonably acceptable to the Administrative Agent; no Loan Party will change any sweep instruction set forth in such Sweep Agreement without the prior written consent of the Administrative Agent. The Administrative Agent agrees and confirms that the Loan Parties will have sole dominion and "control" (within the meaning of Section 9-104 of the UCC and the common law) over each Governmental Deposit Account and all funds therein and the Administrative Agent disclaims any right of any nature whatsoever to control or otherwise direct or make any claim against the funds held in any Governmental Deposit Account from time to time.

(c) The Borrower shall, and shall cause each Loan Party to, deposit promptly, and in any event no later than 10 Business Days after the date of receipt thereof, all cash, checks, drafts or other similar items of payment relating to or constituting payments made in respect of any and all accounts and other Collateral into Controlled Accounts, Lender Accounts or Governmental Deposit Accounts, in each case except for cash and Permitted Investments the aggregate value of which does not exceed $250,000 at any time.

(d) At any time after the occurrence and during the continuance of an Event of Default, at the request of the Required Lenders, the Borrower will, and will cause each other Loan Party to, cause all payments constituting proceeds of accounts or other Collateral to be directed into lockbox accounts under agreements in form and substance satisfactory to the Administrative Agent.

Section 5.12. Additional Subsidiaries and Collateral.

(a) In the event that, subsequent to the Closing Date, any Person becomes a Domestic Subsidiary that is a Material Subsidiary (excluding any Excluded Subsidiary, any Specified Subsidiary and any Subsidiary that is already a Guarantor) (a "Joining Guarantor"), whether pursuant to formation, acquisition or otherwise (including if any Domestic Subsidiary ceases to qualify as an Immaterial Subsidiary or is the subject of an Excluded Subsidiary Revocation) (x) the Borrower shall promptly notify the Administrative Agent and the Lenders thereof and of any Material Real Estate owned by such Joining Guarantor and (y) within 60 days (or such longer period as may be agreed to by the Administrative Agent in its sole discretion) after such Person becomes a Joining Guarantor, the Borrower shall cause such Joining Guarantor (A) to become a new Guarantor and to grant Liens in favor of the Administrative Agent in all of its personal property subject to the Guaranty and Security Agreement by executing and delivering to the Administrative Agent a supplement to the Guaranty and Security Agreement in form and substance reasonably satisfactory to the Administrative Agent, executing and delivering a Copyright Security Agreement, Patent Security Agreement and Trademark Security Agreement, as and to the extent applicable, and authorizing and delivering, at the request of the Administrative Agent, such UCC financing statements or similar instruments required by the Administrative Agent to perfect the Liens in favor of the Administrative Agent and granted under any of the Loan Documents, (B) to deliver all such other documentation (including, without limitation, certified organizational documents, resolutions, lien searches and, if requested by the Administrative Agent, legal opinions, provided, that legal opinions shall only be required for a Joining Guarantor having a fair market value in excess of $25,000,000) and to take all such other actions as such Joining Guarantor would have been required to deliver and take pursuant to Section 3.1 if such Joining Guarantor had been a Loan Party on the Closing Date, (C) to comply with Section 5.11, and (D) to deliver Collateral Access Agreements with respect to leased Real Estate (to the extent the landlord of any such leased Real Estate is a PropCo Landlord, an Ensign Landlord or a landlord under a Material Master Lease), in each case, of the type required under Section 5.13, (ii) pledge, or cause the applicable Loan Party to pledge, all of the Capital Stock of such Joining Guarantor to the Administrative Agent as security for the Obligations by executing and delivering a supplement to the Guaranty and Security Agreement in form and substance reasonably satisfactory to the Administrative Agent, and (iii) deliver the original certificates (if any and to the extent not prohibited under applicable law) evidencing such pledged Capital Stock to the Administrative Agent, together with appropriate powers executed in blank. In addition, subject to Section 5.13(b), if a Mortgage Trigger Event has occurred prior to such Joining Guarantor becoming a Loan Party, within 60 days (or such longer period as may be agreed to by the Administrative Agent in its sole discretion) after such Joining Guarantor becomes a Loan Party, the Borrower shall cause such Joining Guarantor to execute and deliver to the Administrative Agent, with respect to all Material Real Estate owned by such Loan Party, such Real Estate Documents as the Administrative Agent shall require; provided that no owned Real Estate shall be taken as Collateral unless (i) the Administrative Agent and all Lenders have received at least 45 days advance written notice (which may be provided via email or via posting on any datasite to which the Lenders have access) thereof and (ii) each Lender has notified (which notice may be provided via email) the Administrative Agent that such Lender has completed its flood insurance due diligence and compliance procedures.

(b) In the event that, subsequent to the Closing Date, any Person becomes a Foreign Subsidiary or a Subsidiary that is a Pass-Through Foreign Holdco (in each case, other any Excluded Subsidiary or Immaterial Subsidiary) that is directly owned by a Loan Party, whether pursuant to formation, acquisition or otherwise, (x) the Borrower shall promptly notify the Administrative Agent and the Lenders thereof and (y) within 60 days (or such longer period as may be agreed to by the Administrative Agent in its sole discretion) after such Person becomes a Foreign Subsidiary or a Pass-Through Foreign Holdco, as

applicable, the Borrower shall, or shall cause the applicable Loan Parties to (i) pledge all of the Capital Stock of such Foreign Subsidiary or such Pass-Through Foreign Holdco to the Administrative Agent as security for the Obligations pursuant to the Guaranty and Security Agreement; provided that, in the case of any such Foreign Subsidiary that is a CFC and any such Pass-Through Foreign Holdco, such pledge shall be limited to 65% of the issued and outstanding voting Capital Stock and 100% of the issued and outstanding non-voting Capital Stock of such Foreign Subsidiary or such Pass-Through Foreign Holdco, as applicable, (ii) deliver the original certificates (if any and to the extent not prohibited under applicable law) evidencing such pledged Capital Stock to the Administrative Agent, together with appropriate powers executed in blank and (iii) deliver all such other documentation (including, without limitation, certified organizational documents, resolutions, lien searches and, if requested by the Administrative Agent, legal opinions) and to take all such other actions as the Administrative Agent may reasonably request.

(c) The Borrower agrees that, following the delivery of any Collateral Documents required to be executed and delivered by this Section, the Administrative Agent shall have a valid and enforceable, first priority perfected Lien on the property required to be pledged pursuant to subsections (a) or (b) of this Section (to the extent that such Lien can be perfected by execution, delivery and/or recording of the Collateral Documents or UCC financing statements, or possession of such Collateral), free and clear of all Liens other than Liens expressly permitted by Section 7.2. All actions to be taken pursuant to this Section shall be at the expense of the Borrower or the applicable Loan Party, and shall be taken to the reasonable satisfaction of the Administrative Agent.

Section 5.13. Mortgages; Collateral Access Agreements.

(a) If a Mortgage Trigger Event occurs, (i) the Borrower shall promptly notify the Administrative Agent of such Mortgage Trigger Event, and (ii) each Loan Party shall execute and deliver or cause to be executed and delivered to the Administrative Agent, within sixty (60) days after the Mortgage Trigger Event occurring (or such later date to which the Administrative Agent may agree in its sole discretion), with respect to all Material Real Estate owned by such Loan Party such Real Estate Documents as the Administrative Agent shall require; provided that no owned Real Estate shall be taken as Collateral unless (i) the Administrative Agent and all Lenders have received at least 45 days advance written notice (which may be provided via email or via posting on any datasite to which the Lenders have access) thereof and (ii) each Lender has notified (which notice may be provided via email) the Administrative Agent that such Lender has completed its flood insurance due diligence and compliance procedures.

(b) To the extent that the Borrower demonstrates to the Administrative Agent, by delivery of a certificate of a Responsible Officer of the Borrower that a Mortgage Release Event has occurred, then the Administrative Agent shall promptly release any Mortgages (at the expense of the Borrower and without recourse or warranty to the Secured Parties) on Mortgaged Properties.

(c) To the extent otherwise permitted hereunder, if any Loan Party proposes to lease any Real Estate from a PropCo Landlord or an Ensign Landlord under a Master Lease or any landlord that is party to a Material Master Lease, it shall first provide to the Administrative Agent a copy of such lease (if the Administrative Agent has not previously received a copy of such lease) and a Collateral Access Agreement from the landlord of such leased property; provided that with regard to landlords other than PropCo Landlords and the Ensign Landlords, no such Collateral Access Agreement shall be required if the Borrower is unable to obtain such Collateral Access Agreement following use of commercially reasonable efforts to do so.

Section 5.14. Further Assurances. The Borrower will, and will cause each other Loan Party to, execute any and all further documents, financing statements, agreements and instruments, and take all such further actions (including the filing and recording of financing statements, fixture filings, Mortgages and other documents), which may be required under any applicable law, or which the Administrative Agent or the Required Lenders may reasonably request, to effectuate the transactions contemplated by the Loan Documents or to grant, preserve, protect or perfect the Liens created by the Collateral Documents or the validity or priority of any such Lien, all at the expense of the Loan Parties; provided that no owned Real Estate shall be taken as Collateral unless (i) the Administrative Agent and all Lenders have received at least 45 days advance written notice (which may be provided via email or via posting on any datasite to which the Lenders have access) thereof and (ii) each Lender has notified (which notice may be provided via email) the Administrative Agent that such Lender has completed its flood insurance due diligence and compliance procedures. The Borrower also agrees to provide to the Administrative Agent, from time to time upon reasonable request, evidence reasonably satisfactory to the Administrative Agent as to the perfection and priority of the Liens created or intended to be created by the Collateral Documents.

Section 5.15. Health Care Matters.

(a) Without limiting or qualifying Section 5.4, or any other provision of this Agreement, the Borrower and each of its Subsidiaries will be in material compliance with all applicable Health Care Laws relating to the operation of such Person's business.

(b) Each of the Borrower and its Subsidiaries shall:

(i) obtain, maintain and preserve, and cause each of its Subsidiaries to obtain, maintain and preserve, and take all necessary action to timely renew, all material Health Care Permits (including, as applicable, Health Care Permits necessary for it to be eligible to receive payment and compensation from and to participate in Medicare, Medicaid or any other Third Party Payor programs) which are necessary or useful in the proper conduct of its business;

(ii) be and remain in material compliance with all requirements for participation in, and for licensure required to provide the goods or services that are reimbursable under, Medicare, Medicaid and other Third Party Payor Programs;

(iii) cause all Licensed Personnel to be in material compliance with all applicable Health Care Laws in the performance of their duties to or for the Borrower and its Subsidiaries, and to maintain in full force and effect all professional licenses and other Health Care Permits required to perform such duties; and

(iv) keep and maintain all records required to be maintained by any Governmental Authority or otherwise under any Health Care Law.

(c) The Borrower and each of its Subsidiaries shall maintain a corporate and health care regulatory compliance program ("CCP") which addresses the requirements of Health Care Laws, including, without limitation, HIPAA and includes at least the following components and allows the Administrative Agent (and/or its consultants) from time to time to review such CCP: (i) standards of conduct and procedures that describe compliance policies regarding laws with an emphasis on prevention of fraud and abuse; (ii) a specific officer within high-level personnel identified as having overall responsibility for compliance with such standards and procedures; (iii) training and education programs which effectively communicate the compliance standards and procedures to employees and agents, including, without limitation, fraud and abuse laws and illegal billing practices; (iv) auditing and monitoring systems and reasonable steps for achieving compliance with such standards and procedures, including, without limitation, publicizing a report system to allow employees and other agents to anonymously report criminal or suspect conduct and potential compliance problems; (v) disciplinary guidelines and consistent enforcement of compliance policies, including, without limitation, discipline of individuals responsible for

the failure to detect violations of the CCP; and (vi) mechanisms to immediately respond to detected violations of the CCP. The Borrower and its Subsidiaries shall modify such CCPs from time to time, as may be necessary to ensure continuing compliance with all applicable Health Care Laws. Upon request, the Administrative Agent (and/or its consultants) shall be permitted to review such CCPs.

Section 5.16. Post-Closing Matters. The Borrower will, and will cause each other Loan Party to, satisfy the requirements set forth on Schedule 5.16 on or before the date specified for such requirement or such later date as agreed to by the Administrative Agent in its sole discretion.

Section 5.17. [Reserved].

Section 5.18. Limitations on Designation of Excluded Subsidiaries.

(a) The Borrower may, on or after the Closing Date, designate any Subsidiary of the Borrower as an "Excluded Subsidiary" under this Agreement (an "Excluded Subsidiary Designation") only if:

(i) no Default or Event of Default shall have occurred and be continuing at the time of or immediately after giving effect to such Excluded Subsidiary Designation;

(ii) the Borrower would be permitted under this Agreement to make an Investment at the time of such Excluded Subsidiary Designation (assuming the effectiveness of such Excluded Subsidiary Designation) in an amount (the "Excluded Subsidiary Designation Amount") equal to the sum of the book value (or, in the case of cash, the amount of cash invested) (without duplication) of Investments held by the Borrower or other Loan Parties in such Subsidiary determined net of any payments received with respect to such Investment from the date that such Investment was made through the date of such Excluded Subsidiary Designation (to be determined without duplication of other Investments permitted under Section 7.4);

(iii) after giving effect to such Excluded Subsidiary Designation and any Acquisition permitted by this Agreement consummated since the most recently ended Test Period, the Borrower shall be in compliance on a Pro Forma Basis with the covenants set forth in Article VI as of the end of the most recently ended Test Period as if such Excluded Subsidiary Designation had occurred, and any Indebtedness incurred in connection therewith was incurred, on the first day of such Test Period;

(iv) substantially concurrent with such Excluded Subsidiary Designation, either (x) such Subsidiary incurs or assumes Indebtedness that is permitted pursuant to Section 7.1(h) that is secured by Liens that are permitted pursuant to Section 7.2(f), (y) such Subsidiary enters into a lease with respect to Real Estate to be operated or otherwise used by such Subsidiary, which lease requires such Subsidiary to grant a first priority Lien in favor of such landlord on such Subsidiary's accounts receivable and/or the Capital Stock of such Subsidiary or otherwise prohibits such Subsidiary from granting a first priority Lien in favor of the Administrative Agent on such Subsidiary's accounts receivable and/or the Capital Stock of such Subsidiary (or results in a lease default if such Lien is granted), provided, that the Borrower shall not be required to designate such Subsidiary as an Excluded Subsidiary to the extent such Subsidiary is a Subsidiary Loan Party and the Liens and security interests in favor of the landlord on the assets of such Subsidiary Loan Party are permitted pursuant to, and subject to an intercreditor agreement contemplated by, Section 7.2(i) or (z) with respect to a lease that was previously entered into by such Subsidiary with respect to Real Estate to be operated or otherwise used by such Subsidiary and in connection with such lease the landlord under such lease was granted a Lien on and security interest in the assets of such Subsidiary that were permitted immediately prior to such Excluded Subsidiary Designation

pursuant to, and subject to an intercreditor agreement contemplated by, Section 7.2(i), the date occurs that is 75 days prior to the date provided in the applicable intercreditor agreement whereupon any of the Liens on and security interests in favor of such landlord on the assets of such Subsidiary will cease to have the relative lien priority necessary for such Liens and security interests to be permitted pursuant to Section 7.2(i); and

(v) such Subsidiary is not (A) except in the case of a tenant that is required to grant a Lien on its assets to secure Indebtedness of the applicable Ensign Landlord, a tenant under any Ensign Master Lease or (B) a tenant under any PropCo Master.

(b) Upon any such Excluded Subsidiary Designation after the Closing Date, the Borrower and its Subsidiaries shall be deemed to have made an Investment in such Excluded Subsidiary in an amount equal to the Excluded Subsidiary Designation Amount.

(c) Borrower may revoke any Excluded Subsidiary Designation of a Subsidiary as an Excluded Subsidiary (an "Excluded Subsidiary Revocation"), whereupon such Subsidiary shall cease to be an Excluded Subsidiary, if:

(i) no Default or Event of Default shall have occurred and be continuing at the time and immediately after giving effect to such Excluded Subsidiary Revocation;

(ii) all Liens and Indebtedness of such Excluded Subsidiary and its Subsidiaries outstanding immediately following such Excluded Subsidiary Revocation would, if incurred at the time of such Excluded Subsidiary Revocation, have been permitted to be incurred for all purposes of this Agreement; and

(iii) such Subsidiary (and any other applicable Loan Party) executes and delivers the documents and takes the actions described in Section 5.12(a) as if such Subsidiary was a Joining Guarantor.

(d) All Excluded Subsidiary Designations and Excluded Subsidiary Revocations occurring after the Closing Date must be evidenced by a certificate of a Responsible Officer of the Borrower delivered to the Administrative Agent certifying compliance with the foregoing provisions of this Section 5.18(a) (in the case of any such Excluded Subsidiary Designations) and of Section 5.18(c) (in the case of any such Excluded Subsidiary Revocations).

(e) If the Borrower designates a Guarantor as an Excluded Subsidiary in accordance with this Section 5.18, the Obligations of such Guarantor under the Loan Documents shall terminate and be of no further force and effect and all Liens granted by such Guarantor under the applicable Collateral Documents shall terminate and be released and be of no further force and effect, and all Liens on the Capital Stock and debt obligations of such Guarantor shall be terminated and released and of no further force and effect, in each case, without any action required by the Administrative Agent. At the Borrower's request, the Administrative Agent will execute and deliver any instrument evidencing such termination and the Administrative Agent shall take all actions appropriate in order to effect such termination and release of such Liens and without recourse or warranty by the Administrative Agent (including the execution and delivery of appropriate UCC termination statements and such other instruments and releases as may be necessary and appropriate to effect such release). Any such foregoing actions taken by the Administrative Agent shall be at the sole cost and expense of the Borrower.

Section 5.19. Anti-Corruption Laws. The Borrower will conduct its, and cause its Subsidiaries to conduct their, business in compliance in all material respects with the United States Foreign Corrupt Practices Act of 1977, the UK Bribery Act of 2010, and other similar and applicable anti-corruption legislation or laws in other jurisdictions and institute and maintain policies and procedures designed to promote and achieve compliance with such Laws.

ARTICLE VI

FINANCIAL COVENANTS

The Borrower covenants and agrees that so long as any Lender has a Commitment hereunder or any Obligation remains unpaid or outstanding:

Section 6.1. Leverage Ratio. The Borrower will maintain, as of the end of each Test Period, commencing with the Test Period ended on September 30, 2019, a Leverage Ratio of not greater than 2.50:1.00 (the "Maximum Leverage Threshold"); provided that if the aggregate consideration paid in connection with all Permitted Acquisitions or other Acquisitions permitted hereunder consummated during any six (6) consecutive month period exceeds $20,000,000, then, at the election of the Borrower by written notice to the Administrative Agent (with a description in reasonable detail of the Permitted Acquisitions or other Acquisitions permitted hereunder consummated during such period and the consideration paid), the Maximum Leverage Threshold shall be increased to 3.00:1.00 for the current Fiscal Quarter and the immediately following three Fiscal Quarters; provided, further, that the Maximum Leverage Threshold shall not be increased pursuant to the preceding proviso (i) more than four times (or with respect to more than twelve Fiscal Quarters) during the term of this Agreement and (ii) unless in the most recently ended four consecutive Fiscal Quarter period there shall be at least one Fiscal Quarter in respect of which the Maximum Leverage Threshold has not been increased.

Section 6.2. Interest/Rent Coverage Ratio. The Borrower will maintain, as of the end of each Test Period, commencing with the Test Period ended on September 30, 2019, an Interest/Rent Coverage Ratio of not less than 1.50:1.00.

ARTICLE VII

NEGATIVE COVENANTS

The Borrower covenants and agrees that until Payment in Full of the Obligations:

Section 7.1. Indebtedness and Preferred Equity. The Borrower will not, and will not permit any of its Subsidiaries to, create, incur, assume or suffer to exist any Indebtedness, except:

(a) Indebtedness created pursuant to the Loan Documents;

(b) Indebtedness of the Borrower and its Subsidiaries existing on the date hereof and set forth on Schedule 7.1 and extensions, renewals and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof (immediately prior to giving effect to such extension, renewal or replacement) or shorten the maturity or the weighted average life thereof;

(c) Indebtedness of the Borrower or any of its Subsidiaries incurred to finance the acquisition, construction or improvement of any fixed or capital assets, including Capital Lease Obligations (it being understood that the completion of the construction or development of additional beds at existing facilities or new facilities shall constitute the acquisition of property), and any Indebtedness assumed in connection with the acquisition of any such assets or secured by a Lien on any such assets (provided that such Indebtedness is incurred prior to or within 90 days after such acquisition or the completion of such construction or improvements), and extensions, renewals, refinancings or replacements of any such

Indebtedness that do not increase the outstanding principal amount thereof (immediately prior to giving effect to such extension, renewal, refinancing or replacement, other than in an amount not to exceed unpaid interest and fees and expenses incurred in connection therewith) or shorten the maturity or the weighted average life thereof; provided that the aggregate principal amount of such Indebtedness at any time outstanding does not exceed the greater of $5,000,000 and, if the Lease-Adjusted Leverage Ratio (calculated on a pro forma basis giving effect to the incurrence of such Indebtedness) is less than or equal to 5.00:1.00 at the time of incurrence thereof, 25.0% of Consolidated EBITDA for the most recently ended Test Period; provided, further, that the aggregate principal amount of Capital Lease Obligations that are permitted under subsection (j) of this Section shall not be included in calculating the aggregate principal amount of Indebtedness for purposes of the limitation set forth in this subsection;

(d) Indebtedness of the Borrower owing to any Subsidiary and of any Subsidiary owing to the Borrower or any other Subsidiary; provided that any such Indebtedness that is owed by a Subsidiary that is not a Subsidiary Loan Party shall be subject to Section 7.4;

(e) Guarantees by the Borrower of Indebtedness of any Subsidiary and by any Subsidiary of Indebtedness of the Borrower or any other Subsidiary; provided that Guarantees by any Loan Party of Indebtedness of any Subsidiary that is not a Subsidiary Loan Party shall be subject to Section 7.4; provided, further, that the Borrower may Guarantee on an unsecured basis all Indebtedness permitted under Section 7.1(h);

(f) Indebtedness of any Person which becomes a Subsidiary (other than an Excluded Subsidiary) after the date of this Agreement and Indebtedness secured by assets acquired by the Borrower or any of its Subsidiaries (other than an Excluded Subsidiary) after the date of this Agreement; provided that in each case (i) such Indebtedness exists at the time that such Person becomes a Subsidiary or such asset is acquired and is not created in contemplation of or in connection with such Person becoming a Subsidiary or such asset being acquired, and (ii) the aggregate principal amount of all such Indebtedness permitted hereunder at any time outstanding shall not exceed the greater of $5,000,000 and, if the Lease-Adjusted Leverage Ratio (calculated on a pro forma basis giving effect to the incurrence of such Indebtedness) is less than or equal to 5.00:1.00 at the time of incurrence thereof, 25.0% of Consolidated EBITDA for the most recently ended Test Period;

(g) Hedging Obligations permitted by Section 7.10;

(h) Indebtedness of an Excluded Subsidiary secured by Liens permitted by Section 7.2(f) in an aggregate principal amount, when taken together with the aggregate amount of Investments in any Excluded Subsidiaries made pursuant to Section 7.4(h) that remain outstanding at such time (other than any portion of such Investment made in reliance on the Available Amount), for all such Indebtedness not to exceed at any time outstanding the greater of (x) $50,000,000 and (y) an amount equal to (I) Consolidated EBITDA for the most recently ended Test Period multiplied by (II) two; provided that, at the time of and immediately after giving effect to the incurrence or assumption of any such Indebtedness, (A) no Default or Event of Default shall exist and (B) the Borrower and its Subsidiaries shall be in *pro forma* compliance with Sections 6.1 and 6.2 as of the most recently ended Test Period, calculated as if all such Indebtedness had been incurred as of the first day of the relevant period for testing compliance;

(i) other unsecured Indebtedness of the Borrower or its Subsidiaries; provided that, at the time of and immediately after giving effect to any such Indebtedness, (A) no Default or Event of Default shall exist and (B) the Borrower and its Subsidiaries shall be in *pro forma* compliance with Sections 6.1 and 6.2 as of the most recently ended Test Period, calculated as if all such Indebtedness had been incurred as of the first day of the relevant period for testing compliance;

(j) Capital Lease Obligations incurred in connection with any Permitted Acquisition structured as a capital lease;

(k) unsecured Indebtedness of a Subsidiary Loan Party owing to its landlord or Affiliates of such landlord under a lease of Real Estate for loans advanced by such landlord or its Affiliates for the purpose of funding capital expenditures with respect to healthcare facilities located on such Real Estate, provided that the aggregate amount of Indebtedness at any time outstanding pursuant to this Section 7.1(k) shall not exceed the greater of $5,000,000 and, if the Lease-Adjusted Leverage Ratio (calculated on a pro forma basis giving effect to the incurrence of such Indebtedness) is less than or equal to 5.00:1.00 at the time of incurrence thereof, 25.0% of Consolidated EBITDA for the most recently ended Test Period;

(l) Indebtedness in respect of workers' compensation claims, self-insurance obligations, performance bonds, surety appeal or similar bonds, completion guarantees and letters of credit arising in the ordinary course of its business;

(m) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided*, *however*, that such Indebtedness is extinguished within five (5) Business Days of its incurrence;

(n) Indebtedness arising in connection with endorsement of instruments for deposit in the ordinary course of business;

(o) Indebtedness consisting of the financing of insurance premiums in the ordinary course of business; and

(p) other Indebtedness of the Borrower or its Subsidiaries in an aggregate principal amount at any time outstanding not to exceed the greater of $1,500,000 and, if the Lease-Adjusted Leverage Ratio (calculated on a pro forma basis giving effect to the incurrence of such Indebtedness) is less than or equal to 5.00:1.00 at the time of incurrence thereof, 10.0% of Consolidated EBITDA for the most recently ended Test Period.

The Borrower will not, and will not permit any Subsidiary to, issue any preferred stock or other preferred equity interest that (i) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise, (ii) is or may become redeemable or repurchaseable by the Borrower or such Subsidiary at the option of the holder thereof, in whole or in part, or (iii) is convertible or exchangeable at the option of the holder thereof for Indebtedness or preferred stock or any other preferred equity interest described in this paragraph, on or prior to, in the case of clause (i), (ii) or (iii), the date that is 180 days after the later of the Revolving Commitment Termination Date and the then latest Maturity Date.

Section 7.2. Liens. The Borrower will not, and will not permit any of its Subsidiaries to, create, incur, assume or suffer to exist any Lien on any of its assets or property now owned or hereafter acquired, except:

(a) Liens securing the Obligations; provided that no Liens may secure Hedging Obligations or Bank Product Obligations without securing all other Obligations on a basis at least *pari passu* with such Hedging Obligations or Bank Product Obligations and subject to the priority of payments set forth in Section 2.21 and Section 8.2;

(b) Permitted Encumbrances;

(c) Liens on any property or asset of the Borrower or any of its Subsidiaries existing on the date hereof and set forth on Schedule 7.2; provided that such Liens shall not apply to any other property or asset of the Borrower or any Subsidiary;

(d) purchase money Liens upon or in any fixed or capital assets to secure the purchase price or the cost of construction or improvement of such fixed or capital assets or to secure Indebtedness incurred solely for the purpose of financing the acquisition, construction or improvement of such fixed or capital assets (including Liens securing any Capital Lease Obligations); provided that (i) any such Lien secures Indebtedness permitted by Section 7.1(c), (ii) any such Lien attaches to such asset concurrently or within 90 days after the acquisition or the completion of the construction or improvements thereof (or, in the case of an extension, refinancing, replacement or renewal, at the time of such extension, refinancing, replacement or renewal), (iii) any such Lien does not extend to any other asset other than accessions and reasonable extensions thereof, and (iv) the Indebtedness secured thereby does not exceed the cost (including interest costs) of acquiring, constructing or improving such fixed or capital assets;

(e) any Lien (x) existing on any asset of any Person at the time such Person becomes a Subsidiary of the Borrower, (y) existing on any asset of any Person (other than any Subsidiary of the Borrower) at the time such Person is merged with or into the Borrower or any of its Subsidiaries, or (z) existing on any asset prior to the acquisition thereof by the Borrower or any of its Subsidiaries; provided that (i) any such Lien was not created in the contemplation of any of the foregoing and (ii) any such Lien secures only those obligations which it secures on the date that such Person becomes a Subsidiary or the date of such merger or the date of such acquisition;

(f) Liens on the assets of, and Capital Stock in, any Excluded Subsidiary; provided that (i) to the extent any such Lien secures Indebtedness, any such Lien secures only Indebtedness permitted by Section 7.1(h), (ii) no such Lien is prohibited by any other Contractual Obligation of the Borrower or any of its Subsidiaries and (iii) at the time of and immediately after giving effect to any such Lien (which for Liens on the assets of, and Capital Stock in, any Excluded Subsidiary that is designated pursuant to Section 5.18(a)(iv)(z) shall be the date of such designation), (A) no Default or Event of Default shall exist and (B) the Borrower and its Subsidiaries shall be in *pro forma* compliance with Sections 6.1 and 6.2 as of the most recently ended Test Period, calculated as if all Indebtedness secured by such Lien had been incurred as of the first day of the relevant period for testing compliance and all Acquisitions permitted hereunder since the end of such Test Period had been consummated as of the first day of the relevant period for testing compliance;

(g) [Reserved];

(h) extensions, renewals, or replacements of any Lien referred to in subsections (b) through (g) of this Section; provided that the principal amount of the Indebtedness secured thereby is not increased (other than in an amount not to exceed unpaid interest and fees, and expenses incurred in connection therewith) and that any such extension, renewal or replacement is limited to the assets originally encumbered thereby;

(i) to the extent required by the landlord under a lease of Real Estate entered into by a Subsidiary Loan Party with a landlord that is not (x) an Affiliate of the Borrower or (y) a PropCo Landlord, Liens on the assets of a Subsidiary Loan Party or such Subsidiary Loan Party's Subsidiaries (but not, for the avoidance of doubt, on the Capital Stock of such Subsidiary Loan Party or such Subsidiary Loan Party's Subsidiaries) to secure the obligations of such Subsidiary Loan Party under such lease; provided that such Subsidiary Loan Party and its Subsidiaries shall not be required to become Excluded Subsidiaries on account of such lease and shall instead be Subsidiary Loan Parties to the extent any such lien granted to or in favor of such landlord is subject to a customary intercreditor agreement between the Administrative Agent and the landlord under such lease that provides that any such Liens of such landlord on accounts

receivable (and proceeds thereof, books and records related thereto and accounts into which the same are deposited) of such Subsidiary Loan Party or such Subsidiary Loan Party's Subsidiary (collectively, "Accounts Collateral") shall be junior to the Lien of the Administrative Agent on such Accounts Collateral; provided further that, to the extent any such intercreditor agreement provides that the Liens of such landlord on Accounts Collateral that are initially junior to the Lien of the Administrative Agent on such Accounts Collateral are to become senior to the Lien of the Administrative Agent on such Accounts Collateral, such Liens of such landlord on Accounts Collateral shall cease to be permitted pursuant to this clause (i) on the date that is 75 days prior to the date provided in such intercreditor agreement whereupon the Liens of such landlord on Accounts Collateral will cease to be junior to the Liens of the Administrative Agent on such Accounts Collateral; and

(j) Liens on the assets of the Borrower or its Subsidiaries not otherwise permitted by this Section 7.2, securing an aggregate principal amount of obligations at any time outstanding not to exceed the greater of $1,500,000 and, if the Lease-Adjusted Leverage Ratio (calculated on a pro forma basis giving effect to the incurrence of such Liens and any Indebtedness secured thereby) is less than or equal to 5.00:1.00 at the time of incurrence thereof, 10.0% of Consolidated EBITDA for the most recently ended Test Period.

Section 7.3. Fundamental Changes.

(a) The Borrower will not, and will not permit any of its Subsidiaries to, merge into or consolidate into any other Person, or permit any other Person to merge into or consolidate with it, or sell, lease, transfer or otherwise dispose of (in a single transaction or a series of transactions) all or substantially all of the assets of the Borrower and its Subsidiaries on a consolidated basis (in each case, whether now owned or hereafter acquired) or liquidate or dissolve; provided that if, at the time thereof and immediately after giving effect thereto, no Default or Event of Default shall have occurred and be continuing, (i) the Borrower or any Subsidiary may merge with a Person if the Borrower (or such Subsidiary if the Borrower is not a party to such merger) is the surviving Person, (ii) any Subsidiary may merge into another Subsidiary, provided that if any party to such merger is a Subsidiary Loan Party, the Subsidiary Loan Party shall be the surviving Person, (iii) any Subsidiary may sell, transfer, lease or otherwise dispose of all or substantially all of its assets to the Borrower or to a Subsidiary Loan Party, (iv) any Subsidiary may liquidate or dissolve if the Borrower determines in good faith that such liquidation or dissolution is in the best interests of the Borrower and is not materially disadvantageous to the Lenders, (v) any Subsidiary may merge, dissolve or consolidate in connection with the consummation of any Permitted Acquisition, and (vi) any Subsidiary that is not a Loan Party may sell, transfer, lease or otherwise dispose of all or substantially all of its assets to the Borrower or any Subsidiary of the Borrower.

(b) The Borrower will not, and will not permit any of its Subsidiaries to, engage in any business other than businesses of the type conducted by the Borrower and its Subsidiaries on the date hereof and businesses ancillary or reasonably related to, or extensions of, the business of the Borrower and its Subsidiaries.

Section 7.4. Investments, Loans. The Borrower will not, and will not permit any of its Subsidiaries to, purchase, hold or acquire (including pursuant to any merger with any Person that was not a wholly owned Subsidiary prior to such merger) any Capital Stock, evidence of Indebtedness or other securities (including any option, warrant, or other right to acquire any of the foregoing) of, make or permit to exist any loans or advances to, Guarantee any obligations of, or make or permit to exist any investment or any other interest in, any other Person (all of the foregoing being collectively called "Investments"), or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person that constitute a business unit, or create or form any Subsidiary, except:

(a) (x) Investments existing on the date hereof in Excluded Subsidiaries that are set forth on Schedule 7.4 and (y) other Investments (other than Permitted Investments) existing on the date hereof (including Investments in Subsidiaries);

(b) Permitted Investments;

(c) Permitted Alternative Investments;

(d) Guarantees by the Borrower and its Subsidiaries constituting Indebtedness permitted by Section 7.1; provided that the aggregate principal amount of Indebtedness of Subsidiaries that are not Subsidiary Loan Parties that is Guaranteed by any Loan Party shall be subject to the limitation set forth in subsection (e) of this Section;

(e) Investments made by the Borrower in or to any Subsidiary and by any Subsidiary to the Borrower or in or to another Subsidiary; provided that (i) Investments by the Loan Parties in or to, and Guarantees by the Loan Parties of Indebtedness of, Subsidiaries that are not Loan Parties (other than Excluded Subsidiaries) pursuant to this clause (e) shall not exceed in the aggregate at any time outstanding the greater of $2,500,000 and, if the Lease-Adjusted Leverage Ratio (calculated on a pro forma basis giving effect to such Investment) is less than or equal to 5.00:1.00 at the time such Investment is made, 15.0% of Consolidated EBITDA for the most recently ended Test Period and (ii) Investments by the Loan Parties or Subsidiaries that are not Excluded Subsidiaries in or to, and Guarantees by the Loan Parties or Subsidiaries that are not Excluded Subsidiaries of Indebtedness of, Excluded Subsidiaries shall not be permitted under this clause (e);

(f) loans or advances to employees, officers or directors of the Borrower or any of its Subsidiaries in the ordinary course of business for travel, relocation and related expenses; provided that the aggregate amount of all such loans and advances does not exceed $1,500,000 at any time outstanding;

(g) Hedging Transactions permitted by Section 7.10;

(h) (x) Permitted Acquisitions, (y) Investments in Excluded Subsidiaries made for the purpose of financing the construction, development, refurbishment or expansion of any health care facility and (z) Investments constituting Excluded Subsidiary Designation Amounts (other than, in the case of this clause (z), cash or cash equivalents funded by any Loan Party into an Excluded Subsidiary prior to such Subsidiary being designated as an Excluded Subsidiary, except to the extent of cash or cash equivalents funded for the purpose of financing the Permitted Acquisition of such Subsidiary or the construction, development, refurbishment or expansion of any health care facility); provided that (i) the aggregate amount of Acquisition Consideration paid in connection with Permitted Acquisitions of Persons (other than Excluded Subsidiaries) that do not become Loan Parties and assets (other than assets that are acquired by Excluded Subsidiaries) that are not owned by Loan Parties shall not exceed $3,000,000 at any time outstanding and (ii) the aggregate amount of Acquisition Consideration paid in connection with Permitted Acquisitions of Excluded Subsidiaries (determined at the time of such Permitted Acquisition) and Investments in Excluded Subsidiaries made for the purpose of financing the construction, development, refurbishment or expansion of any health care facility and Excluded Subsidiary Designation Amounts, together with the amount of any then outstanding Indebtedness that was incurred or assumed pursuant to Section 7.1(h) and any other then outstanding Investment in any Excluded Subsidiary arising pursuant to this Section 7.4(h) (in each case, without duplication), shall not exceed at any time the sum of (A) the greater of (x) $50,000,000 and (y) an amount equal to (I) Consolidated EBITDA for the most recently ended four consecutive Fiscal Quarter period for which financial statements were required to have been delivered pursuant to Section 5.1(a) or (b) multiplied by (II) two plus (B) the Available Amount; provided, that, (i) in the event of a Permitted Acquisition consisting of the purchase or acquisition of both (x) entities that do not become, or assets that do not become owned by, Loan Parties or Excluded Subsidiaries and (y) entities

that become, or assets that become owned by, Loan Parties or Excluded Subsidiaries, the aggregate amount of Acquisition Consideration attributable to such entities that do not become, and assets that do not become owned by, Loan Parties or Excluded Subsidiaries for purposes of this clause (h), shall be determined by the Borrower in good faith and be reasonably acceptable to the Administrative Agent, (ii) in the event of a Permitted Acquisition consisting of the purchase or acquisition of both (x) Excluded Subsidiaries or assets that become owned by Excluded Subsidiaries and (y) entities that do not become, or assets that do not become owned by, Excluded Subsidiaries, the aggregate amount of Acquisition Consideration attributable to the Excluded Subsidiaries for purposes of this clause (h), shall be determined by the Borrower in good faith and be reasonably acceptable to the Administrative Agent and (iii) the amount of Investments made (or Acquisition Consideration payable) under this Section 7.4(h) in connection with a Permitted Acquisition of an Excluded Subsidiary shall be determined without duplication of any Indebtedness incurred or assumed under Section 7.1(h) in connection therewith to the extent such Indebtedness is included in the determination of Acquisition Consideration for such Permitted Acquisition;

(i) Investments in the JV Entities pursuant to the JV Documents; provided that the aggregate amount of Investments in the JV Entities pursuant to this clause (i) shall not exceed $[●] at any time outstanding;

(j) other Investments that in the aggregate do not exceed at any time outstanding the greater of $1,500,000 and, if the Lease-Adjusted Leverage Ratio (calculated on a pro forma basis giving effect to such Investment) is less than or equal to 5.00:1.00 at the time such Investment is made, 10.0% of Consolidated EBITDA for the most recently ended Test Period; and

(k) Investments held by a Subsidiary Loan Party that is acquired after the Closing Date, or of a Person (other than a Subsidiary of the Borrower) merged or consolidated with or into the Borrower or a Subsidiary Loan Party, in each case in accordance with the terms of this Agreement to the extent that such Investments were not made in contemplation of or in connection with such acquisition, merger or consolidation and were in existence on the date of such acquisition, merger or consolidation (such Investments, "Acquired Investments"); provided, however, that (i) the aggregate amount of Acquired Investments that would not otherwise be permitted as an Investment pursuant to clauses (a) through (j) or (l) of this Section 7.4 shall not exceed 10% of the book value of such Subsidiary Loan Party (and its Subsidiaries) that is acquired after the Closing Date or such Person (and its Subsidiaries) that is merged or consolidated with or into the Borrower or a Subsidiary Loan Party, as of the date of such acquisition, merger or consolidation and (ii) Acquired Investments shall not include (and in no event shall this Section 7.4(k) permit) Investments in or with respect to Excluded Subsidiaries (including, for the avoidance of doubt, Investments constituting Excluded Subsidiary Designation Amounts).

The amount of any Investment (other than Investments made using the Available Amount) shall be deemed to be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment but determined net of all payments received with respect to such Investment whether constituting sale proceeds thereof, dividends, distributions, interest, return of capital or otherwise, and the amount of any Investment constituting a Guarantee shall be reflective of the principal amount subject to such Guarantee from time to time.

Notwithstanding the foregoing, in no event shall any Excluded Subsidiary make, purchase, hold or acquire any Investments in the Capital Stock of any Loan Party.

Section 7.5. Restricted Payments. The Borrower will not, and will not permit any of its Subsidiaries to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, except:

(i) dividends payable by the Borrower solely in interests of any class of its common equity;

(ii) Restricted Payments made by any Subsidiary to the Borrower or to another Subsidiary, on at least a *pro rata* basis with any other shareholders if such Subsidiary is not wholly owned by the Borrower and other wholly owned Subsidiaries of the Borrower;

(iii) [reserved];

(iv) the Borrower may repurchase common stock or common stock options from present or former officers, directors or employees (or heirs of, estates of or trusts formed by such Persons) of the Borrower or any Subsidiary upon the death, disability, retirement or termination of employment or position of such officer, director or employee or pursuant to the terms of any stock option plan or like agreement; provided, however, that the aggregate amount of payments under this clause (except to the extent made with Equity Issuance Proceeds received for such purpose that are not otherwise applied to increase basket capacity hereunder) shall not exceed the lesser of (i) $2,500,000 in any Fiscal Year or (ii) $12,500,000 during the term of this Agreement;

(v) other Restricted Payments (including, for the avoidance of doubt, payments with respect to subordinated Indebtedness) in an aggregate amount not to exceed $2,500,000 in any Fiscal Year;

(vi) the Borrower and its Subsidiaries may (x) repurchase Capital Stock to the extent deemed to occur upon exercise of stock options, warrants or rights in respect thereof to the extent such Capital Stock represents a portion of the exercise price of such options, warrants or rights in respect thereof and (y) if such payments are made pursuant to a stock option plan or an incentive plan, make payments in respect of withholding or similar taxes payable or expected to be payable by any present or former member of management, director, officer, employee, or consultant of the Borrower or any of its Subsidiaries or family members, spouses or former spouses, heirs of, estates of or trusts formed by such Persons in connection with the exercise of stock options or grant, vesting or delivery of Capital Stock;

(vii) the Borrower and its Subsidiaries may make Restricted Payments to allow the payment of cash in lieu of the issuance of fractional shares upon the exercise of options or, warrants or rights or upon the conversion or exchange of or into Capital Stock, or payments or distributions to dissenting stockholders pursuant to applicable law;

(viii) the Borrower may make a Restricted Payment to Ensign on the Closing Date in connection with the Pennant Transaction in an amount not to exceed $11,000,000 pursuant to Section 2.1(a)(iii) of the Pennant Master Separation Agreement;

(ix) the refinancing of any Indebtedness that is subordinated to the Obligations; provided that (A) no Default or Event of Default shall have occurred and be continuing or would result therefrom; (B) any such refinancing Indebtedness shall (x) not have a stated maturity or, other than in the case of a revolving credit facility, a Weighted Average Life to Maturity that is shorter than that of the Indebtedness being refinanced, (y) if the Indebtedness being refinanced is subordinated to the Obligations by its terms or by the terms of any agreement or instrument relating to such Indebtedness, be at least as subordinate to the Obligations as the Indebtedness being refinanced (and unsecured if the refinanced Indebtedness is unsecured) and (z) be in a principal amount that does not exceed the principal amount so refinanced, *plus*, accrued interest, *plus*, any premium or other payment required to be paid in connection with such refinancing, *plus*, the amount

of fees and expenses of the Borrower or any of its Subsidiaries incurred in connection with such refinancing, *plus*, any unutilized commitments thereunder; and (C) the obligors on such refinancing Indebtedness shall be the obligors on such Indebtedness being refinanced; provided, further, however, that (i) the borrower of the refinancing indebtedness shall be the Borrower or the borrower of the Indebtedness being refinanced, (ii) any Loan Party shall be permitted to guarantee any such refinancing Indebtedness of any other Loan Party and (iii) any non-Loan Party shall be permitted to guarantee any such refinancing Indebtedness of any other non-Loan Party; and

(x) in addition to the other Restricted Payments otherwise permitted under this Section 7.5, the Borrower and its Subsidiaries may make additional Restricted Payments so long as (A) no Default or Event of Default shall have occurred and be continuing or would result therefrom, (B) the Leverage Ratio for the most recently ended four consecutive Fiscal Quarter period for which financial statements were required to have been delivered pursuant to Section 5.1(a) or (b) (calculated on a *pro forma* basis as if such Restricted Payment (and any other Restricted Payment or Investment that occurs subsequent to such four consecutive Fiscal Quarter period for which the *pro forma* financial effect of such events has been calculated under this Agreement) had been made on the first day of such four consecutive Fiscal Quarter period) does not exceed 0.75:1.00 and (C) the Borrower and its Subsidiaries shall be in *pro forma* compliance with Sections 6.1 and 6.2 as of the most recently ended Test Period (calculated on a *pro forma* basis as if such Restricted Payment (and any other Restricted Payment or Investment that occurs subsequent to such Test Period) had been made on the first day of such Test Period).

Section 7.6. Sale of Assets. The Borrower will not, and will not permit any of its Subsidiaries to, convey, sell, lease, assign, transfer or otherwise dispose of any of its assets, business or property or, in the case of any Subsidiary (other than an Immaterial Subsidiary), any shares of such Subsidiary's Capital Stock, in each case whether now owned or hereafter acquired, to any Person other than the Borrower or any wholly owned Subsidiary of the Borrower (or to qualify directors if required by applicable law), except:

(a) the sale or other disposition of obsolete or worn out property or other property not necessary for operations or no longer useful in the business disposed of in the ordinary course of business;

(b) the sale of inventory and Permitted Investments in the ordinary course of business;

(c) dispositions of cash and cash equivalents;

(d) dispositions of equipment to the extent that (i) such equipment is exchanged for credit against the purchase price of similar replacement equipment and (ii) the proceeds of such disposition are applied in whole or in part to purchases of such replacement equipment;

(e) assets sold in connection with condemnation, eminent domain or insurance claims;

(f) asset sales or other dispositions in an aggregate amount (determined based on the fair market value of the assets sold or otherwise disposed of (as determined by the Borrower in good faith)) not to exceed in any Fiscal Year the greater of $1,500,000 and, if the Lease-Adjusted Leverage Ratio (calculated on a pro forma basis giving effect to such asset sale or disposition) is less than or equal to 5.00:1.00 at the time such asset sale or disposition is consummated, 10.0% of Consolidated EBITDA for the most recently ended Test Period; provided that (i) at the time of such sale or other disposition, no Event of Default then exists or would arise therefrom, and (ii) the Borrower or any of its Subsidiaries shall receive not less than 75% of such consideration in the form of (x) cash or Permitted Investments or (y) real property (and improvements thereon related to one or more healthcare facilities) acquired in an exchange pursuant to or intended to qualify under Section 1031 (or any successor section) of the Code (it being understood

that for the purposes of clause (f)(ii)(x), the following shall be deemed to be cash: (A) any liabilities (as shown on the Borrower's most recent balance sheet provided hereunder or in the footnotes thereto) of the Borrower or such Subsidiary, other than liabilities that are by their terms subordinated to the payment in cash of the Obligations, that are assumed by the transferee with respect to the applicable sale or disposition and for which all of its Subsidiaries shall have been validly released by all applicable creditors in writing, (B) any securities received by such Subsidiary from such transferee that are converted by such Subsidiary into cash or Permitted Investments (to the extent of the cash or Permitted Investments received) within one hundred and eighty (180) days following the closing of the applicable disposition and (C) any Designated Non-Cash Consideration received in respect of such disposition having an aggregate fair market value, taken together with all other Designated Non-Cash Consideration received pursuant to this clause (C) that is at that time outstanding, not in excess of $1,000,000, with the fair market value of each item of Designated Non-Cash Consideration being measured at such date of receipt or such agreement, as applicable, and without giving effect to subsequent changes in value).

Section 7.7. Transactions with Affiliates. The Borrower will not, and will not permit any of its Subsidiaries to, sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except:

(a) in the ordinary course of business at prices and on terms and conditions not less favorable to the Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties;

(b) transactions between or among the Borrower and its Subsidiaries in the ordinary course of business; and

(c) any Restricted Payment permitted by Section 7.5 and Investments permitted by Section 7.4.

Section 7.8. Restrictive Agreements. The Borrower will not, and will not permit any of its Subsidiaries to, directly or indirectly, enter into, incur or permit to exist any agreement (including any lease of Real Estate) that prohibits, restricts or imposes any condition upon (a) the ability of the Borrower or any of its Subsidiaries to create, incur or permit any Lien as security for the Obligations upon any of its assets or properties, whether now owned or hereafter acquired, or (b) the ability of any of its Subsidiaries to pay dividends or other distributions with respect to its Capital Stock, to make or repay loans or advances to the Borrower or any other Subsidiary thereof, to Guarantee Indebtedness of the Borrower or any other Subsidiary thereof or to transfer any of its property or assets to the Borrower or any other Subsidiary thereof; provided that (i) the foregoing shall not apply to restrictions or conditions imposed by law or by this Agreement or any other Loan Document, (ii) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary pending such sale, provided such restrictions and conditions apply only to the Subsidiary that is to be sold and such sale is permitted hereunder, (iii) the foregoing shall not apply to restrictions contained in the leases of Real Estate listed on Schedule 7.8 as in effect as of the Closing Date, (iv) the foregoing shall not apply to restrictions or conditions imposed by any agreement relating to secured Indebtedness permitted by this Agreement if such restrictions and conditions apply only to the property or assets securing such Indebtedness, (v) the foregoing shall not apply to customary provisions in leases restricting the assignment thereof, (vi) the foregoing shall not apply to Excluded Subsidiaries or the Capital Stock of Excluded Subsidiaries, (vii) the foregoing shall not apply to restrictions in Indebtedness described in Section 7.1(f) to the extent relating solely to the applicable assets or Persons acquired after the Closing Date in connection with the assumption of such Indebtedness, (viii) the foregoing shall not apply to restrictions in leases of Real Estate binding upon the tenants thereunder (or guarantors thereof), (ix) the foregoing shall not apply to Indebtedness permitted

under Section 7.1(i) to the extent the restrictions thereunder are no more restrictive, in any material respect, taken as a whole, than such restrictions contained herein, (x) the foregoing shall not apply to customary restrictions in joint venture arrangements, provided that such restrictions are limited to the assets of such joint ventures and the Capital Stock of the Persons party to such joint venture arrangements and (xi) the foregoing shall not apply to customary non-assignment provisions in contracts entered into in the ordinary course of business, provided that such restrictions are limited to the assets subject to such contracts and the Capital Stock of the Persons party to such contracts.

Section 7.9. Sale and Leaseback Transactions. The Borrower will not, and will not permit any of its Subsidiaries to, enter into any arrangement, directly or indirectly, whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereinafter acquired, and thereafter rent or lease such property or other property that it intends to use for substantially the same purpose or purposes as the property sold or transferred (each, a "Sale/Leaseback Transaction"), unless at the time such Sale/Leaseback Transaction is entered into (a) no Default or Event of Default has occurred and is continuing, (b) after giving *pro forma* effect to such Sale/Leaseback Transaction, the Borrower and its Subsidiaries are in compliance with the financial covenants set forth in Article VI and (c) the Borrower has delivered a certificate to the Lenders certifying the conditions set forth in clauses (a) and (b) and setting forth in reasonable detail calculations demonstrating *pro forma* compliance with the financial covenants set forth in Article VI.

Section 7.10. Hedging Transactions. The Borrower will not, and will not permit any of its Subsidiaries to, enter into any Hedging Transaction, other than Hedging Transactions entered into in the ordinary course of business to hedge or mitigate risks to which the Borrower or any of its Subsidiaries is exposed in the conduct of its business or the management of its liabilities, including, without limitation, any Hedging Transaction entered into in order to hedge against fluctuations in interest rates or currency values that arise in connection with any Borrowing or any other Indebtedness. Solely for the avoidance of doubt, the Borrower acknowledges that a Hedging Transaction entered into for speculative purposes or of a speculative nature (which shall be deemed to include any Hedging Transaction under which the Borrower or any of its Subsidiaries is or may become obliged to make any payment (i) in connection with the purchase by any third party of any Capital Stock or any Indebtedness or (ii) as a result of changes in the market value of any Capital Stock or any Indebtedness) is not a Hedging Transaction entered into in the ordinary course of business to hedge or mitigate risks.

Section 7.11. Amendment to Material Documents. The Borrower will not, and will not permit any of its Subsidiaries to, amend, modify or waive any of its rights under (a) its certificate of incorporation, bylaws or other organizational documents or (b) any Material Agreements, in each case in any manner that is materially adverse to the interests of the Lenders or the Administrative Agent.

Section 7.12. PropCo Master Leases and Ensign Master Leases.

(a) The Borrower will not, and will not permit any of its Subsidiaries to, terminate or allow or consent to the termination of any PropCo Master Lease or enter into any amendment, waiver or modification to any PropCo Master Lease if (i) such amendment, waiver or modification could reasonably be expected to have a Material Adverse Effect or (ii) after giving *pro forma* effect to such amendment, waiver or modification, the Borrower will not be in compliance with the provisions of Article VI; provided that, notwithstanding the foregoing, the Borrower will not, and will not permit any of its Subsidiaries to, allow any amendment, waiver or modification of any PropCo Master Lease that (i) shortens the term of such PropCo Master Lease to less than twelve (12) years (including extension or renewal options) from the date of such amendment, waiver or modification, (ii) amends, waives or modifies Articles X, XI, or XVI of such PropCo Master Lease (including by amendment of the defined terms used therein) in a manner adverse in any material respects to the interests of the Secured Parties or (iii) amends, waives or modifies

Section 5.13 of such PropCo Master Lease to the extent adversely impacting the ability of the Secured Parties to obtain or maintain a Lien on any assets of the Borrower or any of its Subsidiaries (other than the leasehold interests in such PropCo Master Lease), in each case, without the consent of the Required Lenders. No tenant under any PropCo Master Lease shall transfer its rights or obligations under such PropCo Master Lease to any Person other than to the Borrower or any other Loan Party; provided, however, that no such transfer shall be permitted hereunder unless expressly permitted under such PropCo Master Lease or consented to in writing by landlord under such PropCo Master Lease.

(b) The Borrower will not, and will not permit any of its Subsidiaries to, terminate or allow or consent to the termination of any Ensign Master Lease or enter into any amendment, waiver or modification to any Ensign Master Lease if (i) such amendment, waiver or modification could reasonably be expected to have a Material Adverse Effect or (ii) after giving *pro forma* effect to such amendment, waiver or modification, the Borrower will not be in compliance with the provisions of Article VI; provided that, notwithstanding the foregoing, the Borrower will not, and will not permit any of its Subsidiaries to, allow any amendment, waiver or modification of any Ensign Master Lease that (i) shortens the term of such Ensign Master Lease to less than twelve (12) years (including extension or renewal options) from the date of such amendment, waiver or modification, (ii) amends, waives or modifies Articles X, XI, XVI or XIX of such Ensign Master Lease (including by amendment of the defined terms used therein) in a manner adverse in any material respects to the interests of the Secured Parties or (iii) amends, waives or modifies Section 5.13 of such Ensign Master Lease to the extent adversely impacting the ability of the Secured Parties to obtain or maintain a Lien on any assets of the Borrower or any of its Subsidiaries (other than the leasehold interests in such Ensign Master Lease), in each case, without the consent of the Required Lenders. No tenant under any Ensign Master Lease shall transfer its rights or obligations under such Ensign Master Lease to any Person other than (x) in the case of a tenant that is a Loan Party, any other Loan Party or (y) in the case of any tenant that is an Excluded Subsidiary, any other Excluded Subsidiary; provided, however, that no such transfer shall be permitted hereunder unless expressly permitted under such Ensign Master Lease or consented to in writing by landlord under such Ensign Master Lease.

Section 7.13. Accounting Changes. The Borrower will not, and will not permit any of its Subsidiaries to, change the fiscal year of the Borrower or of any of its Subsidiaries, except to change the fiscal year of a Subsidiary to conform its fiscal year to that of the Borrower.

Section 7.14. Government Regulation. The Borrower will not, and will not permit any of its Subsidiaries to, be or become subject at any time to any law, regulation or list of any Governmental Authority of the United States (including, without limitation, the OFAC list) that prohibits or limits the Lenders or the Administrative Agent from making any advance or extension of credit to the Borrower or from otherwise conducting business with the Loan Parties.

Section 7.15. Sanctions. The Borrower will not, and will not permit any of its Subsidiaries to, use any Loan or Letter of Credit or the proceeds of any Loan and/or Letter of Credit, or lend, contribute or otherwise make available any Loan or Letter Credit or the proceeds of any Loan or Letter of Credit to any Sanctioned Person, to fund any activities of or business with any Sanctioned Person or in any Sanctioned Country, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as a Lead Arranger, the Administrative Agent, a Lender (including a Swingline Lender) or an Issuing Bank or otherwise) of Sanctions.

Section 7.16. Anti-Corruption Laws. The Borrower will not, and will not permit any of its Subsidiaries to, use any Loan or Letter of Credit or the proceeds therefrom for any purpose that would violate the Foreign Corrupt Practices Act of 1977, the UK Bribery Act of 2010 and any similar anti-corruption legislation or laws in any other jurisdiction.

ARTICLE VIII

EVENTS OF DEFAULT

Section 8.1. Events of Default. If any of the following events (each, an "Event of Default") shall occur:

(a) the Borrower shall fail to pay any principal of any Loan or of any reimbursement obligation in respect of any LC Disbursement, when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment or otherwise; or

(b) the Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount payable under subsection (a) of this Section or an amount related to a Bank Product Obligation) payable under this Agreement or any other Loan Document, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of five (5) days; or

(c) any representation or warranty made or deemed made by or on behalf of the Borrower or any of its Subsidiaries in or in connection with this Agreement or any other Loan Document (including the Schedules attached hereto and thereto), or in any amendments or modifications hereof or waivers hereunder, or in any certificate, report, financial statement or other document submitted to the Administrative Agent or the Lenders by any Loan Party or any representative of any Loan Party pursuant to or in connection with this Agreement or any other Loan Document shall prove to be incorrect in any material respect (other than any representation or warranty that is expressly qualified by a Material Adverse Effect or other materiality, in which case such representation or warranty shall prove to be incorrect in any respect) when made or deemed made or submitted; or

(d) the Borrower shall fail to observe or perform any covenant or agreement contained in Section 5.3 (with respect to the Borrower's legal existence), Section 5.18 or Article VI or VII; or

(e) (i) any Loan Party shall fail to observe or perform any covenant or agreement contained in Section 5.1 or 5.2, and such failure shall remain unremedied for fifteen (15) days after the earlier of (x) any Responsible Officer of the Borrower becomes aware of such failure, or (y) notice thereof shall have been given to the Borrower by the Administrative Agent or any Lender, or (ii) any Loan Party shall fail to observe or perform any covenant or agreement contained in this Agreement (other than those referred to in subsections (a), (b), (d) and (e)(i) of this Section) or any other Loan Document or related to any Bank Product Obligation, and such failure shall remain unremedied for 30 days after the earlier of (x) any Responsible Officer of the Borrower becomes aware of such failure, or (y) notice thereof shall have been given to the Borrower by the Administrative Agent or any Lender; or

(f) the Borrower or any of its Subsidiaries (whether as primary obligor or as guarantor or other surety) shall fail to pay any principal of, or premium or interest on, any Material Indebtedness that is outstanding, when and as the same shall become due and payable (whether at scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument evidencing or governing such Indebtedness; or any other event shall occur or condition shall exist under any agreement or instrument relating to any Material Indebtedness and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, or permit the acceleration of, the maturity of such Indebtedness; or any Material Indebtedness shall be declared to be due and payable, or required to be prepaid or redeemed (other than by a regularly scheduled required prepayment or redemption), purchased or defeased, or any offer to prepay, redeem, purchase or defease such Indebtedness shall be required to be made, in each case prior to the stated maturity thereof (excluding (i) any prepayment or redemption requirements in connection with a sale of assets that secures Material Indebtedness to the extent such Material Indebtedness is repaid in connection with such sale and (ii) any offer to prepay or redeem Indebtedness of any Person or securing any assets acquired in a Permitted Acquisition); or

(g) the Borrower or any of its Material Subsidiaries shall (i) commence a voluntary case or other proceeding or file any petition seeking liquidation, reorganization or other relief under any federal, state or foreign bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a custodian, trustee, receiver, liquidator or other similar official of it or any substantial part of its property, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (i) of this subsection, (iii) apply for or consent to the appointment of a custodian, trustee, receiver, liquidator or other similar official for the Borrower or any such Material Subsidiary or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, or (vi) take any action for the purpose of effecting any of the foregoing; or

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Borrower or any of its Material Subsidiaries or its debts, or any substantial part of its assets, under any federal, state or foreign bankruptcy, insolvency or other similar law now or hereafter in effect or (ii) the appointment of a custodian, trustee, receiver, liquidator or other similar official for the Borrower or any of its Material Subsidiaries or for a substantial part of its assets, and in any such case, such proceeding or petition shall remain undismissed for a period of 60 days or an order or decree approving or ordering any of the foregoing shall be entered; or

(i) the Borrower or any of its Material Subsidiaries shall become unable to pay, shall admit in writing its inability to pay, or shall fail to pay, its debts as they become due; or

(j) (i) an ERISA Event shall have occurred, (ii) there is or arises an Unfunded Pension Liability (not taking into account Plans with negative Unfunded Pension Liability), or (iii) there is or arises any potential Withdrawal Liability, which, with respect to any of the foregoing clauses (i) through (iii), could reasonably be expected, either individually or in the aggregate, to have a Material Adverse Effect; or

(k) any judgment or order for the payment of money in excess of $7,500,000 in the aggregate, to the extent not adequately covered by insurance as to which a solvent insurance company has not contested or denied coverage, shall be rendered against the Borrower or any of its Subsidiaries, and there shall be a period of 60 consecutive days during which (i) a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect or (ii) such judgment or order shall remain undischarged, unvacated or unbonded; or

(l) any non-monetary judgment or order shall be rendered against the Borrower or any of its Subsidiaries that could reasonably be expected, either individually or in the aggregate for all such events, to have a Material Adverse Effect, and there shall be a period of 60 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(m) a Change in Control shall occur or exist; or

(n) (i) there shall occur any revocation, suspension, termination, rescission, non-renewal or forfeiture or any similar final administrative action with respect to one or more Health Care Permits, Third Party Payor Programs or Third Party Payor Authorizations that could reasonably be expected, either individually or in the aggregate, to have a Material Adverse Effect or (ii) the Borrower or any of its Subsidiaries shall be named in any action, fully or partially unsealed, in which the United States has affirmatively intervened, alleging violation of the federal False Claims Act or any other applicable law and, in connection with such action, the Borrower shall have offered, agreed or paid to, or received a final judgment requiring payment to, any Governmental Authority for payment of any fine, penalty or overpayment in excess of $25,000,000; or

(o) any material provision of the Guaranty and Security Agreement or any other Collateral Document shall for any reason cease to be valid and binding on, or enforceable against, any Loan Party, or any Loan Party shall so state in writing, or any Loan Party shall seek to terminate its obligation under the Guaranty and Security Agreement or any other Collateral Document (other than the release of any guaranty or collateral to the extent permitted pursuant to Section 9.11); or

(p) any Lien purported to be created under any Collateral Document (with respect to a material portion of the Collateral) shall fail or cease to be, or shall be asserted by any Loan Party not to be, a valid and perfected Lien on any Collateral, with the priority required by the applicable Collateral Documents (other than as a result of the failure by the Administrative Agent to take any action within its control); or

(q) (i) any PropCo Master Lease shall terminate or otherwise cease to be effective, other than upon the expiration or termination thereof with respect to any particular property or properties pursuant to Section 10.4 or Article XI of such PropCo Master Lease or pursuant to an amendment, waiver or modification of such PropCo Master Lease not prohibited by Section 7.12(a) of this Agreement, or an "Event of Default" (as defined in such PropCo Master Lease) shall have occurred and is continuing under Section 12.1.1, Section 12.1.2, Section 12.1.3 (for the avoidance of doubt, in the case of Sections 12.1.2 and 12.1.3, after the expiration of the applicable cure period set forth therein), Section 12.1.15, Section 12.1.16 (other than with respect to Section 5.11 and 5.12.3 thereof), or Section 16.1 of such PropCo Master Lease, or the landlord under such PropCo Master Lease shall have given the tenant under such PropCo Master Lease notice of termination of such PropCo Master Lease following an "Event of Default" (as defined in such PropCo Master Lease) or the landlord has issued a "Termination Notice" pursuant to Section 12.2.6 of the PropCo Master Lease, (ii) any Ensign Master Lease shall terminate or otherwise cease to be effective, other than upon the expiration or termination thereof with respect to any particular property or properties pursuant to Section 10.4 or Article XI of such Ensign Master Lease or pursuant to an amendment, waiver or modification of such Ensign Master Lease not prohibited by Section 7.12(b) of this Agreement, or an "Event of Default" (as defined in such Ensign Master Lease) shall have occurred and is continuing under Section 12.1.1, Section 12.1.2, Section 12.1.3 (for the avoidance of doubt, in the case of Sections 12.1.2 and 12.1.3, after the expiration of the applicable cure period set forth therein), Section 12.1.15, Section 12.1.16 (other than with respect to Section 5.11 and 5.12.3 thereof), or Section 16.1 of such Ensign Master Lease, or the landlord under such Ensign Master Lease shall have given the tenant under such Ensign Master Lease notice of termination of such Ensign Master Lease following an "Event of Default" (as defined in such Ensign Master Lease) or the landlord has issued a "Termination Notice" pursuant to Section 12.2.6 of the Ensign Master Lease or (iii) any event of the type described in the foregoing clause (i) or (ii) shall have occurred with respect to any Material Master Lease;

then, and in every such event (other than an event with respect to the Borrower described in subsection (g), (h) or (i) of this Section) and at any time thereafter during the continuance of such event, the Administrative Agent may, and upon the written request of the Required Lenders shall, by notice to the Borrower, take any or all of the following actions, at the same or different times: (i) terminate the Commitments, whereupon the Commitment of each Lender shall terminate immediately, (ii) declare the principal of and any accrued interest on the Loans, and all other Obligations owing hereunder, to be, whereupon the same shall become, due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, (iii) exercise all remedies contained in any other Loan Document and (iv) exercise any other remedies available at law or in equity; provided that, if an Event of Default with respect to the Borrower specified in either subsection (g), (h) or (i) shall occur, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon, and all fees and all other Obligations shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

Section 8.2. Application of Proceeds from Collateral. All proceeds from each sale of, or other realization upon, all or any part of the Collateral by any Secured Party after an Event of Default arises shall be applied as follows:

(a) first, to the reimbursable expenses of the Administrative Agent incurred in connection with such sale or other realization upon the Collateral, until the same shall have been paid in full;

(b) second, to the fees and other reimbursable expenses of the Administrative Agent, the Swingline Lender and each Issuing Bank then due and payable pursuant to any of the Loan Documents, until the same shall have been paid in full;

(c) third, to all reimbursable expenses, if any, of the Lenders then due and payable pursuant to any of the Loan Documents, until the same shall have been paid in full;

(d) fourth, to the fees and interest then due and payable under the terms of this Agreement, until the same shall have been paid in full;

(e) fifth, to the aggregate outstanding principal amount of the Loans, the LC Exposure, the Bank Product Obligations and the Hedging Obligations that constitute Obligations, until the same shall have been paid in full, allocated *pro rata* among the Secured Parties based on their respective *pro rata* shares of the aggregate amount of such Loans, LC Exposure, Bank Product Obligations and Hedging Obligations;

(f) sixth, to additional cash collateral for the aggregate amount of all outstanding Letters of Credit until the aggregate amount of all cash collateral held by the Administrative Agent pursuant to this Agreement is at least 103% of the LC Exposure after giving effect to the foregoing clause fifth; and

(g) seventh, to the extent any proceeds remain, to the Borrower or as otherwise provided by a court of competent jurisdiction.

All amounts allocated pursuant to the foregoing clauses third through fifth to the Lenders as a result of amounts owed to the Lenders under the Loan Documents shall be allocated among, and distributed to, the Lenders *pro rata* based on their respective Pro Rata Shares; provided that all amounts allocated to that portion of the LC Exposure comprised of the aggregate undrawn amount of all outstanding Letters of Credit pursuant to clauses fifth and sixth shall be distributed to the Administrative Agent, rather than to the Lenders, and held by the Administrative Agent in an account in the name of the Administrative Agent for the benefit of each Issuing Bank and the Lenders as cash collateral for the LC Exposure, such account to be administered in accordance with Section 2.22(g). All cash collateral for LC Exposure shall be applied to satisfy drawings under the Letters of Credit as they occur; if any amount remains on deposit on cash collateral after all letters of credit have either been fully drawn or expired, such remaining amount shall be applied to other Obligations, if any, in the order set forth above.

Notwithstanding the foregoing, Bank Product Obligations and Hedging Obligations shall be excluded from the application described above if the Administrative Agent has not received written notice thereof, together with such supporting documentation as the Administrative Agent may request, from the Bank Product Provider or the Lender-Related Hedge Provider, as the case may be. Each Bank Product

Provider or Lender-Related Hedge Provider that has given the notice contemplated by the preceding sentence shall, by such notice, be deemed to have acknowledged and accepted the appointment of the Administrative Agent pursuant to the terms of Article IX hereof for itself and its Affiliates as if a "Lender" party hereto.

ARTICLE IX

THE ADMINISTRATIVE AGENT

Section 9.1. Appointment of the Administrative Agent.

(a) Each Lender irrevocably appoints SunTrust Bank as the Administrative Agent and authorizes it to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent under this Agreement and the other Loan Documents, together with all such actions and powers that are reasonably incidental thereto. The Administrative Agent may perform any of its duties hereunder or under the other Loan Documents by or through any one or more sub-agents or attorneys-in-fact appointed by the Administrative Agent. The Administrative Agent and any such sub-agent or attorney-in-fact may perform any and all of its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions set forth in this Article shall apply to any such sub-agent, attorney-in-fact or Related Party and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as the Administrative Agent.

(b) Each Issuing Bank shall act on behalf of the Revolving Lenders with respect to any Letters of Credit issued by it and the documents associated therewith until such time and except for so long as the Administrative Agent may agree at the request of the Required Lenders to act for such Issuing Bank with respect thereto; provided that each Issuing Bank shall have all the benefits and immunities (i) provided to the Administrative Agent in this Article with respect to any acts taken or omissions suffered by such Issuing Bank in connection with Letters of Credit issued by it or proposed to be issued by it and the application and agreements for letters of credit pertaining to the Letters of Credit as fully as if the term "Administrative Agent" as used in this Article included such Issuing Bank with respect to such acts or omissions and (ii) as additionally provided in this Agreement with respect to such Issuing Bank.

Section 9.2. Nature of Duties of the Administrative Agent. The Administrative Agent shall not have any duties or obligations except those expressly set forth in this Agreement and the other Loan Documents. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default or an Event of Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except those discretionary rights and powers expressly contemplated by the Loan Documents that the Administrative Agent is required to exercise in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 10.2), provided that the Administrative Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Administrative Agent to liability or that is contrary to any Loan Document or applicable law, including for the avoidance of doubt any action that may be in violation of the automatic stay under any Debtor Relief Law or that may effect a forfeiture, modification or termination of property of a Defaulting Lender in violation of any Debtor Relief Law, and (c) except as expressly set forth in the Loan Documents, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Subsidiaries that is communicated to or obtained by the Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it, its sub-agents or its attorneys-in-fact with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as

provided in Section 10.2) or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall not be responsible for the negligence or misconduct of any sub-agents or attorneys-in-fact selected by it with reasonable care. The Administrative Agent shall not be deemed to have knowledge of any Default or Event of Default unless and until written notice thereof (which notice shall include an express reference to such event being a "Default" or "Event of Default" hereunder) is given to the Administrative Agent by the Borrower or any Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements, or other terms and conditions set forth in any Loan Document, (iv) the validity, enforceability, effectiveness or genuineness of any Loan Document or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article III or elsewhere in any Loan Document, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent. The Administrative Agent may consult with legal counsel (including counsel for the Borrower) concerning all matters pertaining to such duties.

Section 9.3. Lack of Reliance on the Administrative Agent. Each of the Lenders, the Swingline Lender and each Issuing Bank acknowledges that it has, independently and without reliance upon the Administrative Agent, any other Issuing Bank or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each of the Lenders, the Swingline Lender and each Issuing Bank also acknowledges that it will, independently and without reliance upon the Administrative Agent, any other Issuing Bank or any other Lender and based on such documents and information as it has deemed appropriate, continue to make its own decisions in taking or not taking any action under or based on this Agreement, any related agreement or any document furnished hereunder or thereunder.

Section 9.4. Certain Rights of the Administrative Agent. If the Administrative Agent shall request instructions from the Required Lenders with respect to any action or actions (including the failure to act) in connection with this Agreement, the Administrative Agent shall be entitled to refrain from such act or taking such act unless and until it shall have received instructions from such Lenders, and the Administrative Agent shall not incur liability to any Person by reason of so refraining. Without limiting the foregoing, no Lender shall have any right of action whatsoever against the Administrative Agent as a result of the Administrative Agent acting or refraining from acting hereunder in accordance with the instructions of the Required Lenders where required by the terms of this Agreement.

Section 9.5. Reliance by the Administrative Agent. The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, posting or other distribution) believed by it to be genuine and to have been signed, sent or made by the proper Person. The Administrative Agent may also rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (including counsel for the Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or not taken by it in accordance with the advice of such counsel, accountants or experts.

Section 9.6. The Administrative Agent in its Individual Capacity. The bank serving as the Administrative Agent shall have the same rights and powers under this Agreement and any other Loan Document in its capacity as a Lender as any other Lender and may exercise or refrain from exercising the same as though it were not the Administrative Agent; and the terms "Lenders", "Required Lenders", "Required Revolving Lenders", or any similar terms shall, unless the context clearly otherwise indicates, include the Administrative Agent in its individual capacity. The bank acting as the Administrative Agent and its Affiliates may accept deposits from, lend money to, and generally engage in any kind of business with the Borrower or any Subsidiary or Affiliate of the Borrower as if it were not the Administrative Agent hereunder.

Section 9.7. Successor Administrative Agent.

(a) The Administrative Agent may resign at any time by giving notice thereof to the Lenders and the Borrower. Upon any such resignation, the Required Lenders shall have the right to appoint a successor Administrative Agent, subject to approval by the Borrower provided that no Default or Event of Default shall exist at such time. If no successor Administrative Agent shall have been so appointed, and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of resignation, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which shall be a commercial bank organized under the laws of the United States or any state thereof or a bank which maintains an office in the United States, having a combined capital and surplus of at least $500,000,000.

(b) Upon the acceptance of its appointment as the Administrative Agent hereunder by a successor, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations under this Agreement and the other Loan Documents. If, within 45 days after written notice is given of the retiring Administrative Agent's resignation under this Section, no successor Administrative Agent shall have been appointed and shall have accepted such appointment, then on such 45th day (i) the retiring Administrative Agent's resignation shall become effective, (ii) the retiring Administrative Agent shall thereupon be discharged from its duties and obligations under the Loan Documents and (iii) the Required Lenders shall thereafter perform all duties of the retiring Administrative Agent under the Loan Documents until such time as the Required Lenders appoint a successor Administrative Agent as provided above. After any retiring Administrative Agent's resignation hereunder, the provisions of this Article shall continue in effect for the benefit of such retiring Administrative Agent and its representatives and agents in respect of any actions taken or not taken by any of them while it was serving as the Administrative Agent.

(c) In addition to the foregoing, if a Lender becomes, and during the period it remains, a Defaulting Lender, and if any Default has arisen from a failure of the Borrower to comply with Section 2.26(a), then each Issuing Bank and the Swingline Lender may, upon prior written notice to the Borrower and the Administrative Agent, resign as an Issuing Bank or as Swingline Lender, as the case may be, effective at the close of business Atlanta, Georgia time on a date specified in such notice (which date may not be less than five (5) Business Days after the date of such notice).

Section 9.8. Withholding Tax.

(a) To the extent required by any applicable law, the Administrative Agent may withhold from any payment to any Lender an amount equivalent to any applicable withholding tax. If the Internal Revenue Service or any authority of the United States or any other jurisdiction asserts a claim that the Administrative Agent did not properly withhold tax from amounts paid to or for the account of any Lender (because the appropriate form was not delivered or was not properly executed, or because such Lender failed to notify the Administrative Agent of a change in circumstances that rendered the exemption from, or reduction of, withholding tax ineffective, or for any other reason), such Lender shall indemnify the Administrative Agent (to the extent that the Administrative Agent has not already been reimbursed by the Borrower and without limiting the obligation of the Borrower to do so) fully for all amounts paid, directly or indirectly, by the Administrative Agent as tax or otherwise, including penalties and interest, together with all expenses incurred, including legal expenses, allocated staff costs and any out of pocket expenses.

(b) Without duplication of any indemnity provided under subsection (a) of this Section, each Lender shall also indemnify the Administrative Agent, within 10 days after demand therefor, for (i) any Indemnified Taxes or Other Taxes attributable to such Lender (to the extent that the Administrative Agent has not already been reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), (ii) any Taxes attributable to such Lender's failure to comply with the provisions of Section 10.4(d) relating to the maintenance of a Participant Register and (iii) any Excluded Taxes attributable to such Lender, in each case, that are payable or paid by the Administrative Agent in connection with any Loan Document, and any reasonable expenses arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to any Lender by the Administrative Agent shall be conclusive absent manifest error. Each Lender hereby authorizes the Administrative Agent to set off and apply any and all amounts at any time owing to such Lender under any Loan Document or otherwise payable by the Administrative Agent to the Lender from any other source against any amount due to the Administrative Agent under this subsection.

Section 9.9. The Administrative Agent May File Proofs of Claim.

(a) In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to any Loan Party, the Administrative Agent (irrespective of whether the principal of any Loan or any Revolving Credit Exposure shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether the Administrative Agent shall have made any demand on the Borrower) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(i) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loans or Revolving Credit Exposure and all other Obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Lenders, each Issuing Bank and the Administrative Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of the Lenders, each Issuing Bank and the Administrative Agent and its agents and counsel and all other amounts due the Lenders, each Issuing Bank and the Administrative Agent under Section 10.3) allowed in such judicial proceeding; and

(ii) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same.

(b) Any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender and each Issuing Bank to make such payments to the Administrative Agent and, if the Administrative Agent shall consent to the making of such payments directly to the Lenders and each Issuing Bank, to pay to the Administrative Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Administrative Agent and its agents and counsel, and any other amounts due the Administrative Agent under Section 10.3.

Nothing contained herein shall be deemed to authorize the Administrative Agent to authorize or consent to or accept or adopt on behalf of any Lender or any Issuing Bank any plan of reorganization, arrangement, adjustment or composition affecting the Obligations or the rights of any Lender or to authorize the Administrative Agent to vote in respect of the claim of any Lender in any such proceeding.

Section 9.10. Authorization to Execute Other Loan Documents. Each Lender hereby authorizes the Administrative Agent to execute on behalf of all Lenders all Loan Documents (including, without limitation, the Collateral Documents and any subordination agreements) other than this Agreement.

Section 9.11. Collateral and Guaranty Matters. The Lenders irrevocably authorize the Administrative Agent, at its option and discretion to effectuate the releases and subordination agreements contemplated by Section 10.17. Upon request by the Administrative Agent at any time, the Required Lenders will confirm in writing the Administrative Agent's authority to release its interest in particular types or items of property or to release any Loan Party from its obligations under the applicable Collateral Documents pursuant to Section 10.17.

Section 9.12. Co-Documentation Agents; Syndication Agent. Each Lender hereby designates [●] and [●] as Co-Documentation Agents and agrees that the Co-Documentation Agents shall have no duties or obligations under any Loan Documents to any Lender or any Loan Party. Each Lender hereby designates [●] as Syndication Agent and agrees that the Syndication Agent shall have no duties or obligations under any Loan Documents to any Lender or any Loan Party.

Section 9.13. Right to Realize on Collateral and Enforce Guarantee. Anything contained in any of the Loan Documents to the contrary notwithstanding, the Borrower, the Administrative Agent and each Lender hereby agree that (i) no Lender shall have any right individually to realize upon any of the Collateral or to enforce the Collateral Documents, it being understood and agreed that all powers, rights and remedies hereunder and under the Collateral Documents may be exercised solely by the Administrative Agent, and (ii) in the event of a foreclosure by the Administrative Agent on any of the Collateral pursuant to a public or private sale or other disposition, the Administrative Agent or any Lender may be the purchaser or licensor of any or all of such Collateral at any such sale or other disposition and the Administrative Agent, as agent for and representative of the Lenders (but not any Lender or Lenders in its or their respective individual capacities unless the Required Lenders shall otherwise agree in writing), shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for all or any portion of the Collateral sold at any such public sale, to use and apply any of the Obligations as a credit on account of the purchase price for any collateral payable by the Administrative Agent at such sale or other disposition.

Section 9.14. Secured Bank Product Obligations and Hedging Obligations. No Bank Product Provider or Lender-Related Hedge Provider that obtains the benefits of Section 8.2, the Collateral Documents or any Collateral by virtue of the provisions hereof or of any other Loan Document shall have any right to notice of any action or to consent to, direct or object to any action hereunder or under any other Loan Document or otherwise in respect of the Collateral (including the release or impairment of any Collateral) other than in its capacity as a Lender and, in such case, only to the extent expressly provided in the Loan Documents. Notwithstanding any other provision of this Article to the contrary, the Administrative Agent shall not be required to verify the payment of, or that other satisfactory arrangements have been made with respect to, Bank Product Obligations and Hedging Obligations unless the Administrative Agent has received written notice of such Obligations, together with such supporting documentation as the Administrative Agent may request, from the applicable Bank Product Provider or Lender-Related Hedge Provider, as the case may be.

Section 9.15. Certain ERISA Matters.

(a) Each Lender (x) represents and warrants, as of the date such Person became a Lender party hereto, and (y) covenants, from the date such Person became a Lender party hereto to the date such Person ceases being a Lender party hereto, for the benefit of, the Administrative Agent and the Lead Arrangers and their respective Affiliates, and not, for the avoidance of doubt, to or for the benefit of the Borrower or any other Loan Party, that at least one of the following is and will be true:

(i) such Lender is not using "plan assets" (within the meaning of Section 3(42) of ERISA or otherwise for purposes of Title I of ERISA or Section 4975 of the Code) of one or more Benefit Plans in connection with the Loans, the Letters of Credit or the Commitments,

(ii) the prohibited transaction exemption set forth in one or more PTEs, such as PTE 84-14 (a class exemption for certain transactions determined by independent qualified professional asset managers), PTE 95-60 (a class exemption for certain transactions involving insurance company general accounts), PTE 90-1 (a class exemption for certain transactions involving insurance company pooled separate accounts), PTE 91-38 (a class exemption for certain transactions involving bank collective investment funds) or PTE 96-23 (a class exemption for certain transactions determined by in-house asset managers), is applicable so as to exempt from the prohibitions of Section 406 of ERISA and Section 4975 of the Code such Lender's entrance into, participation in, administration of and performance of the Loans, the Letters of Credit, the Commitments and this Agreement,

(iii) (A) such Lender is an investment fund managed by a "Qualified Professional Asset Manager" (within the meaning of Part VI of PTE 84-14), (B) such Qualified Professional Asset Manager made the investment decision on behalf of such Lender to enter into, participate in, administer and perform the Loans, the Letters of Credit, the Commitments and this Agreement, (C) the entrance into, participation in, administration of and performance of the Loans, the Letters of Credit, the Commitments and this Agreement satisfies the requirements of sub-sections (b) through (g) of Part I of PTE 84-14 and (D) to the best knowledge of such Lender, the requirements of subsection (a) of Part I of PTE 84-14 are satisfied with respect to such Lender's entrance into, participation in, administration of and performance of the Loans, the Letters of Credit, the Commitments and this Agreement, or

(iv) such other representation, warranty and covenant as may be agreed in writing between the Administrative Agent, in its sole discretion, and such Lender.

(b) In addition, unless either (1) sub-clause (i) in the immediately preceding clause (a) is true with respect to a Lender or (2) a Lender has provided another representation, warranty and covenant in accordance with sub-clause (iv) in the immediately preceding clause (a), such Lender further (x) represents and warrants, as of the date such Person became a Lender party hereto, and (y) covenants, from the date such Person became a Lender party hereto to the date such Person ceases being a Lender party hereto, for the benefit of, the Administrative Agent and the Lead Arrangers and their respective Affiliates, and not, for the avoidance of doubt, to or for the benefit of the Borrower or any other Loan Party, that none of the Administrative Agent or the Lead Arrangers or any of their respective Affiliates is a fiduciary with respect to the assets of such Lender involved in the Loans, the Letters of Credit, the Commitments and this Agreement (including in connection with the reservation or exercise of any rights by the Administrative Agent under this Agreement, any Loan Document or any documents related to hereto or thereto).

ARTICLE X

MISCELLANEOUS

Section 10.1. Notices.

(a) Written Notices.

(i) Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications to any party herein to be effective shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

To the Borrower:
The Pennant Group, Inc.
1675 East Riverside Drive, Suite 150
Eagle, ID 83616
Attention: Chief Financial Officer
Telecopy Number: [●]
Email: [●]

With a copy to:	Pennant Services, Inc. 1675 East Riverside Drive, Suite 150 Eagle, ID 83616 Attention: Legal Email: legal@pennantservices.com
To the Administrative Agent:	SunTrust Bank 3333 Peachtree Road 7th Floor Atlanta, Georgia 30326 Attention: Portfolio Manager Email: Katherine.Bass@SunTrust.com
With copies to (for informational purposes only):	
	SunTrust Bank 3333 Peachtree Road Atlanta, Georgia 30326 Attn: Ron Caldwell Telecopy Number: (404) 926-5248 Email: Ron.Caldwell@SunTrust.com
	SunTrust Bank Agency Services 303 Peachtree Street, N.E. / 25th Floor Atlanta, Georgia 30308 Attention: Agency Services Manager Telecopy Number: (404) 221-2001
	and
	Latham & Watkins LLP 355 South Grand Avenue, Suite 100 Los Angeles, CA 90071-1560 Attention: Jason Bosworth Telecopy Number: (213) 891-8291 Email: jason.bosworth@lw.com
To the Issuing Bank:	SunTrust Bank Attn: Standby Letter of Credit Dept. 245 Peachtree Center Ave., 17th FL Atlanta, GA 30303 Telephone: (800) 951-7847 Telecopy Number: (801) 567-6205 Email: LCandTradeServices@SunTrust.com

To the Swingline Lender:	SunTrust Bank Agency Services 303 Peachtree Street, N.E. / 25th Floor Atlanta, Georgia 30308 Attention: Agency Services Manager Telecopy Number: (404) 221-2001
To any other Lender:	the address set forth in the Administrative Questionnaire or the Assignment and Acceptance executed by such Lender

Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All such notices and other communications shall be effective upon actual receipt by the relevant Person or, if delivered by overnight courier service, upon the first Business Day after the date deposited with such courier service for overnight (next-day) delivery or, if sent by telecopy, upon transmittal in legible form by facsimile machine or, if mailed, upon the third Business Day after the date deposited into the mail or, if delivered by hand, upon delivery; provided that notices delivered to the Administrative Agent, any Issuing Bank or the Swingline Lender shall not be effective until actually received by such Person at its address specified in this Section.

(ii) Any agreement of the Administrative Agent, any Issuing Bank or any Lender herein to receive certain notices by telephone or facsimile is solely for the convenience and at the request of the Borrower. The Administrative Agent, each Issuing Bank and each Lender shall be entitled to rely on the authority of any Person purporting to be a Person authorized by the Borrower to give such notice and the Administrative Agent, each Issuing Bank and the Lenders shall not have any liability to the Borrower or other Person on account of any action taken or not taken by the Administrative Agent, any Issuing Bank or any Lender in reliance upon such telephonic or facsimile notice. The obligation of the Borrower to repay the Loans and all other Obligations hereunder shall not be affected in any way or to any extent by any failure of the Administrative Agent, any Issuing Bank or any Lender to receive written confirmation of any telephonic or facsimile notice or the receipt by the Administrative Agent, any Issuing Bank or any Lender of a confirmation which is at variance with the terms understood by the Administrative Agent, such Issuing Bank and such Lender to be contained in any such telephonic or facsimile notice.

(b) Electronic Communications.

(i) Notices and other communications to the Lenders and each Issuing Bank hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Administrative Agent, provided that the foregoing shall not apply to notices to any Lender or any Issuing Bank pursuant to Article II unless such Lender, such Issuing Bank, as applicable, and the Administrative Agent have agreed to receive notices under any Section thereof by electronic communication and have agreed to the procedures governing such communications. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications.

(ii) Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement); provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next Business Day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(c) Certification of Public Information. The Borrower and each Lender acknowledge that certain of the Lenders may be Public Lenders and, if documents or notices required to be delivered pursuant to Section 5.1 or Section 5.2 otherwise are being distributed through Syndtrak, Intralinks or any other Internet or intranet website or other information platform (the "Platform"), any document or notice that the Borrower has indicated contains Non-Public Information shall not be posted on that portion of the Platform designated for such Public Lenders. The Borrower agrees to clearly designate all information provided to the Administrative Agent by or on behalf of the Borrower which is suitable to make available to Public Lenders. If the Borrower has not indicated whether a document or notice delivered pursuant to Section 5.1 or Section 5.2 contains Non-Public Information, the Administrative Agent reserves the right to post such document or notice solely on that portion of the Platform designated for Lenders who wish to receive Non-Public Information.

(d) Private Side Information Contacts. Each Public Lender agrees to cause at least one individual at or on behalf of such Public Lender to at all times have selected the "Private Side Information" or similar designation on the content declaration screen of the Platform in order to enable such Public Lender or its delegate, in accordance with such Public Lender's compliance procedures and applicable law, including Unites States federal and state securities laws, to make reference to information that is not made available through the "Public Side Information" portion of the Platform and that may contain Non-Public Information with respect to the Borrower, its Affiliates or any of their securities or loans for purposes of United States federal or state securities laws. In the event that any Public Lender has determined for itself not to access any information disclosed through the Platform or otherwise, such Public Lender acknowledges that (i) other Lenders may have availed themselves of such information and (ii) neither the Borrower nor the Administrative Agent has any responsibility for such Public Lender's decision to limit the scope of the information it has obtained in connection with this Agreement and the other Loan Documents.

Section 10.2. Waiver; Amendments.

(a) No failure or delay by the Administrative Agent, any Issuing Bank or any Lender in exercising any right or power hereunder or under any other Loan Document, and no course of dealing between the Borrower and the Administrative Agent or any Lender, shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such right or power, preclude any other or further exercise thereof or the exercise of any other right or power hereunder or thereunder. The rights and remedies of the Administrative Agent, each Issuing Bank and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies provided by law. No waiver of any provision of this Agreement or of any other Loan Document or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by subsection (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or the issuance of a Letter of Credit shall not be construed as a waiver of any Default or Event of Default, regardless of whether the Administrative Agent, any Lender or any Issuing Bank may have had notice or knowledge of such Default or Event of Default at the time.

(b) Subject to Section 2.16(b), no amendment or waiver of any provision of this Agreement or of the other Loan Documents (other than the Fee Letter), nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Borrower and the Required Lenders, or the Borrower and the Administrative Agent with the consent of the Required Lenders, and then such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided that, in addition to the consent of the Required Lenders, no amendment, waiver or consent shall:

(i) increase the Commitment of any Lender without the written consent of such Lender;

(ii) reduce the principal amount of any Loan or LC Disbursement or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender directly affected thereby (provided that any change to the calculation of the Leverage Ratio or the component definitions used therein shall not require consent of each Lender directly affected thereby and shall only be subject to Required Lender approval);

(iii) postpone the date fixed for any payment (other than any mandatory prepayment) of any principal of, or interest on, any Loan or LC Disbursement or any fees hereunder or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date for the termination or reduction of any Commitment, without the written consent of each Lender directly affected thereby (provided that any change to the calculation of the Leverage Ratio or the component definitions used therein shall not require consent of each Lender directly affected thereby and shall only be subject to Required Lender approval);

(iv) change Section 2.21(b) or (c) or Section 8.2 in a manner that would alter the *pro rata* sharing of payments required thereby, without the written consent of each Lender directly affected thereby;

(v) change any of the provisions of this subsection (b) or the percentage set forth in the definition of "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders which are required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the consent of each Lender;

(vi) release all or substantially all of the guarantors, or limit the liability of all or substantially all of the guarantors, under any guaranty agreement guaranteeing any of the Obligations, without the written consent of each Lender; or

(vii) release all or substantially all collateral (if any) securing any of the Obligations, without the written consent of each Lender;

provided, further, that (x) no such amendment, waiver or consent shall amend, modify or otherwise affect the rights, duties or obligations of the Administrative Agent, the Swingline Lender or any Issuing Bank without the prior written consent of such Person, and (y) no amendment, waiver or consent shall, unless signed by the Borrower and the Required Revolving Lenders, or the Borrower and the Administrative Agent with the consent of the Required Revolving Lenders:

(1) amend or waive compliance with the conditions precedent to the obligations of the Revolving Lenders to make any Revolving Loan or LC Disbursement;

(2) amend or waive non-compliance with any provision of Section 2.12(d);

(3)waive any Default or Event of Default for the purpose of satisfying the conditions precedent to the obligations of the Revolving Lenders to make any Revolving Loan or LC Disbursement; or

(4) change any of the provisions of this clause (y);

provided, further, that no such amendment, waiver or consent shall change the number or percentage contained in the definition of "Required Revolving Lenders" or any other provision hereof specifying the number or percentage of Revolving Lenders which are required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the consent of each Revolving Lender.

(c) Notwithstanding anything to the contrary herein, no Defaulting Lender shall have any right to approve or disapprove any amendment, waiver or consent hereunder, except that the Commitment of such Lender may not be increased or extended, and amounts payable to such Lender hereunder may not be permanently reduced, without the consent of such Lender (other than reductions in fees and interest in which such reduction does not disproportionately affect such Lender). Notwithstanding anything contained herein to the contrary, this Agreement may be amended and restated without the consent of any Lender (but with the consent of the Borrower and the Administrative Agent) if, upon giving effect to such amendment and restatement, such Lender shall no longer be a party to this Agreement (as so amended and restated), the Commitments of such Lender shall have terminated (but such Lender shall continue to be entitled to the benefits of Sections 2.18, 2.19, 2.20 and 10.3), such Lender shall have no other commitment or other obligation hereunder and such Lender shall have been paid in full all principal, interest and other amounts owing to it or accrued for its account under this Agreement.

(d) Notwithstanding the foregoing, this Agreement may be amended (or amended and restated) with the written consent of the Required Lenders, Administrative Agent and Borrower (a) to add one or more additional credit facilities to this Agreement and to permit extensions of credit from time to time outstanding thereunder and the accrued interest and fees in respect thereof to share ratably in the benefits of this Agreement and the other Loan Documents with the Term Loans and the Revolving Loans and the accrued interest and fees in respect thereof and (b) to include appropriately the Lenders holding such credit facilities in any determination of the Required Lenders.

(e) Notwithstanding anything to the contrary herein, any Loan Document may be waived, amended, supplemented or modified pursuant to an agreement or agreements in writing entered into by the Borrower and the Administrative Agent (without the consent of any Lender) solely to effect administrative changes that are not adverse to any Lender or to correct administrative errors or omissions or to cure an ambiguity, defect or error (including, without limitation, to revise the legal description of any Collateral), or to grant a new Lien for the benefit of the Secured Parties or extend an existing Lien over additional property. Notwithstanding anything to the contrary herein, (A) additional extensions of credit consented to by the Required Lenders shall be permitted hereunder on a ratable basis with the existing Loans (including as to proceeds of, and sharing in the benefits of, Collateral and sharing of prepayments), and (B) the Administrative Agent shall enter into the intercreditor agreement upon the request of the Borrower as contemplated by Section 7.2(i) solely to the extent such intercreditor agreement is reasonably acceptable to the Administrative Agent.

Section 10.3. Expenses; Indemnification.

(a) The Borrower shall pay (i) all reasonable, documented out-of-pocket costs and expenses of the Administrative Agent, the Lead Arrangers and their Affiliates, including the reasonable fees, charges and disbursements of one outside counsel for the Administrative Agent, the Lead Arrangers and their Affiliates, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of the Loan Documents and any amendments, modifications or waivers thereof (whether or not the transactions contemplated in this Agreement or any other Loan Document shall be consummated), (ii) all reasonable, documented out-of-pocket expenses incurred by any Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and (iii) all documented out-of-pocket costs and expenses which shall be limited, in the case of outside counsel, to the reasonable fees, charges and disbursements of one outside counsel to the Secured Parties, taken as a whole, any applicable local counsel required for the Secured Parties in any applicable jurisdiction and any special regulatory counsel (and, solely in the case of a conflict of interest, one additional of each such counsel for each group of similarly situated Secured Parties)) incurred by the Administrative Agent, any Issuing Bank or any Lender in connection with the enforcement or protection of its rights in connection with this Agreement, including its rights under this Section, or in connection with the Loans made or any Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit.

(b) The Borrower shall indemnify the Administrative Agent (and any sub-agent thereof), each Lender and each Issuing Bank, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, penalties, damages, liabilities and related expenses (including the reasonable and documented fees, charges and disbursements of one primary counsel for the Indemnitees, taken as a whole, any local counsel for the Indemnitees in any applicable jurisdiction and any special regulatory counsel (and, solely in the case of a conflict of interest, one additional of each such counsel for each group of similarly situated Indemnitees)) incurred by any Indemnitee or asserted against any Indemnitee by any third party or by the Borrower or any other Loan Party arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder or the consummation of the transactions contemplated hereby or thereby, (ii) any Loan or Letter of Credit or the use or proposed use of the proceeds therefrom (including any refusal by any Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any actual or alleged presence or Release of Hazardous Materials on or from any property owned or operated by the Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by the Borrower or any other Loan Party, and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, penalties, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and non-appealable judgment to have resulted from (x) the gross negligence or willful misconduct of such Indemnitee or (y) a material breach of such Indemnitee's obligations hereunder or under any other Loan Document. No Indemnitee shall be liable for any damages arising from the use by others of any information or other materials obtained through Syndtrak, Intralinks or any other Internet or intranet website, except as a result of such Indemnitee's gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final and non-appealable judgment.

(c) The Borrower shall pay, and hold the Administrative Agent, each Issuing Bank and each of the Lenders harmless from and against, any and all present and future stamp, documentary, and other similar taxes with respect to this Agreement and any other Loan Documents, any collateral described therein or any payments due thereunder, and save the Administrative Agent, each Issuing Bank and each Lender harmless from and against any and all liabilities with respect to or resulting from any delay or omission to pay such taxes.

(d) To the extent that the Borrower fails to pay any amount required to be paid to the Administrative Agent, any Issuing Bank or the Swingline Lender under subsection (a), (b) or (c) hereof, each Lender severally agrees to pay to the Administrative Agent, the applicable Issuing Bank or the Swingline Lender, as the case may be, such Lender's *pro rata* share (in accordance with its respective Revolving Commitment (or Revolving Credit Exposure, as applicable) and Term Loan determined as of the time that the unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified payment, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent, the applicable Issuing Bank or the Swingline Lender in its capacity as such.

(e) To the extent permitted by applicable law, each party hereto waives, and agrees not to assert, any claim against any other party hereto, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to actual or direct damages) arising out of, in connection with or as a result of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated therein, any Loan or any Letter of Credit or the use of proceeds thereof.

(f) All amounts due under this Section shall be payable promptly after written demand therefor.

Section 10.4. Successors and Assigns.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Administrative Agent and each Lender, and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an assignee in accordance with the provisions of subsection (b) of this Section, (ii) by way of participation in accordance with the provisions of subsection (d) of this Section or (iii) by way of pledge or assignment of a security interest subject to the restrictions of subsection (f) of this Section (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in subsection (d) of this Section and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may at any time assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitments, Loans and other Revolving Credit Exposure at the time owing to it); provided that any such assignment shall be subject to the following conditions:

(i) Minimum Amounts.

(A) in the case of an assignment of the entire remaining amount of the assigning Lender's Commitments, Loans and other Revolving Credit Exposure at the time owing to it or in the case of an assignment to a Lender, an Affiliate of a Lender or an Approved Fund, no minimum amount need be assigned; and

(B) in any case not described in subsection (b)(i)(A) of this Section, the aggregate amount of the Commitment (which, in the case of Revolving Commitments, includes Revolving Loans and Revolving Credit Exposure outstanding thereunder) or, if the applicable Commitment is not then in effect, the principal outstanding balance of the Loans and/or Revolving Credit Exposure, as applicable, of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent or, if "Trade Date" is specified in the Assignment and Acceptance, as of the Trade Date) shall not be less than $1,000,000 with respect to Term Loans and $5,000,000 with respect to Revolving Loans and Revolving Commitments and in minimum increments of $1,000,000, unless each of the Administrative Agent and, so long as no Event of Default has occurred and is continuing, the Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed).

(ii) Proportionate Amounts. Each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loans, other Revolving Credit Exposure or the Commitments assigned, except that this subsection (b)(ii) shall not prohibit any Lender from assigning all or a portion of its rights and obligations among separate Commitments or Classes on a non-*pro rata* basis.

(iii) Required Consents. No consent shall be required for any assignment except to the extent required by subsection (b)(i)(B) of this Section and, in addition:

(A) the consent of the Borrower shall be required unless (x) an Event of Default has occurred and is continuing at the time of such assignment or (y) (1) in the case of Term Loans such assignment is to a Lender, an Affiliate of such Lender or an Approved Fund of such Lender, or (2) in the case of Revolving Commitments or Revolving Loans, such assignment is to a Lender holding Revolving Commitments or an Affiliate of such Lender or an Approved Fund of such Lender;

(B) the consent of the Administrative Agent (such consent not to be unreasonably withheld or delayed) shall be required unless such assignment is of a Term Loan to a Lender, an Affiliate of such Lender or an Approved Fund of such Lender; and

(C) the consent of each Issuing Bank (such consent not to be unreasonably withheld or delayed) shall be required for any assignment that increases the obligation of the assignee to participate in exposure under one or more Letters of Credit (whether or not then outstanding), and the consent of the Swingline Lender (such consent not to be unreasonably withheld or delayed) shall be required for any assignment in respect of the Revolving Commitments unless such assignment is to a Lender holding Revolving Commitments or Revolving Loans, an Affiliate of such Lender or an Approved Fund of such Lender.

(iv) Assignment and Acceptance. The parties to each assignment shall deliver to the Administrative Agent (A) a duly executed Assignment and Acceptance, (B) a processing and recordation fee of $3,500 (except with respect to any assignment by a Lender to one of its Affiliates), (C) an Administrative Questionnaire unless the assignee is already a Lender and (D) the documents required under Section 2.20(e).

(v) No Assignment to the Borrower. No such assignment shall be made to the Borrower or any of the Borrower's Affiliates or Subsidiaries.

(vi) No Assignment to Natural Persons, Defaulting Lenders or Disqualified Institutions. No such assignment shall be made to a natural person, a Defaulting Lender or a Disqualified Institution.

Subject to acceptance and recording thereof by the Administrative Agent pursuant to subsection (c) of this Section, from and after the effective date specified in each Assignment and Acceptance, the assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 2.18, 2.19, 2.20 and 10.3 with respect to facts and circumstances occurring prior to the effective date of such assignment; provided that, except to the extent otherwise expressly agreed by the affected parties, no assignment by a Defaulting Lender will constitute a waiver or release of any claim of any party hereunder arising from such Lender's having been a Defaulting Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with subsection (d) of this Section. If the consent of the Borrower to an assignment is required hereunder (including a consent to an assignment which does not meet the minimum assignment thresholds specified above), the Borrower shall be deemed to have given its consent unless it shall object thereto by written notice to the Administrative Agent within ten (10) Business Days after notice thereof has actually been delivered by the assigning Lender (through the Administrative Agent) to the Borrower.

(c) The Administrative Agent, acting solely for this purpose as a non-fiduciary agent of the Borrower, shall maintain at one of its offices in Atlanta, Georgia a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amount of the Loans and Revolving Credit Exposure owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). Information contained in the Register with respect to any Lender shall be available for inspection by such Lender at any reasonable time and from time to time upon reasonable prior notice; information contained in the Register shall also be available for inspection by the Borrower at any reasonable time and from time to time upon reasonable prior notice. In establishing and maintaining the Register, the Administrative Agent shall serve as the Borrower's agent solely for tax purposes and solely with respect to the actions described in this Section, and the Borrower hereby agrees that, to the extent SunTrust Bank serves in such capacity, SunTrust Bank and its officers, directors, employees, agents, sub-agents and Affiliates shall constitute "Indemnitees".

(d) Any Lender may at any time, without the consent of, or notice to, the Borrower, the Administrative Agent, the Swingline Lender or any Issuing Bank, sell participations to any Person (other than a natural person, a Disqualified Institution, the Borrower or any of the Borrower's Affiliates or Subsidiaries) (each, a "Participant") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Loans owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Administrative Agent, each Issuing Bank, the Swingline Lender and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement.

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or

instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver with respect to the following to the extent affecting such Participant: (i) increase the Commitment of such Lender; (ii) reduce the principal amount of any Loan or LC Disbursement or reduce the rate of interest thereon, or reduce any fees payable hereunder (excluding the right of any Participant to consent to changes in the calculation of the Leverage Ratio or the component definitions thereof); (iii) postpone the date fixed for any payment of any principal of, or interest on, any Loan or LC Disbursement or any fees hereunder or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date for the termination or reduction of any Commitment (excluding the right of any Participant to consent to changes in the calculation of the Leverage Ratio or the component definitions thereof); (iv) change Section 2.21(b) or (c) in a manner that would alter the *pro rata* sharing of payments required thereby; (v) change any of the provisions of Section 10.2(b) or the definition of "Required Lenders" or "Required Revolving Lenders" or any other provision hereof specifying the number or percentage of Lenders which are required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder; (vi) release all or substantially all of the guarantors, or limit the liability of all or substantially all of the guarantors, under any guaranty agreement guaranteeing any of the Obligations; or (vii) release all or substantially all collateral (if any) securing any of the Obligations. Subject to subsection (e) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.18, 2.19, and 2.20 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to subsection (b) of this Section; provided that such Participant agrees to be subject to Section 2.24 as though it were a Lender. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 10.7 as though it were a Lender; provided that such Participant agrees to be subject to Section 2.21 as though it were a Lender.

Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register in the United States on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"); provided that no Lender shall have any obligation to disclose all or any portion of the Participant Register to any Person (including the identity of any Participant or any information relating to a Participant's interest in any commitments, loans, letters of credit or other obligations under any Loan Document) except to the extent that such disclosure is necessary to establish that such commitment, loan, letter of credit or other obligation is in registered form under Section 5f.103-1(c) or Proposed Section 1.163-5(B) of the United States Treasury Regulations (or, in each case, any amended or successor version). The entries in the Participant Register shall be conclusive, absent manifest error, and such Lender shall treat each person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(e) A Participant shall not be entitled to receive any greater payment under Sections 2.18 and 2.20 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant shall not be entitled to the benefits of Section 2.20 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Sections 2.20(e) and (f) as though it were a Lender (it being understood that the documentation required under Sections 2.20(e) and (f) shall be delivered to the participating Lender).

(f) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including, without limitation, any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(g) The Administrative Agent shall not have any responsibility for ensuring that an assignee of, or a participant in, a Loan or Commitment is not a Disqualified Institution, and shall not have any liability in the event that Loans or Commitments, or a participation therein, are transferred to any Disqualified Institution.

(h) For the avoidance of doubt, the addition of any Person to the Disqualified Institution List shall solely apply prospectively and shall have no effect with respect to any assignment or participation that occurs or any Loans, Commitments or Revolving Credit Exposure acquired by such Person, in each case prior to the date such Person is added to the Disqualified Institution List.

Section 10.5. Governing Law; Jurisdiction; Consent to Service of Process.

(a) This Agreement and the other Loan Documents and any claim, controversy, dispute or cause of action (whether in contract or tort or otherwise) based upon, arising out of or relating to this Agreement or any other Loan Document (except, as to any other Loan Document, as expressly set forth therein) and the transactions contemplated hereby and thereby shall be construed in accordance with and be governed by the law of the State of New York.

(b) The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the exclusive jurisdiction of the United States District Court for the Southern District of New York, and of the Supreme Court of the State of New York sitting in New York county, and of any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or any other Loan Document or the transactions contemplated hereby or thereby, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such District Court or New York state court or, to the extent permitted by applicable law, such appellate court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement or any other Loan Document shall affect any right that the Administrative Agent, any Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or any other Loan Document against the Borrower or its properties in the courts of any jurisdiction.

(c) The Borrower irrevocably and unconditionally waives any objection which it may now or hereafter have to the laying of venue of any such suit, action or proceeding described in subsection (b) of this Section and brought in any court referred to in subsection (b) of this Section. Each of the parties hereto irrevocably waives, to the fullest extent permitted by applicable law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to the service of process in the manner provided for notices in Section 10.1. Nothing in this Agreement or in any other Loan Document will affect the right of any party hereto to serve process in any other manner permitted by law.

Section 10.6. WAIVER OF JURY TRIAL. EACH PARTY HERETO IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

Section 10.7. Right of Set-off. In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, each Lender and each Issuing Bank shall have the right, at any time or from time to time upon the occurrence and during the continuance of an Event of Default, without prior notice to the Borrower, any such notice being expressly waived by the Borrower to the extent permitted by applicable law, to set off and apply against all deposits (general or special, time or demand, provisional or final) of the Borrower at any time held or other obligations at any time owing by such Lender and such Issuing Bank to or for the credit or the account of the Borrower against any and all Obligations held by such Lender or such Issuing Bank, as the case may be, irrespective of whether such Lender or such Issuing Bank shall have made demand hereunder and although such Obligations may be unmatured. Each Lender and each Issuing Bank agrees promptly to notify the Administrative Agent and the Borrower after any such set-off and any application made by such Lender or such Issuing Bank, as the case may be; provided that the failure to give such notice shall not affect the validity of such set-off and application. Each Lender and each Issuing Bank agrees to apply all amounts collected from any such set-off to the Obligations before applying such amounts to any other Indebtedness or other obligations owed by the Borrower and any of its Subsidiaries to such Lender or such Issuing Bank.

Section 10.8. Counterparts; Integration. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. This Agreement, the Fee Letter, the other Loan Documents, and any separate letter agreements relating to any fees payable to the Administrative Agent and its Affiliates constitute the entire agreement among the parties hereto and thereto and their Affiliates regarding the subject matters hereof and thereof and supersede all prior agreements and understandings, oral or written, regarding such subject matters. Delivery of an executed counterpart to this Agreement or any other Loan Document by facsimile transmission or by electronic mail in pdf format shall be as effective as delivery of a manually executed counterpart hereof.

Section 10.9. Survival. All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates, reports, notices or other instruments delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the other Loan Documents and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent, any Issuing Bank or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not expired or terminated. The provisions of Sections 2.18, 2.19, 2.20, and 10.3 and Article IX shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any provision hereof.

Section 10.10. Severability. Any provision of this Agreement or any other Loan Document held to be illegal, invalid or unenforceable in any jurisdiction, shall, as to such jurisdiction, be ineffective to the extent of such illegality, invalidity or unenforceability without affecting the legality, validity or enforceability of the remaining provisions hereof or thereof; and the illegality, invalidity or unenforceability of a particular provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 10.11. Confidentiality. Each of the Administrative Agent, the Issuing Banks and the Lenders agrees to maintain the confidentiality of any information relating to the Borrower or any of its Subsidiaries or any of their respective businesses, to the extent designated in writing as confidential and provided to it by the Borrower or any of its Subsidiaries, other than any such information that is available to the Administrative Agent, any Issuing Bank or any Lender on a non-confidential basis prior to disclosure by the Borrower or any of its Subsidiaries, except that such information may be disclosed (i) to any Related Party of the Administrative Agent, any such Issuing Bank or any such Lender including, without limitation, accountants, legal counsel and other advisors who need to know such information in connection with the Related Transactions and are informed of the confidential nature of such information, (ii) pursuant to the order of any court or administrative agency or in any pending legal or administrative proceeding, or otherwise as required by applicable law or regulation or compulsory legal process (in which case such disclosing party agrees to inform the Borrower reasonably promptly thereof prior to such disclosure to the extent not prohibited by law, rule or regulation), (iii) to the extent requested by any regulatory agency or authority purporting to have jurisdiction over such disclosing party or its Affiliates (including any self-regulatory authority such as the National Association of Insurance Commissioners) (in which case such disclosing party agrees to inform the Borrower reasonably promptly thereof prior to such disclosure to the extent not prohibited by law, rule or regulation), (iv) to the extent that such information becomes publicly available other than as a result of a breach of this Section, or which becomes available to the Administrative Agent, any Issuing Bank, any Lender or any Related Party of any of the foregoing on a non-confidential basis from a source other than the Borrower or any of its Subsidiaries that is not, to such disclosing party's knowledge, subject to confidentiality obligations to the Borrower and its Subsidiaries, (v) in connection with the exercise of any remedy hereunder or under any other Loan Documents or any suit, action or proceeding relating to this Agreement or any other Loan Documents or the enforcement of rights hereunder or thereunder, (vi) subject to execution by such Person of an agreement containing provisions substantially the same as those of this Section (or language substantially similar to this paragraph, including provisions customary in the syndicated loan market), to (A) any assignee of or Participant in, or any prospective assignee of or Participant in, any of such disclosing party's rights or obligations under this Agreement, or (B) any direct or indirect actual or prospective contractual counterparty (and its Related Parties) to any swap, derivative or similar product that is to be secured by the Collateral, (vii) to the CUSIP Service Bureau or any similar organization, (viii) for purposes of establishing a "due diligence" defense, (ix) to the extent that such information is independently developed by such disclosing party (other than with confidential information provided to such disclosing party by the Borrower and its Subsidiaries), (x) to industry trade organizations, general information with respect to this Agreement that is customary for inclusion in league table measurements or (xi) with the consent of the Borrower. Any Person required to maintain the confidentiality of any information as provided for in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such information as such Person would accord its own confidential information. In the event of any conflict between the terms of this Section and those of any other Contractual Obligation entered into with any Loan Party (whether or not a Loan Document), the terms of this Section shall govern.

Section 10.12. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts which may be treated as interest on such Loan under applicable law (collectively, the "Charges"), shall exceed the maximum lawful rate of interest (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by a Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Rate to the date of repayment (to the extent permitted by applicable law), shall have been received by such Lender.

Section 10.13. Waiver of Effect of Corporate Seal. The Borrower represents and warrants that neither it nor any other Loan Party is required to affix its corporate seal to this Agreement or any other Loan Document pursuant to any Requirement of Law, agrees that this Agreement is delivered by the Borrower under seal and waives any shortening of the statute of limitations that may result from not affixing the corporate seal to this Agreement or such other Loan Documents.

Section 10.14. Patriot Act and Beneficial Ownership Regulation. The Administrative Agent and each Lender hereby notifies the Loan Parties that, pursuant to the requirements of the Patriot Act and the Beneficial Ownership Regulation, it is required to obtain, verify and record information that identifies each Loan Party, which information includes the name and address of such Loan Party and other information that will allow such Lender or the Administrative Agent, as applicable, to identify such Loan Party in accordance with the Patriot Act and the Beneficial Ownership Regulation. The Borrower will, and will cause its Subsidiaries to, provide documentary and other evidence of the identity of the Loan Parties as may be requested by the Lenders or the Administrative Agent at any time to enable the Lenders or the Administrative Agent to verify the identity of the Loan Parties or to comply with any applicable law or regulation, including, without limitation, Section 326 of the Patriot Act at 31 U.S.C. Section 5318 and the Beneficial Ownership Regulation.

Section 10.15. No Advisory or Fiduciary Responsibility. In connection with all aspects of each transaction contemplated hereby (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document), the Borrower and each other Loan Party acknowledges and agrees and acknowledges its Affiliates' understanding that (i) (A) the services regarding this Agreement provided by the Administrative Agent and/or the Lenders are arm's-length commercial transactions between the Borrower, each other Loan Party and their respective Affiliates, on the one hand, and the Administrative Agent and the Lenders, on the other hand, (B) each of the Borrower and the other Loan Parties have consulted their own legal, accounting, regulatory and tax advisors to the extent they have deemed appropriate, and (C) the Borrower and each other Loan Party is capable of evaluating and understanding, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents; (ii) (A) each of the Administrative Agent and the Lenders is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary for the Borrower, any other Loan Party or any of their respective Affiliates, or any other Person, and (B) neither the Administrative Agent nor any Lender has any obligation to the Borrower, any other Loan Party or any of their Affiliates with respect to the credit facilities contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; and (iii) the Administrative Agent, the Lenders and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Borrower, the other Loan Parties and their respective Affiliates, and each of the Administrative Agent and the Lenders has no obligation to disclose any of such interests to the Borrower, any other Loan Party or any of their respective Affiliates. To the fullest extent permitted by law, each of the Borrower and the other Loan Parties hereby waives and releases any claims that it may have against the Administrative Agent or any Lender with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transaction contemplated hereby.

Section 10.16. Location of Closing. Each Lender and each Issuing Bank acknowledges and agrees that it has delivered, with the intent to be bound, its executed counterparts of this Agreement to the Administrative Agent, c/o Latham & Watkins LLP, 885 3rd Ave, New York, NY 10022. The Borrower acknowledges and agrees that it has delivered, with the intent to be bound, its executed counterparts of this Agreement and each other Loan Document, together with all other documents, instruments, opinions, certificates and other items required under Section 3.1, to the Administrative Agent, c/o Latham & Watkins LLP, 885 3rd Ave, New York, NY 10022. All parties agree that the closing of the transactions contemplated by this Agreement has occurred in New York.

Section 10.17. Releases of Collateral. The Administrative Agent agrees with the Borrower that the Administrative Agent shall:

(a) release any Lien on any property granted to or held by the Administrative Agent under any Loan Document (i) upon Payment in Full of all Obligations, (ii) when such property is sold as part of or in connection with any sale permitted hereunder or under any other Loan Document, (iii) if such release is approved, authorized or ratified in writing in accordance with Section 10.2 or (iv) when such property is subject to Liens permitted under Section 7.2(d) (solely to the extent required by the holder of such Lien), (e), (f), and, to the extent relating to extensions, renewals or replacements of such Liens, Section 7.2(h);

(b) release any Lien on any Mortgaged Properties upon the occurrence of the Mortgage Release Event;

(c) release any Loan Party from its obligations under the applicable Collateral Documents (i) if such Person ceases to be a Subsidiary as a result of a transaction permitted hereunder or (ii) if such Subsidiary becomes an Excluded Subsidiary in accordance with the requirements set forth in Section 5.18;

(d) release any Lien on any Capital Stock of any Subsidiary that (i) ceases to be a Subsidiary as a result of any transaction permitted hereunder or (ii) is an Excluded Subsidiary; and

(e) subordinate the Liens and security interests of the Administrative Agent on any Collateral (other than Capital Stock and accounts receivable) to the extent contemplated by, and in accordance with the requirements of (including, without limitation, that any intercreditor agreement entered into in connection therewith be reasonably satisfactory to the Administrative Agent), Section 7.2(i);

in each case, upon delivery by the Borrower of a certificate of a Responsible Officer to the Administrative Agent requesting and certifying as to the grounds for such release or subordination pursuant to this Section 10.17, as applicable.

In each case as specified in this Section 10.17, the Administrative Agent is authorized by the Secured Parties and the Borrower and shall, at the Borrower's expense, execute and deliver to the applicable Loan Party such documents as such Loan Party may reasonably request to evidence the release of such item of Collateral from the Liens granted under the applicable Collateral Documents, or release such Loan Party from its obligations under the applicable Collateral Documents, in each case in accordance with the terms of the Loan Documents and this Section.

Section 10.18. Acknowledgement and Consent to Bail-In of EEA Financial Institutions. Notwithstanding anything to the contrary in any Loan Document or in any other agreement, arrangement or understanding among any such parties, each party hereto acknowledges that any liability of any EEA Financial Institution arising under any Loan Document, to the extent such liability is unsecured, may be subject to the Write-Down and Conversion Powers of an EEA Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by:

(a) the application of any Write-Down and Conversion Powers by an EEA Resolution Authority to any such liabilities arising hereunder which may be payable to it by any party hereto that is an EEA Financial Institution; and

(b) the effects of any Bail-in Action on any such liability, including, if applicable (i) a reduction in full or in part or cancellation of any such liability, (ii) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such EEA Financial Institution, its parent undertaking, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Loan Document or (iii) the variation of the terms of such liability in connection with the exercise of the Write-Down and Conversion Powers of any EEA Resolution Authority.

Section 10.19. Acknowledgement Regarding Any Supported QFCs. To the extent that the Loan Documents provide support, through a guarantee or otherwise, for any agreement providing for any Hedging Transactions or Hedging Obligations, or any other agreement or instrument that is a QFC (such support, "QFC Credit Support" and each such QFC a "Supported QFC"), the parties acknowledge and agree as follows with respect to the resolution power of the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act and Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act (together with the regulations promulgated thereunder, the "U.S. Special Resolution Regimes") in respect of such Supported QFC and QFC Credit Support (with the provisions below applicable notwithstanding that the Loan Documents and any Supported QFC may in fact be stated to be governed by the laws of the State of New York and/or of the United States or any other state of the United States):

(a) In the event a Covered Entity that is party to a Supported QFC (each, a "Covered Party") becomes subject to a proceeding under a U.S. Special Resolution Regime, the transfer of such Supported QFC and the benefit of such QFC Credit Support (and any interest and obligation in or under such Supported QFC and such QFC Credit Support, and any rights in property securing such Supported QFC or such QFC Credit Support) from such Covered Party will be effective to the same extent as the transfer would be effective under the U.S. Special Resolution Regime if the Supported QFC and such QFC Credit Support (and any such interest, obligation and rights in property) were governed by the laws of the United States or a state of the United States. In the event a Covered Party or a BHC Act Affiliate of a Covered Party becomes subject to a proceeding under a U.S. Special Resolution Regime, Default Rights under the Loan Documents that might otherwise apply to such Supported QFC or any QFC Credit Support that may be exercised against such Covered Party are permitted to be exercised to no greater extent than such Default Rights could be exercised under the U.S. Special Resolution Regime if the Supported QFC and the Loan Documents were governed by the laws of the United States or a state of the United States. Without limitation of the foregoing, it is understood and agreed that rights and remedies of the parties with respect to a Defaulting Lender shall in no event affect the rights of any Covered Party with respect to a Supported QFC or any QFC Credit Support.

Section 10.20. MIRE Events. Notwithstanding anything set forth herein to the contrary (including in Section 10.2), at any time that a Mortgage is in effect (or will be required after giving effect to the relevant transactions), no modification of a Loan Document shall add, increase, renew or extend the maturity date of any Loan, Commitment or credit line hereunder until the Administrative Agent has been notified (which notice may be provided via email) by each Lender that such Lender has completed and is reasonably satisfied with such Lender's flood insurance due diligence and compliance, and Borrower shall cooperate with such flood insurance due diligence and compliance, including delivering all further documents as any such Lender reasonably shall require.

(remainder of page left intentionally blank)

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

THE PENNANT GROUP, INC.

By: _____
Name:
Title:

SUNTRUST BANK
as the Administrative Agent, as an Issuing Bank, as the Swingline Lender and as a Lender

By: _____
Name: Katherine Bass
Title: Director

_____,
as a Lender (type name of the legal entity)

By: _____
Name:
Title:

If a second signature is necessary:

By: _____
Name:
Title:

Exhibit 21.1

List of Subsidiaries of The Pennant Group, Inc.

The following is a list of the subsidiaries The Pennant Groups, Inc. will have immediately after the completion of the spin-off.

Subsidiary	Jurisdiction
2410 Stillhouse Senior Living, Inc.	Nevada
Alpowa Healthcare, Inc.	Nevada
Arches Home Care, Inc.	Nevada
Autumn Ridge Senior Living, Inc.	Nevada
Beach City Senior Living LLC	Nevada
Brenwood Park Senior Living, Inc.	Nevada
Bridgestone Living LLC	Nevada
Brookhollow Senior Living LLC	Nevada
Brown Road Senior Housing LLC	Nevada
Bruce Neenah Senior Living, Inc.	Nevada
Canyon Healthcare, Inc.	Nevada
Capitol Healthcare, Inc.	Nevada
Cedar Senior Living, Inc.	Nevada
Clear Creek Healthcare, Inc.	Nevada
Connected Healthcare, Inc.	Nevada
Copper Basin Healthcare, Inc.	Nevada
Cornerstone Healthcare, Inc.	Nevada
Cornerstone Service Center, Inc.	Nevada
Custom Care Healthcare, Inc.	Nevada
De Soto Senior Living, Inc.	Nevada
Denmark Senior Living, Inc.	Nevada
Eagle Pass Senior Living LLC	Nevada
Emblem Healthcare, Inc.	Nevada
Emerald Healthcare, Inc.	Nevada
Eureka Healthcare, Inc.	Nevada
Exemplar Healthcare, Inc.	Nevada
Finding Home Healthcare, Inc.	Nevada
Gateway Cities Senior Living, Inc.	Nevada
Glacier Peak Healthcare, Inc.	Nevada
Go Assisted, Inc.	Nevada
Granite Healthcare, Inc.	Nevada
Granite Hills Senior Living, Inc.	Nevada
Great Lakes Healthcare, Inc.	Nevada
Great Plains Healthcare, Inc.	Nevada
Green Bay Senior Living, Inc.	Nevada
Heartland Healthcare, Inc.	Nevada

iCare Private Duty, Inc.	Nevada
Iron Bridge Healthcare, Inc.	Nevada
Jameson Senior Living, Inc.	Nevada
Joshua Tree Healthcare, Inc.	Nevada
Kenosha Senior Living, Inc.	Nevada
Keystone Hospice Care, Inc.	Nevada
Lake Pointe Senior Living, Inc.	Nevada
Lemon Senior Living, Inc.	Nevada
Lowes Senior Living, Inc.	Nevada
Madison Senior Living, Inc.	Nevada
Manitowoc Senior Living, Inc.	Nevada
McFarland Senior Living, Inc.	Nevada
Mesa Grande Senior Living, Inc.	Nevada
Mesa Springs Senior Living LLC	Nevada
Mission Inn Senior Living LLC	Nevada
Mohave Healthcare, Inc.	Nevada
Monument Healthcare, Inc.	Nevada
Moss Bay Senior Living, Inc.	Nevada
Mountain Peak Home Care, Inc.	Nevada
Mountain Vista Senior Living, Inc.	Nevada
Oceano Senior Living, Inc.	Nevada
Oceanside Healthcare, Inc.	Nevada
Orange Senior Living, Inc.	Nevada
Orangewood Senior Living, Inc.	Nevada
Painted Sky Healthcare Inc.	Nevada
Paragon Healthcare, Inc.	Nevada
Pearl Senior Living, Inc.	Nevada
Pennant Services, Inc.	Nevada
Pinnacle Service Center LLC	Nevada
Pleasant Run Senior Living, Inc.	Nevada
Prairie View Healthcare, Inc.	Nevada
Primrose Senior Living, Inc.	Nevada
Prospect Senior Living, Inc.	Nevada
Racine Senior Living, Inc.	Nevada
Red Rock Healthcare, Inc.	Nevada
River Oaks Senior Living LLC	Nevada
Riverview Village Senior Living, Inc.	Nevada
Rockbrook Senior Living, Inc.	Nevada
Rolling Hills Healthcare, Inc.	Nevada
Rosenburg Senior Living, Inc.	Nevada
Saguaro Senior Living, Inc.	Nevada
San Gabriel Senior Living, Inc.	Nevada
Sand Lily Healthcare, Inc.	Nevada
Sandstone Senior Living, Inc.	Nevada

Sheboygan Senior Living, Inc.	Nevada
Silver Lake Healthcare Inc.	Nevada
Snohomish Healthcare, Inc.	Nevada
Somers Kenosha Senior Living, Inc.	Nevada
South Bay Healthcare. Inc.	Nevada
South Plains Healthcare, Inc.	Nevada
Spokane Healthcare, Inc.	Nevada
Spring Valley Assisted Living, Inc.	Nevada
Star Valley Healthcare, Inc.	Nevada
Stevens Point Senior Living, Inc.	Nevada
Stonebridge Healthcare, Inc.	Nevada
Stoughton Senior Living, Inc.	Nevada
Sand Lily Healthcare, Inc.	Nevada
Sandstone Senior Living, Inc.	Nevada
Sheboygan Senior Living, Inc.	Nevada
Silver Lake Healthcare Inc.	Nevada
Snohomish Healthcare, Inc.	Nevada
Somers Kenosha Senior Living, Inc.	Nevada
South Bay Healthcare. Inc.	Nevada
South Plains Healthcare, Inc.	Nevada
Spokane Healthcare, Inc.	Nevada
Spring Valley Assisted Living, Inc.	Nevada
Star Valley Healthcare, Inc.	Nevada
Stevens Point Senior Living, Inc.	Nevada
Stonebridge Healthcare, Inc.	Nevada
Stoughton Senior Living, Inc.	Nevada
Summerlin Healthcare, Inc.	Nevada
Surf City Senior Living, Inc.	Nevada
Sycamore Senior Living, Inc.	Nevada
Symbol Healthcare, Inc.	Nevada
Terrace Senior Living, Inc.	Nevada
Teton Healthcare, Inc.	Nevada
The Pennant Group, Inc.	Nevada
Thomas Road Senior Housing, Inc.	Nevada
Thousand Peaks Healthcare, Inc.	Nevada
Two Rivers Senior Living, Inc.	Nevada
Vesper Healthcare, Inc.	Nevada
Victoria Ventura Assisted Living Community, Inc.	Nevada
Virgin River Healthcare, Inc.	Nevada
Willow Creek Senior Living, Inc.	Nevada
Wisconsin Rapids Senior Living, Inc.	Nevada

Exhibit 99.1

, 2019

Dear Stockholder of The Ensign Group, Inc.:

I am pleased to inform you that the board of directors of The Ensign Group, Inc. ("Ensign") has approved the spin-off (the "spin-off") of The Pennant Group, Inc. ("Pennant"), a wholly-owned subsidiary of Ensign. Upon completion of the spin-off, the stockholders of Ensign will own substantially all of the outstanding shares of common stock of Pennant, and will continue to own 100% of the outstanding shares of common stock of Ensign. Pennant will be a new, publicly-traded holding company comprised of Ensign's home health and hospice agencies and substantially all of Ensign's senior living businesses. Pennant's operating subsidiaries provide services to the growing senior population across Arizona, California, Colorado, Idaho, Iowa, Nevada, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin and Wyoming. Following the spin-off, Ensign will continue to be a holding company comprised of post-acute service providers, including skilled nursing, senior living and other ancillary operations in Arizona, California, Colorado, Idaho, Iowa, Kansas, Nebraska, Nevada, South Carolina, Texas, Utah, Washington and Wisconsin.

We believe the spin-off is in the best interests of Ensign, its stockholders and other constituents, as it will result in two publicly-traded companies, each with enhanced focus and leadership opportunities, increased ability to raise funds through capital market offerings and enhanced opportunity to continue executing their respective acquisition strategies. The success of Pennant and Ensign following the spin-off will illustrate the power of Ensign's innovative operating model to improve the clinical, cultural and financial results in the communities we serve.

The spin-off will be completed by way of a pro rata distribution of Pennant common stock to Ensign's stockholders of record at , Eastern time, on , 2019, the spin-off record date. Each Ensign stockholder will receive one share of Pennant common stock for every two shares of Ensign common stock held by such stockholder on the record date. The distribution of these shares will be made in book-entry form, meaning no physical share certificates will be issued. Ensign stockholder approval of the distribution is not required, and you will automatically receive your shares of Pennant common stock upon the consummation of the spin-off.

The distribution is subject to the satisfaction or waiver of certain conditions, including, among other things: final approval of the distribution by the Ensign board of directors; the Registration Statement on Form 10, of which this information statement forms a part, being declared effective by the Securities and Exchange Commission; Pennant common stock being approved for listing on the NASDAQ Global Select Market ("NASDAQ"); the receipt of an opinion from Kirkland & Ellis LLP with respect to certain tax matters related to the distribution; the receipt of any required material governmental approvals; no order, injunction or decree issued by any governmental entity preventing the consummation of all or any portion of the distribution being in effect; and the completion of the financing transaction described in this information statement. We expect that your receipt of shares of Pennant common stock in the spin-off will be tax-free for U.S. federal income tax purposes, except for cash received in lieu of fractional shares. You are urged to consult your tax advisor as to the particular tax consequences of the distribution to you, including potential tax consequences under state, local and non-U.S. tax laws.

Immediately following the spin-off, you will own common stock in Ensign and Pennant. Ensign common stock will continue to trade on NASDAQ under the symbol "ENSG." We intend to have Pennant common stock listed on NASDAQ under the symbol "PNTG."

We have prepared the enclosed information statement, which describes the spin-off in detail and contains important information about Pennant, including historical financial statements. Ensign stockholders will receive via mail a notice with instructions on how to access the information statement online. We urge you to carefully read the information statement.

We thank you for supporting our company, and look forward to your continued support in the future.

Very truly yours,

Christopher R. Christensen
Executive Chairman

, 2019

Dear Stockholder of The Pennant Group, Inc.:

It is my pleasure to welcome you to The Pennant Group, Inc. ("Pennant"). Following the distribution of all of the shares of our common stock owned by The Ensign Group, Inc. ("Ensign") to its stockholders, we will be a newly listed, publicly-traded holding company of operating subsidiaries that provide home health, hospice and senior living services across Arizona, California, Colorado, Idaho, Iowa, Nevada, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin and Wyoming.

As a Pennant stockholder, you will be an investor in a publicly-traded holding company comprised of healthcare providers serving the growing senior population in the United States. We strive to be the provider of choice in the communities we serve through our innovative operating model. We believe our key differentiators are (i) our innovative operating model focused on empowering and developing strong local leaders, (ii) our disciplined growth strategy, and (iii) our ability to achieve quality care outcomes in lower cost settings. In our experience, healthcare is a local endeavor, largely dependent upon personal and professional relationships, community reputation and an ability to adapt to the changing needs of patients, partners and communities. As our operational leaders build strong relationships with key partners in their local healthcare communities, they are empowered to make informed and critical operational decisions that produce quality care outcomes and more effectively meet the needs of our patients.

We believe a spin-off of our businesses from Ensign expands our ability to provide life changing home health, hospice and senior living services to the communities we serve. Like Ensign, our unique organizational structure empowers our highly dedicated local leaders and staff to make key operational decisions, while providing them with a platform of support from industry expert resources and top-of-the-line clinical and financial systems. An essential ingredient of our model is our mentality of shared ownership and peer accountability. Our leaders and resources feel a collective sense of ownership for the clinical, financial and cultural success of our affiliated operations and hold each other accountable for successes and failures in an environment that fosters transparency and improvement.

We also believe the spin-off will foster better understanding by public stockholders, analysts and other stakeholders about how the application of Ensign's core operating principles to these lines of business has the ability to produce extraordinary results. More education about and visibility into these uniquely situated operations will create a better understanding of the value we believe remains somewhat hidden and overshadowed by the market's perception of the skilled nursing industry at large, despite Ensign's successful history of outperforming industry peers in many key metrics. We also will be well positioned amongst publicly-traded peers in the post-acute care marketplace because of a well-diversified payor mix between government, third-party and private sources.

Following the spin-off, we will have the ability to tap public markets for capital as we execute on our strategic and organic growth objectives, which in many ways overlap but in other ways diverge from Ensign's, resulting in different capital needs and pressures. As Ensign and Pennant each pursue its independent strategies, we expect our common core values, guiding principles and operating model will create continued opportunities to collaborate, create accountability around quality clinical and financial outcomes, and work together on joint opportunities as appropriate and when such action is in the best interests of each organization. Furthermore, we believe our position as a separate company following the spin-off will be a powerful recruiting tool that will attract strong leaders from both within and outside the post-acute care continuum looking for opportunities to grow and develop meaningful careers.

We invite you to learn more about Pennant by reviewing the enclosed information statement. We look forward to our future as an independent, publicly-traded company and to your support as a holder of Pennant common stock.

Sincerely,

Daniel H Walker
Chairman, Chief Executive Officer and President

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Information contained herein is subject to completion or amendment. A Registration Statement on Form 10 relating to these securities has been submitted with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

SUBJECT TO COMPLETION, DATED AUGUST 19, 2019

Information Statement
Distribution of Common Stock of

THE PENNANT GROUP, INC.

by

THE ENSIGN GROUP, INC.

to

THE ENSIGN GROUP, INC. STOCKHOLDERS

This information statement is being sent to you in connection with the separation of The Pennant Group, Inc. (collectively with its consolidated subsidiaries, "Pennant") from The Ensign Group, Inc. (collectively with its consolidated subsidiaries, "Ensign"), following which The Pennant Group, Inc. will be an independent, publicly-traded company. As part of the separation, Ensign will undergo an internal reorganization, after which it will complete the separation by distributing substantially all of the outstanding shares of common stock of The Pennant Group, Inc., par value $0.001 ("Pennant common stock" or "our common stock"), on a pro rata basis to the holders ("Ensign stockholders") of The Ensign Group, Inc.'s common stock, par value $0.001 ("Ensign common stock"). We refer to this pro rata distribution as the "distribution" and we refer to the separation, including the internal reorganization and distribution, as the "spin-off." We expect that the distribution will be tax-free to the stockholders of The Ensign Group, Inc. for U.S. federal income tax purposes, except to the extent of cash received in lieu of fractional shares. Each Ensign stockholder will receive one share of our common stock for every two shares of Ensign common stock held by such stockholder on , 2019, the record date. Ensign will not distribute any fractional shares of Pennant common stock. Instead, the distribution agent will aggregate fractional shares into whole shares, sell the whole shares in the open market at prevailing market prices and distribute the aggregate net cash proceeds from the sales pro rata to each holder who would otherwise have been entitled to receive a fractional share in the spin-off. The distribution of shares will be made in book-entry form only. The distribution will be effective as of , Eastern time, on , 2019. Immediately after the distribution becomes effective, The Pennant Group, Inc. will be an independent, publicly-traded company.

No vote or other action of Ensign stockholders is required in connection with the spin-off. We are not asking you for a proxy and Ensign requests that you do not send Ensign a proxy. Ensign stockholders will not be required to pay any consideration for the shares of Pennant common stock they receive in the spin-off, and they will not be required to surrender or exchange their shares of Ensign common stock or take any other action in connection with the spin-off.

All of the outstanding shares of Pennant common stock are currently owned by The Ensign Group, Inc. Accordingly, there is no current trading market for Pennant common stock. We anticipate that a limited market, commonly known as a "when-issued" trading market, will develop shortly before the record date, and that "regular-way" trading in shares of Pennant common stock will begin on the first trading day following the distribution date. If trading begins on a "when-issued" basis, you may purchase or sell Pennant common stock up to and including the distribution date, in which case your transaction will settle within two trading days after regular-way trading commences following the distribution. We intend to list Pennant common stock on the NASDAQ Global Select Market ("NASDAQ") under the ticker symbol "PNTG." As discussed under "Trading Market," if you sell your Ensign common stock in the "regular-way" market before the distribution date, you also will be selling your right to receive shares of Pennant common stock in connection with the spin-off. However, if you sell your Ensign common stock in the "ex-distribution" market before the distribution date, you will still receive shares of Pennant common stock in the spin-off.

We are an "emerging growth company" as defined under the federal securities laws and, as such, may elect to comply with certain reduced public company reporting requirements. See "Summary—Implications of Being an Emerging Growth Company."

In reviewing this information statement, you should carefully consider the matters described in "Risk Factors" beginning on page 31 of this information statement.

Neither the Securities and Exchange Commission (the "SEC") nor any state securities commission has approved or disapproved these securities or determined if this information statement is truthful or complete. Any representation to the contrary is a criminal offense.

This information statement is not an offer to sell, or a solicitation of an offer to buy, any securities.
The date of this information statement is August 19, 2019.

A Notice of Internet Availability of Information Statement Materials containing instructions describing how to access this information statement was first mailed to Ensign stockholders on or about , 2019.

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Unless otherwise indicated or the context otherwise requires, references herein to "Pennant," "we," "our," "us," the "Company" and "our company" refer (i) prior to the consummation of our internal reorganization described under "The Spin-Off—Manner of Effecting the Spin-Off—Internal Reorganization," to the home health and hospice agencies and substantially all of the senior living businesses of The Ensign Group, Inc. (the combination of these assets is also referred to herein as "New Ventures") and (ii) after the consummation of such internal reorganization, to The Pennant Group, Inc. and its consolidated subsidiaries. Unless otherwise indicated or the context otherwise requires, references herein to "Ensign" refer to The Ensign Group, Inc. and its consolidated subsidiaries prior to the consummation of the spin-off.

Each of the Company's affiliated operations is owned and operated by a separate, independent subsidiary that has its own management, employees and assets. Each of Ensign's affiliated operations is operated by a separate, independent subsidiary that has its own management, employees, and assets. References herein to the consolidated "Pennant," "Company," "Ensign," "Parent" and "its," "their" or "our" assets and activities are not meant to imply, nor should they be construed as meaning, that The Pennant Group, Inc. or The Ensign Group, Inc. has any direct operating assets, employees or revenue, or that any of the subsidiaries are operated by The Pennant Group, Inc. or The Ensign Group, Inc.

Unless otherwise indicated or the context otherwise requires, all information in this information statement gives effect to the effectiveness of our amended and restated certificate of incorporation and amended and restated bylaws, the forms of which are filed as exhibits to the registration statement of which this information statement forms a part.

FINANCIAL STATEMENT PRESENTATION

This information statement includes certain historical combined financial and other data for New Ventures. To effect the separation, The Ensign Group, Inc. will undertake an internal reorganization, following which The Pennant Group, Inc. will hold, directly or through its subsidiaries, New Ventures. The Pennant Group, Inc. is the registrant under the registration statement of which this information statement forms a part and will be the financial reporting entity following the consummation of the spin-off. Our historical combined financial information as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016 has been derived from the audited combined financial statements of New Ventures (the "Audited Combined Financial Statements") included elsewhere in this information statement. Our historical combined financial information as of June 30, 2019 and for the six months ended June 30, 2019 and 2018 has been derived from the unaudited condensed combined financial statements of New Ventures (the "Interim Financial Statements") included elsewhere in this information statement.

This information statement also includes an unaudited pro forma combined balance sheet as of June 30, 2019 and unaudited pro forma combined statement of income for the year ended December 31, 2018 and for the six months ended June 30, 2019, which present our combined financial position and results of operations after giving effect to the spin-off, including the internal reorganization and the distribution, and the other transactions described under "Unaudited Pro Forma Combined Financial Statements." The unaudited pro forma combined financial statements are presented for illustrative purposes only and are not necessarily indicative of the operating results or financial position that would have occurred if the relevant transactions had been consummated on the date indicated, nor is it indicative of future operating results.

You should read the sections titled "Selected Historical Combined Financial Data" and "Unaudited Pro Forma Combined Financial Statements," each of which is qualified in its entirety by reference to the Audited Combined Financial Statements and Interim Financial Statements and related notes thereto and the financial and other information, including in the sections titled "Risk Factors," "Capitalization" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," in each case included elsewhere in this information statement.

The Pennant Group, Inc. was formed on January 24, 2019 in connection with the spin-off. The financial statements of The Pennant Group, Inc. as of June 30, 2019 and January 24, 2019 have been included in this information statement. In connection with the internal reorganization, The Pennant Group, Inc. will become the parent of the subsidiaries included in the Audited Combined Financial Statements and Interim Financial Statements of New Ventures.

INDUSTRY AND MARKET DATA

The industry, market and competitive position data and certain other statistical information used in this information statement are based on independent industry publications, government publications or other published independent sources. These sources generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of the information are not guaranteed. The forecasts and projections are based on industry surveys and the preparers' experience in the industry, and there is no assurance that any of the projected amounts will be achieved. We believe that the surveys and market research others have performed are reliable, but we have not independently verified this information. The Centers for Medicare and Medicaid Services and the U.S. Census Bureau are the primary sources for third-party market data and industry statistics in this information statement. Forward-looking information obtained from third-party sources is subject to the same qualifications and the uncertainties regarding the other forward-looking statements in this information statement. See "Risk Factors" and "Special Note About Forward-Looking Statements."

CERTAIN DEFINED TERMS

Except where the context suggests otherwise, we define certain terms in this information statement as follows:

- "ACA" is defined as the Patient Protection and Affordable Care Act of 2010 and the Healthcare Education and Reconciliation Act;
- "average daily census" is defined as the average number of patients who are receiving hospice care during any measurement period divided by number of days during such measurement period;
- "average Medicare revenue per completed 60-day episode" is defined as the average amount of home health revenue for each completed 60-day episode generated from patients who are receiving care under Medicare reimbursement programs;
- "average monthly revenue per occupied unit" is defined as the revenue for senior living services during any measurement period divided by actual occupied senior living units for such measurement period;
- "CAGR" is defined as the compound annual growth rate;
- "CMS" is defined as the Centers for Medicare and Medicaid Services;
- "Code" is defined as the Internal Revenue Code of 1986, as amended;
- "Ensign Leases" is defined as certain "triple-net" lease agreements between our operating subsidiaries and subsidiaries of Ensign for the lease of certain senior living properties, which we anticipate will amend and restate or replace existing leases in connection with the spin-off;
- "FASB" is defined as the Financial Accounting Standards Board;
- "FCA" is defined as the federal False Claims Act;
- "FERA" is defined as the Fraud Enforcement and Recovery Act;
- "GAAP" is defined as accounting principles generally accepted in the United States of America;
- "HIPAA" is defined as the Health Insurance Portability and Accountability Act of 1996;
- "HUD" is defined as the Department of Housing and Urban Development;
- "IRS" is defined as the U.S. Internal Revenue Service;
- "MACRA" is defined as the Medicare Access and Chip Reauthorization Act;
- "New Ventures" is defined as the home health and hospice agencies and substantially all of the senior living businesses of The Ensign Group, Inc., which will be transferred to The Pennant Group, Inc. in connection with the spin-off;
- "Occupancy" is defined as the ratio of actual number of days our units are occupied during any measurement period to the number of units available for occupancy during such measurement period;
- "OIG" is defined as the Office of the Inspector General;
- "Parent" is defined as The Ensign Group, Inc.;
- "PDGM" is defined as the Patient-Driven Groupings Model;
- "SEC" is defined as the Securities and Exchange Commission;
- "SNF" is defined as skilled nursing facility; and
- "Tax Act" is defined as the Tax Cuts and Jobs Act of 2017.

SUMMARY

This summary highlights information contained in this information statement and provides an overview of the Company, our spin-off from Ensign and the distribution of our common stock by Ensign to its stockholders. For a more complete understanding of our business and the spin-off, you should read this entire information statement carefully, particularly the sections titled "Risk Factors" and "Unaudited Pro Forma Combined Financial Statements" and the Audited Combined Financial Statements and Interim Financial Statements and the notes thereto included in this information statement.

Our Company

We are a leading provider of high quality healthcare services to the growing senior population in the United States. We strive to be the provider of choice in the communities we serve through our innovative operating model. We operate in multiple lines of business including home health, hospice and senior living across Arizona, California, Colorado, Idaho, Iowa, Nevada, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin and Wyoming.

We believe our key differentiators are (i) our innovative operating model focused on empowering and developing strong local leaders, (ii) our disciplined growth strategy, and (iii) our ability to achieve quality care outcomes in lower cost settings. In our experience, healthcare is a local endeavor, largely dependent upon personal and professional relationships, community reputation and an ability to adapt to the changing needs of patients, partners and communities. As our operational leaders build strong relationships with key partners in their local healthcare communities, they are empowered to make informed and critical operational decisions that produce quality care outcomes and more effectively meet the needs of our patients.

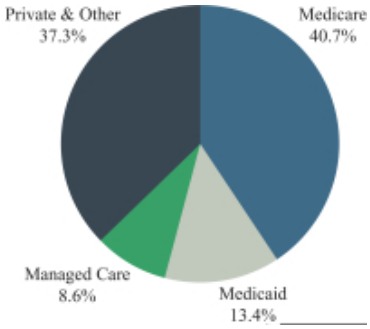
In our home health and hospice business, we believe we are able to achieve quality outcomes—as measured by many industry and value-based metrics such as hospital readmission rates—in a lower cost setting. In our senior living business, we believe we are able to offer our residents a better quality of life experience at an affordable cost, thus appealing to a broader population. With our platform of diversified service offerings, we believe that we are well-positioned to take advantage of favorable demographic shifts as well as industry trends that reward providers offering quality care in lower cost settings.

As of June 30, 2019, we provided home health and hospice services through 62 agencies. Our home health services generally consist of providing some combination of clinical services including nursing, speech, occupational and physical therapy, medical social work and home health aide services. Home health is often a cost-effective solution for patients and can also increase their quality of life by allowing them to receive excellent clinical services in the comfort and convenience of a familiar setting. Using CMS's star rating criteria, our home health agencies achieved an average of 4 out of 5 stars across all agencies compared to the industry average of 3.5 stars. Our hospice services focus on the physical, spiritual and psychosocial needs of terminally ill patients and their families and consist primarily of clinical care, education and counseling. During the six months ended June 30, 2019 and the year ended December 31, 2018, we generated 67.9% and 68.6%, respectively, of our home health and hospice revenue from Medicare.

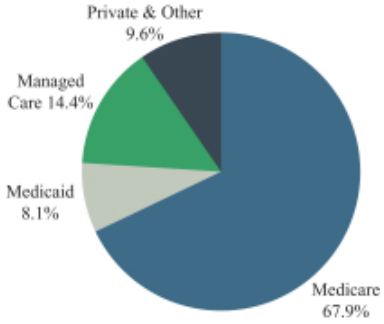
As of June 30, 2019, we provided senior living services at 51 communities with 3,872 total units in our assisted living, independent living and memory care business. Our senior living operations provide a variety of services based on residents' needs including residential accommodations, activities, meals, housekeeping and assistance in the activities of daily living to seniors who are independent or who require some support, but not the level of clinical care provided in a skilled nursing facility. We generate revenue at these communities primarily from private pay and other sources, with a portion earned from Medicaid. During the six months ended June 30, 2019 and the year ended December 31, 2018, 78.7% and 79.8%, respectively, of our senior living revenue was derived from private pay sources.

Payor Mix for the Six Months Ended June 30, 2019

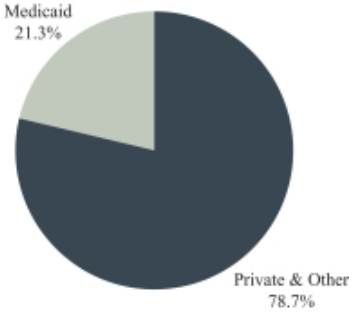
Combined



Home Health and Hospice



Senior Living



Our Innovative Operating Model

Our innovative operating model is the foundation of our superior performance and success. Our operating model is founded on two core principles: (1) healthcare is a local business where providers are most successful when key operational decision-making meets local community needs and occurs close to patients and employees, and (2) peer accountability from operational and resource partners is more effective at driving excellent clinical and financial results than traditional hierarchical or "top-down" accountability structures.

Our model is innovative because each operation has been and will continue to be an independent operating subsidiary that functions under the direction of local clinical and operational leaders, each of whom are empowered to make decisions based on the unique needs of the patients, partners and communities they serve. This is in contrast to typical models where control and key decision-making is centralized at the corporate level. Moreover, we utilize a "cluster model," where every operation is part of a defined "cluster," which is a group of geographically proximate operations working together to allow leaders to communicate and provide support and accountability to each other. This creates incentives for leaders to share best practices and real-time data and benchmark clinical and financial performance against their cluster partners. We believe this locally-driven data-sharing and peer accountability model is unique amongst healthcare providers and has proven effective in improving clinical care, enhancing patient satisfaction and promoting operational efficiencies. This "cluster" operating model is the same model used by local leaders prior to the spin-off and will be key to the success of our future operations.

This organizational structure empowers our highly dedicated leaders and staff at the local level to make key decisions and creates a sense of ownership over operational and clinical results and the employee experience. Each leader and his or her staff are encouraged to make their operations the "provider of choice" in the community they serve. To accomplish this goal, leaders work closely with clinical staff and our expert resources to identify unique patient needs and priorities in a given community and create superior service offerings tailored to those needs. We believe that our localized approach to program development and patient care leads prospective patients and referral sources to choose or recommend our operations to others. Similarly, our emphasis on empowering local decision-makers encourages leaders to strive to become the "employer of choice" in the community they serve. One of our core values is the principle that the best patient care is provided by employees that experience significant work satisfaction because they are valued as individuals. Our leaders work hard to embody this core value and to attract, train and retain outstanding clinical staff by creating a work environment that fosters critical thinking, measurement, and relevance. Our local teams are motivated and empowered to quickly and proactively meet the needs of those they serve, without waiting for permission to act or being bound to a "one-size-fits-all" corporate strategy. In many markets, we attribute census growth and

excellent clinical and financial outcomes to a healthy organizational culture built on these principles. With strong employee satisfaction across the organization, we believe we can continue to attract and retain the best talent in our industries.

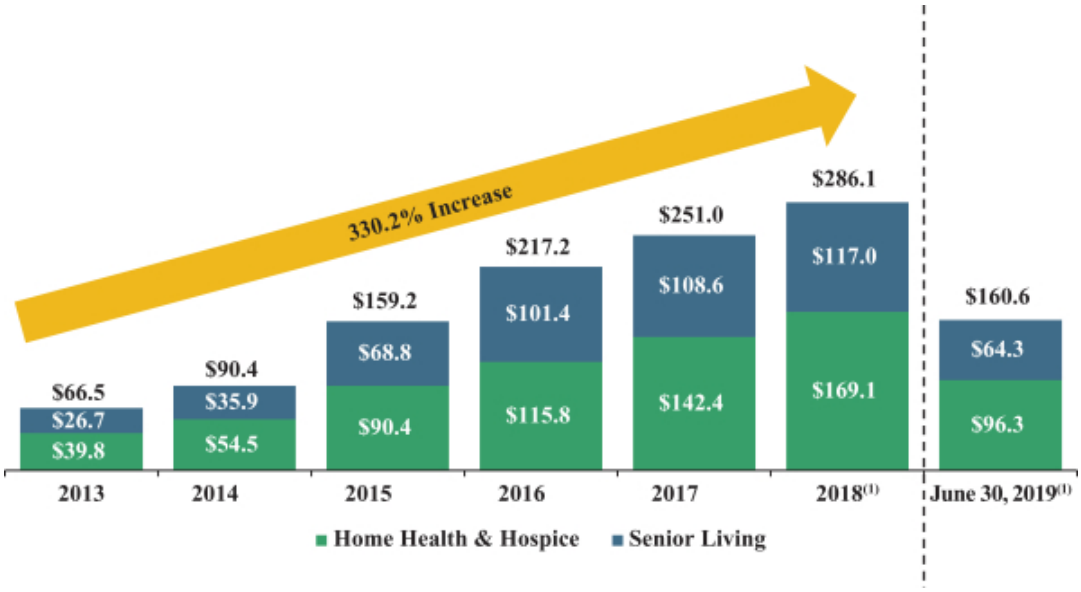
Lastly, while our teams are local, they are also supported by cutting-edge systems and a "Service Center" staffed with teams of subject matter expert resources that advise on their respective fields of information technology, compliance, human resources, accounting, payroll, legal, risk management, education and other services. The partnership and peer accountability that exists between our local leaders and Service Center resources allows each operation to improve while benefiting from the technical expertise, systems and accountability of the Service Center.

Our Disciplined Growth Strategy

Much of our historical growth can be attributed to our expertise in acquiring strategic and underperforming operations and transforming them into market leaders in clinical quality, staff competency and financial performance. Our local leaders are trained to identify these opportunities for long-term organic growth as we strive to become the provider of choice in our local communities. Accordingly, we plan to continue to drive organic growth and acquire additional operations in existing and new markets in a disciplined manner.

From 2013 to 2018, we grew our home health and hospice services and senior living services revenue by 330.2%.

Revenue Growth Since 2013 (Dollars in Millions)

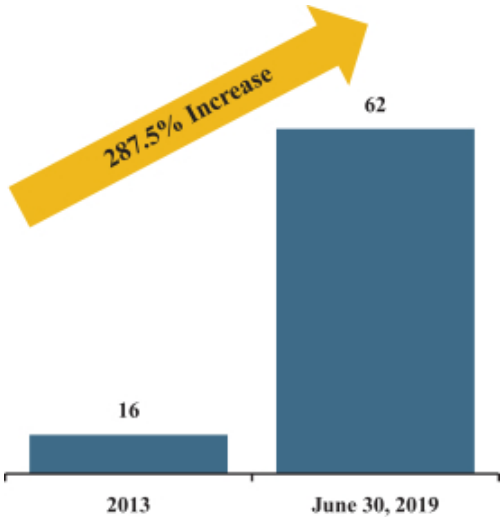


(1) Reflects the adoption of ASC 606, which includes a reduction to revenue of $1.8 million and $1.4 million for the year ended December 31, 2018 and the six months ended June 30, 2019, respectively.

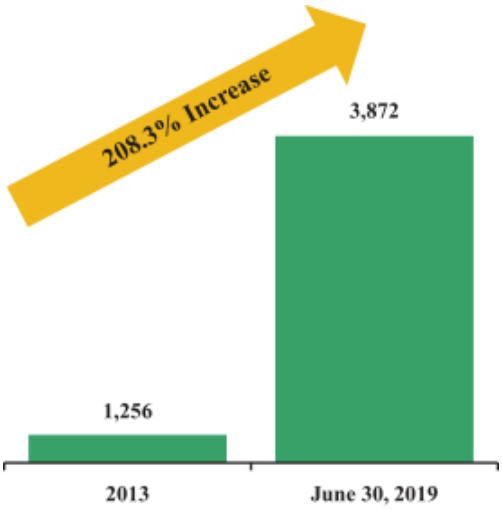
From 2013 to June 30, 2019, we grew the number of our home health and hospice agencies and senior living units by 287.5% and 208.3%, respectively.

Agency and Unit Growth Since 2013

Home Health and Hospice Agencies



Senior Living Units



Partner of Choice in Local Healthcare Communities

We view healthcare services primarily as a local business driven by personal relationships, reputation and the ability to identify and address unmet community needs. We believe our success is largely a result of our ability to build strong relationships within local healthcare communities based on a solid foundation of reliably superior care.

We believe we are a partner of choice to payors, providers, patients and employees in the healthcare communities we serve. As a partner, we focus on improving care outcomes and the quality of life of our patients in home or home-like settings. Our local leadership approach facilitates the development of strong professional relationships, allowing us to better understand and meet the needs of our partners. We believe our emphasis on working closely with other providers, payors and patients yields unique, customized solutions and programs that meet local market needs and improve clinical outcomes, which in turn accelerates revenue growth and profitability.

We are a trusted partner to, and work closely with, payors and other acute and post-acute providers to deliver innovative healthcare solutions in lower cost settings. In the markets we serve, we have developed formal and informal preferred provider relationships with key referral sources and transitional care programs that result in better coordination within the care continuum. These partnerships have resulted in significant benefits to payors, patients and other providers including reduced hospital readmission rates, appropriate transitions within the care continuum, overall cost savings, increased patient satisfaction and improved quality outcomes. Positive, repeated interactions and data-sharing result in strong local relationships and encourage referrals from our acute and post-acute care partners. As we continue to strengthen these formal and informal relationships and expand our referral base, we believe we will continue to drive revenue growth and operational results.

Industry Trends

The healthcare sector is one of the largest and fastest-growing sectors of the U.S. economy. According to the Centers for Medicare and Medicaid Services, national healthcare spending increased from 8.9% of U.S. gross

domestic product ("GDP"), or $255 billion, in 1980 to an estimated 18% of GDP, or $3.6 trillion, in 2018. CMS projects national healthcare spending will grow by an average of 5.6% annually from 2018 through 2026, accounting for approximately 20% of U.S. GDP in 2026.

The home health, hospice and senior living segments are growing within the overall healthcare landscape in the United States. The home health market is estimated at approximately $90 billion and is growing at an estimated CAGR of 7%. The hospice industry is estimated at approximately $35 billion and is growing at an estimated CAGR of 5%. The senior living market is estimated at approximately $53 billion and growing at an estimated CAGR of 5%. We believe that the industries in which we operate will continue to benefit from several macroeconomic and regulatory trends highlighted below:

- ***Increased Demand Driven by Aging Populations.*** As seniors account for an increasing percentage of the total U.S. population, we believe the demand for home health and hospice and senior living services will continue to increase. According to the census projection released by the U.S. Census Bureau in early 2018, between 2010 and 2030, the number of individuals over 65 years old is projected to be one of the fastest growing segments of the United States population, growing from 13% to 21%. The Bureau expects this segment to increase nearly 90% to 73 million, as compared to the total U.S. population which is projected to increase by 17% over that time period. Furthermore, the generation currently retiring has accumulated less savings than in the past, creating demand for more affordable senior housing and in-home care options. As a high quality provider in lower cost settings, we believe we are well-positioned to benefit from this trend.
- ***Shift of Patient Care to Lower Cost Alternatives.*** The growth of the senior population in the U.S. continues to increase healthcare costs, often faster than the available funding from government-sponsored healthcare programs. In response, government payors have adopted measures that encourage the treatment of patients in their homes and other cost-effective settings where the staffing requirements and associated costs are often significantly lower than the alternatives. With our emphasis on the home health, hospice and senior living industries, which are among the lowest cost settings within the post-acute care continuum, we expect this shift to continue to drive our growth.
- ***Transition to Value-Based Payment Models.*** In response to rising healthcare spending, commercial, government and other payors are generally shifting away from fee-for-service payment models toward value-based models, including risk-based payment models that tie financial incentives to quality, efficiency and coordination of care. We believe that payors will continue to emphasize reimbursement models driven by value and that our clinical outcomes combined with our services in lower cost settings will be increasingly rewarded. Many of our home health agencies already receive value-based payments, and we are well-positioned to capitalize on this growth.
- ***Significant Acquisition and Consolidation Opportunities.*** The home health, hospice and senior living industries are highly fragmented markets with thousands of small and regional providers and only a handful of large national players. There are over 12,300 Medicare-certified home health agencies, with the top ten largest operators accounting for about 21.0% of the market. There are approximately 4,200 hospice agencies in the U.S. with the top five largest operators accounting for about 14.0% of the total market share. As with the home health and hospice industries, there is significant fragmentation in the senior housing industry, with approximately 17,000 providers in the U.S. We believe that our strategy of acquiring strategic and underperforming operations in these highly fragmented markets will be an instrumental piece of our future growth.
- ***Changing Regulatory Framework.*** Regulations and reimbursement change frequently in our industries. Our model is designed to successfully navigate these regulatory and reimbursement changes. For example, in January 2017, CMS announced its intent to significantly modify the home health conditions of participation. Prior to the effective date in January 2018, our resources and operators worked together with local teams to formulate systems, policies and procedures to meet the

new regulatory requirements at each operation, resulting in strong outcomes at our home health operations that have been surveyed. Similarly, CMS has proposed changes to the home health prospective payment system with the proposed implementation of the Patient-Driven Groupings Model ("PDGM"). This new reimbursement structure involves case mix calculation methodology refinements, changes to low utilization payment adjustment ("LUPA") thresholds, the elimination of therapy thresholds, a change to the unit of payment from a 60-day episode to a 30-day episode, and phase out in 2020 and full elimination in 2021 of requests for anticipated payment ("RAP"). Just as we have navigated other major reimbursement and regulatory changes, we believe that our unique operating model will mitigate the negative impacts of PDGM as local operations and clinical leaders, supported by our expert resources, effectively adapt to the new reimbursement environment.

Our Competitive Strengths

We believe that we are well-positioned to benefit from the ongoing changes within the home health, hospice and senior living industries. We believe that we will achieve clinical, financial and cultural success as a direct result of the following key competitive strengths:

- ***Innovative Operating Model.*** We believe healthcare services is primarily a local business. Our local leadership-centered operating model encourages our leaders to make key operational decisions that meet the individualized needs of their patients and community partners. Recognizing the local nature of our business, our leaders develop each operation's reputation at the local level, rather than being bound by a traditional organization-wide branding strategy. In addition, our local leaders work closely with their cluster partners to share data and improve clinical and financial outcomes. Moreover, we do not maintain a traditional corporate headquarters, rather we operate a Service Center that accelerates operational results by developing world-class systems and by providing expertise in fields such as information technology, compliance, human resources, accounting, legal and education. This enables individual operations to function with the strength, synergies and economies of scale found in larger organizations without the disadvantages of a top-down management structure or corporate hierarchy. We believe this approach is unique within our industries and allows us to preserve the "one-operation-at-a-time" focus and culture that has contributed to our success.
- ***Proven Track Record of Successful Acquisitions.*** We adhere to a disciplined acquisition strategy focused on sourcing and selectively acquiring operations within our target markets. Local leaders are heavily involved in the acquisition process and are recognized and rewarded as these acquired operations become the provider of choice in the communities they serve. Through our innovative operating model and disciplined approach to strategic growth, we have completed and successfully transitioned dozens of value-add operations. Our expertise in acquiring and transforming strategic and underperforming operations allows us to consider a broad range of potential acquisition targets and will be a key element of our future success.
- ***Superior Clinical Outcomes and Quality Care.*** We will continue to achieve success by delivering high quality home health, hospice and senior living services. Our locally-driven, patient-centered approach to clinical care allows us to meet the unique needs of our patients, resulting in improved clinical outcomes including reduced hospital readmission rates. These improved outcomes are driven by both our talented local clinicians and our data-driven analytical approach to patient care and risk stratification. We believe that our achievement of high quality clinical outcomes positions us as a solution for patients and referral sources, leading to census growth and improved profitability.
- ***Diversified Portfolio by Payor and Services.*** As of June 30, 2019, we operated 62 home health and hospice agencies and 51 senior living communities across 13 states. Because of this diversified portfolio, our blended payor mix was approximately 40.7% Medicare, 13.4% Medicaid, 8.6% managed care and 37.3% private pay for the six months ended June 30, 2019. Our balanced payor mix provides

greater business stability through economic cycles and mitigates volatility arising from government-driven reimbursement changes. For the six months ended June 30, 2019, we generated approximately 60.0% of our revenue from home health and hospice services and 40.0% of our revenue from senior living services. This diversified service portfolio allows us to opportunistically execute on our acquisition strategy as valuations fluctuate over industry cycles.

- ***Proven Track Record of Talent Recruitment, Development and Retention.*** We have been successful in attracting, developing and retaining outstanding business and clinical leaders to lead our operating subsidiaries. Our unique operating model, which emphasizes local decision-making and team building, supported by our platform of expert resources and best-in-class systems, attracts a highly talented and entrepreneurial group of leaders. Our operational leaders are committed to ongoing training and participate in regular leadership development and educational programs. We believe that our commitment to professional development strengthens the quality of our operational leaders and staff and will continue to differentiate us from our competitors.

Our Strategy

We believe that the following strategies are primarily responsible for our growth to date and will continue to drive the growth of our business:

- ***Grow Talent Base and Develop Future Leaders.*** Our growth strategy is focused on expanding our talent base and developing future leaders. A key component of our organizational culture is our belief that strong local leadership is a primary ingredient to operational success. We use a multi-faceted strategy to identify and recruit proven business leaders from various industries and backgrounds. To develop these leaders, we have a rigorous “CEO-in-Training Program” that includes significant in-person instruction on leadership, clinical and operational topics as well as extensive on-the-ground training and active learning with key leaders from across the organization. After placement in a local operation, our leaders continue to receive training and regular feedback and support from operational and resource peers as they seek to achieve great results. We believe our model of empowering local leaders and providing them a platform of support from expert resources and systems will continue to attract and retain highly talented and entrepreneurial leaders.
- ***Focus on Organic Growth.*** We believe that we have a significant opportunity to drive organic growth within our current portfolio and recently acquired operations. As we improve clinical outcomes, quality of care and operational results at each of our existing and newly acquired operations, we become a provider of choice in the communities we serve, which leads to census growth. Through this census growth, and as we continue to expand our service offerings, we believe we will continue to translate revenue growth into bottom line success with rigorous adherence to our core operating principles. By effectively using data systems and analytics and embracing a culture of transparency and accountability, our local leaders have a track record of steadily improving operational results. We believe our unique operating model will continue to cultivate steady and consistent organic growth in the future.
- ***Pursue Disciplined Acquisition Strategy*****.** The disciplined acquisition and integration of strategic and underperforming operations is a key element of our past success and future growth. We have proven the ability to successfully transition both turnaround and stable acquisitions, transforming them into top-quality operations preferred by referral sources, thus creating a strong return on investment. We plan to continue to take advantage of the fragmented home health, hospice and senior living industries by acquiring strategic and underperforming operations within both our existing and new geographic markets. With experienced leaders in place at the local level and demonstrated success in significantly improving operating conditions at acquired businesses, we believe we are well positioned to continue successfully expanding our footprint.

- ***Leverage Our Operational Capabilities to Expand Partnerships.*** We have a unique and proven operating model with a track record of becoming the provider of choice through deep local payor and provider relationships. Our local leadership approach enables us to adapt to and efficiently meet the needs of our partners in the communities we serve. Our clinical and data analytics capabilities foster solutions and allow us to optimize clinical outcomes. We use this data to communicate with key partners in an effort to reduce overall cost of care and drive improved clinical outcomes. We will continue to expand formal and informal partnerships throughout the healthcare continuum by strategically investing in programs and data analytics that help us and our partners improve care transitions, achieve better outcomes and reduce costs.
- ***Strategically Invest In and Integrate Other Post-Acute Healthcare Businesses.*** Another important element to our growth strategy includes in-house development and acquisition of other post-acute care businesses that are adjacent to our existing service offerings. These businesses either directly or indirectly benefit our patients, help us collaborate more effectively with our partners, and allow us to compete more effectively in the rapidly-changing healthcare environment. Our leadership development programs facilitate these investments, and we have supported local leaders in exploring new business opportunities. We expect to continue to selectively incubate ancillary solutions in a disciplined manner that incentivizes our local leaders and bolsters the depth and breadth of services we offer within the post-acute care continuum.

Implications of Being an Emerging Growth Company

As a company with less than $1.07 billion in revenue during our last fiscal year, we qualify as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). We will continue to be an emerging growth company until the earliest to occur of:

- the last day of the fiscal year following the fifth anniversary of the distribution;
- the last day of the fiscal year with at least $1.07 billion in annual revenues;
- the last day of the fiscal year in which we are deemed to be a large accelerated filer, which means that we have been public for at least twelve months, have filed at least one annual report and the market value of our common stock that is held by non-affiliates exceeds $700 million as of the last day of our then-most recently completed second fiscal quarter; or
- the date on which we have issued more than $1 billion of non-convertible debt during the prior three-year period.

Until we cease to be an emerging growth company, we may take advantage of reduced reporting requirements generally unavailable to other public companies. Those provisions allow us to:

- provide reduced disclosure regarding our executive compensation arrangements pursuant to the rules applicable to smaller reporting companies, which means we do not have to include a compensation discussion and analysis and certain other disclosure regarding our executive compensation;
- not provide an auditor attestation of our internal control over financial reporting as required under Section 404 of the Sarbanes-Oxley Act of 2002, as amended; and
- not hold a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

We have elected to adopt the reduced disclosure requirements described above for purposes of the information statement. In addition, for so long as we qualify as an emerging growth company, we expect to take

advantage of certain of the reduced reporting and other requirements of the JOBS Act with respect to the periodic reports we will file with the SEC and proxy statements that we use to solicit proxies from our stockholders. As a result of these elections, the information that we provide in this information statement may be different than the information you may receive from other public companies in which you hold equity interests. In addition, it is possible that some investors will find our common stock less attractive as a result of these elections, which may result in a less active trading market for our common stock and higher volatility in our stock price.

In addition, the JOBS Act permits an emerging growth company to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We have elected to not take advantage of the extended transition period that allows an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies, which means that the financial statements included in this information statement, as well as financial statements we file in the future, will be subject to all new or revised accounting standards generally applicable to public companies. Our election not to take advantage of the extended transition period is irrevocable.

Summary Risk Factors

Our business is subject to numerous risks described in the section entitled "Risk Factors" and elsewhere in this information statement. You should carefully consider these risks before making an investment. Some of these risks include, but are not limited to:

- Our revenue could be impacted by federal and state changes to reimbursement and other aspects of Medicaid and Medicare.
- Reforms to the U.S. healthcare system could impose new requirements upon us and may lower our reimbursements.
- Increased competition for, or a shortage of, nurses and other skilled personnel could increase our staffing and labor costs and subject us to monetary fines.
- We are subject to extensive and complex federal and state government laws and regulations which could change at any time and increase our cost of doing business and subject us to enforcement actions.
- We are subject to litigation that could result in significant legal costs and large settlement amounts or damage awards.
- We may be unable to complete future acquisitions at attractive prices or at all, which may adversely affect our revenue; we may also elect to dispose of underperforming or non-strategic operating subsidiaries, which would also decrease our revenue.
- We face significant competition from other healthcare providers and may not be successful in attracting patients and residents to our affiliated operations.
- If we do not achieve and maintain competitive quality of care or if the frequency of CMS surveys and enforcement sanctions increases, our business may be negatively affected.
- If we are unable to obtain insurance, or if insurance becomes more costly for us to obtain, our business may be adversely affected.
- Our systems are subject to security breaches and other cyber-security incidents.
- We may be unable to achieve some or all of the benefits that we expect to achieve from our spin-off from Ensign.
- We may have received better terms from unaffiliated third parties than the terms we received in our agreements with Ensign entered into in connection with the spin-off.
- Our success will depend in part on our ongoing relationship with Ensign after the spin-off.
- If the distribution, together with certain related transactions, were to fail to qualify as a reorganization for U.S. federal income tax purposes under Sections 368(a)(1)(D) and 355 of the Code, then our stockholders, we and Ensign might be required to pay substantial U.S. federal income taxes (including as a result of indemnification under the tax matters agreement).
- We may not be able to engage in desirable strategic transactions and equity issuances following the spin-off because of certain restrictions related to preserving the tax-free treatment of the spin-off. In addition, we could be liable for adverse tax consequences resulting from engaging in significant strategic or capital-raising transactions.
- There is no existing market for our common stock, and a trading market that will provide you with adequate liquidity may not develop for our common stock, which could limit your ability to sell your shares of our common stock at an attractive price, or at all.

- We are an “emerging growth company” under the JOBS Act, and any decision on our part to comply with certain reduced reporting and disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors.
- Our stock price may be volatile or may decline regardless of our operating performance, and you may not be able to sell your shares at an attractive price or at all.
- Your percentage ownership in Pennant may be diluted in the future because of equity awards that we expect will be issued to our directors, and officers and employees of our subsidiaries and the accelerated vesting of certain equity awards with respect to our common stock.
- Anti-takeover provisions in our organizational documents and Delaware law might discourage or delay acquisition attempts for us that you might consider favorable.

These and other risks relating to our business, our industry, the spin-off and our common stock are discussed in greater detail under the heading “Risk Factors” in this information statement. You should read and consider all of these risks carefully.

Company Information

The Pennant Group, Inc. was incorporated in Delaware on January 24, 2019. Our principal executive offices are at 1675 East Riverside Drive, Suite 150, Eagle, Idaho 83616, and our telephone number is (208) 506-6100. Our website is www.pennantgroup.com. **The information and other content contained in, or accessible through, our website are not part of, and is not incorporated into, this information statement, and investors should not rely on any such information in deciding whether to invest in our common stock**.

The Spin-Off

The following provides only a summary of the terms of the spin-off. For a more detailed description of the matters described below, see "The Spin-Off."

Overview

On May 6, 2019, Ensign announced its intention to implement the spin-off of Pennant from Ensign, following which The Pennant Group, Inc. will be an independent, publicly-traded company, and Ensign will have no continuing stock ownership interest in Pennant.

Before our spin-off from Ensign, we will enter into a master separation agreement and several other agreements with Ensign related to the spin-off. These agreements, including an employee matters agreement, a tax matters agreement, a transition services agreement and the Ensign Leases, will govern the relationship between us and Ensign after completion of the spin-off and provide for the allocation between us and Ensign of various assets, liabilities, rights and obligations. In addition, subsidiaries of Ensign and Pennant may opt into a voluntary joint post-acute care preferred provider network called the Ensign Pennant Care Continuum, which will allow participants to collaborate together to enhance voluntary transitions between clinical care settings. See "Certain Relationships and Related Party Transactions."

The distribution is subject to the satisfaction or waiver of certain conditions. In addition, until the distribution has occurred, the board of directors of The Ensign Group, Inc. (the "Ensign board of directors") has the right to not proceed with the distribution, even if all of the conditions are satisfied. See "The Spin-Off—Conditions to the Distribution."

Financing Transactions

We expect to put in place a capital structure that provides us with the flexibility to grow and a cost of debt capital that allows us to compete for investment opportunities. Subject to market conditions, we expect to enter into a credit agreement (the "Credit Agreement"), which is expected to provide for a revolving credit facility with a syndicate of banks with a borrowing capacity of $75.0 million (the "Revolving Credit Facility"). We anticipate the interest rates applicable to loans under the Revolving Credit Facility to be, at the Company's election, either LIBOR ("Adjusted LIBOR" as defined in the Credit Agreement) plus a margin ranging from 2.5% to 3.5% per annum or Base Rate plus a margin ranging from 1.5% to 2.5% per annum, in each case based on the ratio of Consolidated Total Net Debt to Consolidated EBITDA (each, as defined in the Credit Agreement). In addition, we expect that we will pay a commitment fee on the undrawn portion of the commitments under the Revolving Credit Facility that is estimated to be 0.6% per annum.

We anticipate that the Revolving Credit Facility will not be subject to interim amortization. We expect that the Company will not be required to repay any loans under the Revolving Credit Facility prior to maturity. We expect that the Company will be permitted to prepay all or any portion of the loans under the Revolving Credit Facility prior to maturity without premium or penalty, subject to reimbursement of any LIBOR breakage costs of the lenders. This information is based on our current negotiations with the lead banks in an anticipated syndicate.

As a result of the financing transaction, we expect to have outstanding indebtedness of approximately $30.0 million. The amount reflects proceeds from issuance of indebtedness under the Revolving Credit Facility, including approximately $1.2 million in estimated financing cost. The foregoing summarizes some of the currently expected terms of the Revolving Credit Facility. However, the foregoing summary does not purport to be complete, and the terms of the Revolving Credit Facility have not yet been finalized. There may be changes to the expected size and other terms of the Revolving Credit Facility, some of which may be material.

We expect that we will use approximately $25.0 million of the proceeds from the financing transaction to pay transaction fees and to pay a dividend to Ensign in connection with the contribution of assets to us by Ensign prior to the spin-off. We expect to retain approximately $5.0 million in cash for working capital, acquisitions and other general purposes. We expect that Ensign would use the funds received from us to repay certain outstanding third-party bank debt and other indebtedness and/or pay dividends to Ensign's stockholders. After the spin-off, we expect that we will use borrowings under the Revolving Credit Facility for working capital purposes, to fund acquisitions and for other general purposes. See "The Spin-Off—Financing Transactions" and "Description of Certain Indebtedness."

Questions and Answers About the Spin-Off

The following provides only a summary of the terms of the spin-off. For a more detailed description of the matters described below, see "The Spin-Off."

Q: *What is the spin-off?*

A: The spin-off is the method by which we will separate from Ensign. In the spin-off, The Ensign Group, Inc. will distribute to Ensign stockholders substantially all of the outstanding shares of Pennant common stock. We refer to this as the distribution. Following the spin-off, The Pennant Group, Inc. will be an independent, publicly-traded company, and Ensign will not retain any ownership interest in Pennant.

Q: *What will I receive in the spin-off?*

A: As a holder of Ensign common stock, you will retain your shares of Ensign common stock and will receive one share of Pennant common stock for every two shares of Ensign common stock you own as of the record date. The number of shares of Ensign common stock you own and your proportionate interest in Ensign will not change as a result of the spin-off. You will receive only whole shares of Pennant common stock in the distribution, as well as cash payment in lieu of any fractional shares. See "The Spin-Off."

Q: *What is The Pennant Group, Inc.?*

A: After the spin-off is completed, The Pennant Group, Inc. will be a new independent, publicly-traded holding company of Ensign's home health and hospice agencies and substantially all of Ensign's senior living businesses. The Pennant Group, Inc. is currently a wholly owned subsidiary of The Ensign Group, Inc.

Q: *Why is the separation of Pennant from Ensign structured as a spin-off?*

A: Ensign determined, and continues to believe, that a spin-off that is generally tax-free to Ensign and Ensign stockholders for U.S. federal income tax purposes will enhance the long-term value of both Ensign and Pennant. Further, Ensign believes that a spin-off offers the most efficient way to accomplish a separation of its home health and hospice agencies and substantially all of its senior living businesses, a higher degree of certainty of completion in a timely manner and a lower risk of disruption to current business operations. See "The Spin-Off—Reasons for the Spin-Off."

Q: *What are the conditions to the distribution?*

A: The distribution is subject to the satisfaction, or waiver by the Ensign board of directors, of the following conditions:

- the final approval of the distribution by the Ensign board of directors, which approval may be given or withheld in its absolute and sole discretion;

- our Registration Statement on Form 10, of which this information statement forms a part, shall have been declared effective by the SEC, with no stop order in effect with respect thereto, and a notice of internet availability of this information statement shall have been mailed to Ensign stockholders;
- the mailing by Ensign of this information statement (or notice of internet availability thereof) to record holders of Ensign common stock as of the record date;
- Pennant common stock shall have been approved for listing on NASDAQ, subject to official notice of distribution;
- Ensign shall have obtained an opinion from Kirkland & Ellis LLP, Ensign's tax counsel, in form and substance satisfactory to Ensign, to the effect that, subject to the assumptions and limitations described therein, the distribution of Pennant common stock and certain related transactions will qualify as a reorganization under Sections 368(a)(1)(D) and 355 of the Code, in which no gain or loss is recognized by The Ensign Group, Inc. or its stockholders, except, in the case of Ensign stockholders, for cash received in lieu of fractional shares;
- any required material governmental approvals and other consents necessary to consummate the distribution or any portion thereof shall have been obtained and be in full force and effect;
- the absence of any events or developments having occurred prior to the spin-off that, in the judgment of the Ensign board of directors, would result in the spin-off having a material adverse effect on Ensign or its stockholders;
- the adoption by Pennant of its amended and restated certificate of incorporation and amended and restated bylaws filed by Pennant with the SEC as exhibits to the Registration Statement on Form 10, of which this information statement forms a part;
- no order, injunction or decree issued by any governmental entity of competent jurisdiction or other legal restraint or prohibition preventing the consummation of all or any portion of the distribution shall be in effect, and no other event shall have occurred or failed to occur that prevents the consummation of all or any portion of the distribution;
- the internal reorganization shall have been completed, except for such steps as Ensign in its sole discretion shall have determined may be completed after the distribution date;
- each of the master separation agreement, the tax matters agreement, the employee matters agreement, the transition services agreement, the Ensign Leases and the other ancillary agreements shall have been executed and delivered by each party thereto and be in full force and effect;
- Ensign shall have completed its own financing transactions, including amending and restating its existing credit facility, to be effective on or prior to the distribution date; and
- the financing transaction described herein shall have been completed on or prior to the distribution date.

See "The Spin-Off—Conditions to the Distribution."

Q: *Can Ensign decide to not proceed with the distribution even if all of the conditions to the distribution have been met?*

A: Yes. Until the distribution has occurred, the Ensign board of directors has the right to not proceed with the distribution, even if all of the conditions are satisfied.

Q: *What is being distributed in the spin-off?*

A: Based on information available as of the date of this information statement, we estimate that approximately 28.0 million shares of our common stock will be outstanding immediately after the spin-off, based

on the number of shares of Ensign common stock that we expect will be outstanding as of the record date, the distribution ratio and the anticipated exchange of equity awards in Ensign's majority-owned subsidiary, Cornerstone Healthcare, Inc. ("Cornerstone") for Pennant equity awards in anticipation of the distribution. The shares of Pennant common stock distributed by The Ensign Group, Inc. will constitute substantially all of the issued and outstanding shares of Pennant common stock immediately prior to the distribution. Pennant is also anticipating that Cornerstone equity awards granted to certain individuals will be exchanged for Pennant common stock immediately prior to the distribution. See "Description of Capital Stock—Common Stock."

Q: *When is the record date for the distribution?*

A: The record date will be the close of business of NASDAQ on , 2019.

Q: *When will the distribution occur?*

A: The distribution date of the spin-off is , 2019. We expect that it will take the distribution agent, acting on behalf of Ensign, up to two weeks after the distribution date to fully distribute the shares of Pennant common stock to Ensign stockholders.

Q: *What do I have to do to participate in the spin-off?*

A: Nothing. You are not required to take any action, although we urge you to read this entire information statement carefully. No stockholder approval of the distribution is required or sought. **You are not being asked for a proxy and Ensign requests that you do not send Ensign a proxy.** No action is required on your part to receive your shares of Pennant common stock. You will neither be required to pay anything for the new shares nor be required to surrender any shares of Ensign common stock to participate in the spin-off.

Q: *Do I have appraisal rights in connection with the spin-off?*

A: No. Holders of Ensign common stock are not entitled to appraisal rights in connection with the spin-off.

Q: *How will fractional shares be treated in the spin-off?*

A: Fractional shares of Pennant common stock will not be distributed. Fractional shares of Pennant common stock to which Ensign stockholders of record would otherwise be entitled will be aggregated and sold in the public market by the distribution agent at prevailing market prices. The distribution agent, in its sole discretion, will determine when, how, at what prices to sell these shares and through which broker-dealers, provided that such broker-dealers are not affiliates of Ensign or Pennant. The aggregate net cash proceeds of the sales will be distributed ratably to those stockholders who would otherwise have received fractional shares of Pennant common stock. See "The Spin-Off—Treatment of Fractional Shares" for a more detailed explanation. Receipt by a stockholder of proceeds from these sales in lieu of a fractional share generally will result in a taxable gain or loss to those stockholders for U.S. federal income tax purposes. Each stockholder entitled to receive cash proceeds from these shares should consult his, her or its own tax advisor as to such stockholder's particular circumstances. We describe the material U.S. federal income tax consequences of the distribution in more detail under "The Spin-Off—Material U.S. Federal Income Tax Consequences of the Spin-Off."

Q: *Why has Ensign determined to undertake the spin-off?*

A: The Ensign board of directors has determined that the spin-off is in the best interests of Ensign, Ensign stockholders and other constituents because the spin-off will provide a number of benefits, including:

(1) amplification of the results of Ensign's unique operating model in the home health, hospice and senior living industries; (2) creation of additional opportunities for key leaders within Pennant and Ensign; (3) enhanced ability to continue both companies' growth strategy; (4) increased ability to raise funds through capital market offerings; (5) improved opportunities for partnership outside of Ensign; (6) highlight Pennant's uniquely diversified payor mix; (7) equity compensation awards more closely tied to value created by our leaders and employees; and (8) improved investor understanding about our businesses. For a more detailed discussion of the reasons for the spin-off, see "The Spin-Off—Reasons for the Spin-Off."

Q: *What are the U.S. federal income tax consequences of the spin-off?*

A: The spin-off is conditioned on the receipt of an opinion of Kirkland & Ellis LLP to the effect that, subject to the assumptions and limitations described therein, the distribution and certain related transactions will be treated as a reorganization for U.S. federal income tax purposes under Sections 368(a)(1)(D) and 355 of the Code in which no gain or loss is recognized by The Ensign Group, Inc. or its stockholders, except, in the case of Ensign stockholders, for cash received in lieu of fractional shares. Although Ensign has no current intention to do so, such condition is solely for the benefit of Ensign and Ensign stockholders and may be waived by Ensign in its sole discretion. The material U.S. federal income tax consequences of the distribution are described in more detail under "The Spin-Off—Material U.S. Federal Income Tax Consequences of the Spin-Off."

Q: *Will Pennant common stock be listed on a stock exchange?*

A: Yes. Although there is not currently a public market for Pennant common stock, before completion of the spin-off, Pennant will apply to list its common stock on NASDAQ under the symbol "PNTG." We anticipate that a limited market, commonly known as a "when-issued" trading market, will develop shortly before the record date, and that "regular-way" trading in shares of Pennant common stock will begin on the first trading day following the distribution date. If trading begins on a "when-issued" basis, you may purchase or sell Pennant common stock up to and including the distribution date, in which case your transaction will settle within two trading days after regular-way trading commences following the distribution. If you sell your Ensign common stock in the "regular-way" market before the distribution date, you also will be selling your right to receive shares of Pennant common stock in connection with the spin-off. However, if you sell your Ensign common stock in the "ex-distribution" market before the distribution date, you will still receive shares of Pennant common stock in the spin-off. We cannot predict the trading prices of Pennant common stock before, on or after the distribution date. See "Trading Market."

Q: *Will my shares of Ensign common stock continue to trade?*

A: Yes. Ensign common stock is expected to continue to be listed on NASDAQ under its symbol, "ENSG."

Q: *If I sell, on or before the distribution date, shares of Ensign common stock that I held as of the record date, am I still entitled to receive shares of Pennant common stock distributable with respect to the shares of Ensign common stock I sold?*

A: Beginning on or shortly before the record date and continuing through the distribution date for the spin-off, it is expected that there will be two markets in Ensign common stock: a "regular-way" market and an "ex-distribution" market. If you hold shares of Ensign common stock as of the record date for the distribution and choose to sell those shares in the "regular-way" market after the record date for the distribution and on or before the distribution date, you will also be selling the right to receive the shares of Pennant common stock in connection with the spin-off. However, if you hold shares of Ensign common stock as of the record date for the distribution and choose to sell those shares in the "ex-distribution" market after the record date for the distribution and on or before the distribution date, you will still receive the shares of Pennant common stock in the spin-off.

Q: *Will the spin-off affect the trading price of my Ensign common stock?*

A: Yes. The trading price of shares of Ensign common stock immediately following the distribution is expected to be lower than immediately prior to the distribution because its trading price will no longer reflect the value of Pennant's home health, hospice and senior living businesses. However, we cannot predict the price at which the shares of Ensign common stock will trade following the spin-off.

Q: *What financing transactions will be undertaken in connection with the spin-off?*

A: We expect to put in place a capital structure that provides us with the flexibility to grow and a cost of debt capital that allows us to compete for investment opportunities. Subject to market conditions, we expect to enter into the Revolving Credit Facility with a syndicate of banks with a borrowing capacity of $75.0 million. We anticipate the interest rates applicable to loans under the revolving credit facility to be, at the Company's election, either LIBOR plus a margin ranging from 2.5% to 3.5% per annum or Base Rate plus a margin ranging from 1.5% to 2.5% per annum, in each case based on the ratio of Consolidated Total Net Debt to Consolidated EBITDA (each, as defined in the Credit Agreement). In addition, we expect that we will pay a commitment fee on the undrawn portion of the commitments under the Revolving Credit Facility that is estimated to be 0.6% per annum.

We anticipate that the Revolving Credit Facility will not be subject to interim amortization. We expect that the Company will not be required to repay any loans under the Revolving Credit Facility prior to maturity. We expect that the Company will be permitted to prepay all or any portion of the loans under the Revolving Credit Facility prior to maturity without premium or penalty, subject to reimbursement of any LIBOR breakage costs of the lenders. This information is based on our current negotiations with the lead banks in an anticipated syndicate.

As a result of the financing transaction, we expect to have outstanding indebtedness of approximately $30.0 million. The amount reflects proceeds from issuance of indebtedness under the Revolving Credit Facility, including approximately $1.2 million in estimated financing cost. The foregoing summarizes some of the currently expected terms of the Revolving Credit Facility. However, the foregoing summary does not purport to be complete, and the terms of the Revolving Credit Facility have not yet been finalized. There may be changes to the expected size and other terms of the Revolving Credit Facility, some of which may be material.

We expect that we will use approximately $25.0 million of the proceeds from the financing transaction to pay transaction fees and to pay a dividend to Ensign in connection with the contribution of assets to us by Ensign prior to the spin-off. We expect to retain approximately $5.0 million in cash for working capital, acquisitions and other general purposes. We expect that Ensign would use the funds received from us to repay certain outstanding third-party bank debt and other indebtedness and/or pay dividends to Ensign's stockholders. After the spin-off, we expect that we will use borrowings under the Revolving Credit Facility for working capital purposes, to fund acquisitions and for other general purposes. See "The Spin-Off—Financing Transactions" and "Description of Certain Indebtedness."

Q: *Who will form the senior management team and board of directors of The Pennant Group, Inc. after the spin-off?*

A: The executive officers and members of the board of directors of The Pennant Group, Inc. ("our board of directors") following the spin-off will include: Daniel H Walker, our Chairman, Chief Executive Officer and President; Christopher R. Christensen, director; John G. Nackel, Ph.D, director; Stephen M. R. Covey, director; JoAnne Stringfield, director; Scott E. Lamb, director, Roderic W. Lewis, director; Jennifer L. Freeman, Chief Financial Officer; John J. Gochnour, Chief Operating Officer; and Derek J. Bunker, Chief Investment Officer, Executive Vice President & Secretary. See "Management" for information on our executive officers and board of directors.

Q: *What will the relationship be between Ensign and Pennant after the spin-off?*

A: Following the spin-off, The Pennant Group, Inc. will be an independent, publicly-traded company, and Ensign will have no continuing stock ownership interest in Pennant. We will have entered into a master separation agreement and several other agreements with Ensign related to the spin-off. These agreements, including an employee matters agreement, a tax matters agreement, a transition services agreement and the Ensign Leases, will govern the relationship between us and Ensign after completion of the spin-off and provide for the allocation between us and Ensign of various assets, liabilities, rights and obligations. In addition, subsidiaries of Ensign and Pennant may opt into a voluntary joint post-acute care preferred provider network called the Ensign Pennant Care Continuum, which will establish methodologies and protections for operational data sharing and guiding principles for the mutually beneficial collaboration on acquisition, and ancillary business opportunities. See "Certain Relationships and Related Party Transactions."

Q: *What will Pennant's dividend policy be after the spin-off?*

A: We do not intend to pay dividends on our common stock for the foreseeable future. Instead, we anticipate that all of our future earnings will be retained to support our operations and to finance the growth and development of our business. Any decision to declare and pay dividends will be made at the sole discretion of our board of directors and will depend on a number of factors, including: our historic and projected financial condition, liquidity and results of operations; our capital levels and needs; tax considerations; any acquisitions or potential acquisitions that we may consider; statutory and regulatory prohibitions and other limitations; the terms of any credit agreements or other borrowing arrangements that restrict our ability to pay cash dividends; general economic conditions; and other factors deemed relevant by our board of directors. See "Dividend Policy."

Q: *What will happen to equity awards in connection with the spin-off?*

A: The board of directors of Ensign has determined that outstanding equity awards of Ensign and Cornerstone will be treated in a manner as set forth below, in connection with the spin-off. Generally, for each holder of outstanding Ensign and Cornerstone equity awards as of immediately prior to the spin-off, Ensign's intent is that the economic value and substantive terms and conditions associated with such awards shall effectively be maintained and continued as of immediately following the spin-off.

The following table provides additional information regarding each type of Ensign equity award held by employees who will remain as an employee of a subsidiary of Ensign or Pennant following the distribution date after giving effect to the spin-off:

Type of Award	Treatment in Connection with the Spin-Off
Restricted Stock Awards	Awards of restricted stock held by employees of subsidiaries of Ensign or Pennant will be treated in the same manner as other shares of Ensign common stock regardless of the employer following the spin-off.
Stock Options	Employees of Ensign subsidiaries shall continue to hold Ensign stock options, but the number of options covered by such awards and exercise prices associated with such awards will be adjusted to maintain economic value. Ensign stock options held by employees of Pennant subsidiaries will be converted into Pennant stock options but the number of options covered by such awards and exercise prices associated with such awards will be adjusted to maintain economic value.

The following table provides additional information regarding each type of Cornerstone equity award after giving effect to the spin-off and the reverse merger between Cornerstone and a subsidiary of Pennant, whereby Cornerstone shall be the surviving entity and a direct subsidiary of Pennant:

Type of Award	Treatment in Connection with the Spin-Off
Restricted Stock Awards	Cornerstone restricted stock will be converted into restricted stock of Pennant pursuant to the 2016 Cornerstone Omnibus Incentive Plan (the "Subsidiary Equity Plan"), with the number of shares covered by such awards adjusted to maintain economic value.
Stock Options	Cornerstone stock options will be converted into Pennant stock options pursuant to the Subsidiary Equity Plan, with the number of shares covered by such awards and exercise prices associated with such awards adjusted to maintain economic value.

Q: *What are the anti-takeover effects of the spin-off?*

A: Some provisions of Delaware law, certain of our agreements with Ensign, and our amended and restated certificate of incorporation and our amended and restated bylaws (as each will be in effect immediately following the spin-off) may have the effect of making it more difficult to acquire control of Pennant in a transaction not approved by our board of directors. For example, our amended and restated certificate of incorporation and amended and restated bylaws will, among other things, require advance notice for stockholder proposals and nominations, place limitations on convening stockholder meetings, authorize our board of directors to issue one or more series of preferred stock and provide for the classification of our board of directors. In addition, Ensign and Pennant may mutually agree to enter into certain restrictive covenants restricting certain activities of each for a period of time following the spin-off. Further, under the tax matters agreement, Pennant will agree, subject to certain terms, conditions and exceptions, not to enter into certain transactions for a period of two years following the distribution date involving an acquisition of Pennant common stock or certain other transactions that could cause the distribution to be taxable to Ensign. The parties will agree to indemnify each other for any tax resulting from any transaction to the extent a party's actions caused such tax liability, regardless of whether the indemnified party consented to such transaction or the indemnifying party was otherwise permitted to enter into such transaction under the tax matters agreement, and for all or a portion of any tax liabilities resulting from the distribution under certain other circumstances. Generally, Ensign will recognize a taxable gain on the distribution

if there are (or have been) one or more direct or indirect acquisitions (including issuances) of Pennant capital stock representing 50% or more of Pennant common stock, measured by vote or value, and the acquisitions are deemed to be part of a plan or series of related transactions that include the distribution. Any such acquisition of Pennant common stock within two years before or after the day of the distribution (with exceptions, including public trading by less-than-5% stockholders and certain compensatory stock issuances) generally will be presumed to be part of such a plan unless that presumption is rebutted. As a result, these obligations may discourage, delay or prevent a change of control of Pennant. See "Description of Capital Stock—Anti-Takeover Effects of Our Amended and Restated Certificate of Incorporation, Amended and Restated Bylaws and Delaware Law" and "The Spin-Off—Treatment of the Spin-Off" for more information.

Q: *What are the risks associated with the spin-off?*

A: There are a number of risks associated with the spin-off and ownership of Pennant common stock. These risks are discussed under "Risk Factors."

Q: *Who will be the distribution agent, transfer agent and registrar for Pennant common stock?*

A: The distribution agent, transfer agent and registrar for Pennant common stock will be Broadridge Corporate Issuer Solutions, Inc. ("Broadridge"). For questions relating to the transfer or mechanics of the stock distribution, you should contact Broadridge toll-free at (877) 830-4936.

Q: *Where can I get more information?*

A: If you have any questions relating to the mechanics of the distribution, you should contact the distribution agent at:

Broadridge Corporate Issuer Solutions, Inc.
P.O. Box 1342
Brentwood, NY 11717
Toll-Free Number: (877) 830-4936
Toll Number: (720) 378-5591

Before the spin-off, if you have any questions relating to the spin-off, you should contact Ensign at:

The Ensign Group, Inc.
Investor/Media Relations
29222 Rancho Viejo Road, Suite 127
San Juan Capistrano, CA 92675
Phone: (949) 487-9500
Email: ir@ensigngroup.net
http://investor.ensigngroup.net/investor-relations

After the spin-off, if you have any questions relating to Pennant, you should contact Pennant at:

The Pennant Group, Inc.
Investor/Media Relations
1675 East Riverside Drive, Suite 150
Eagle, Idaho 83616
Phone: (208) 506-6100
Email: ir@pennantgroup.com
http://investor.pennantgroup.com/investor-relations

Summary of the Spin-Off

Distributing Company	The Ensign Group, Inc., a Delaware corporation. After the distribution, Ensign will not own any shares of Pennant common stock.
Distributed Company	The Pennant Group, Inc., a Delaware corporation and, prior to the spin-off, a wholly owned subsidiary of The Ensign Group, Inc. After the spin-off, The Pennant Group, Inc. will be an independent, publicly-traded company.
Distributed Securities	All of the outstanding shares of Pennant common stock owned by The Ensign Group, Inc., which will be substantially all of the Pennant common stock issued and outstanding immediately prior to the distribution.
Record Date	The record date for the distribution is , 2019.
Distribution Date	The distribution date is , 2019.
Internal Reorganization	As part of the spin-off, Ensign will undergo an internal reorganization, pursuant to which, among other things: (i) the assets and liabilities associated with Ensign's home health and hospice agencies and substantially all of its senior living businesses will be transferred to Pennant; and (ii) all other assets and liabilities of Ensign will be retained by Ensign. The senior living communities that will become part of Pennant consist primarily of those that are geographically and operationally strategic to its home health and hospice operations. The operational synergies and resource infrastructure support available in each market will better position each individual operation to best benefit the local healthcare community by providing consistent quality care, resulting in an overall better patient experience across the continuum of care. See "The Spin-Off—Manner of Effecting the Spin-Off-Internal Reorganization." After completion of the spin-off: The Pennant Group, Inc. will be an independent, publicly-traded company (NASDAQ:PNTG), and through its subsidiaries will own Ensign's home health and hospice agencies and substantially all of Ensign's senior living businesses; and The Ensign Group, Inc. will continue to be an independent, publicly-traded company (NASDAQ:ENSG) and will include transitional and skilled services, rehabilitative care services, healthcare campuses, post-acute-related new business ventures and real estate investments.
Distribution Ratio	Each holder of Ensign common stock will receive one share of Pennant common stock for every two shares of Ensign common stock held at , Eastern time, on , 2019.

	Immediately following the spin-off, The Pennant Group, Inc. expects to have approximately 300 record holders of shares of its common stock and approximately 28.0 million shares of common stock outstanding, based on the number of stockholders and shares of Ensign common stock that we expect will be outstanding as of the record date, the distribution ratio and the anticipated exchange of Cornerstone equity awards for Pennant equity awards in anticipation of the distribution. The estimation of the number of shares of common stock outstanding following the spin-off incorporates the currently available valuations and assumptions which may vary from the actual number. The actual number of shares to be distributed will be determined as of the record date and will reflect any repurchases of shares of Ensign common stock and issuances of shares of Ensign common stock in respect of awards under The Ensign Group, Inc. equity-based incentive plans between the date the Ensign board of directors declares the dividend for the distribution and the record date for the distribution. In connection with the internal reorganization, we expect individuals holding Cornerstone equity awards, including the Named Executive Officers, will receive equity awards of The Pennant Group, Inc., in exchange for their Cornerstone equity awards.
The Distribution	On the distribution date, The Ensign Group, Inc. will release the shares of Pennant common stock to the distribution agent to distribute to Ensign stockholders. The distribution of shares will be made in book-entry form only, meaning that no physical share certificates will be issued. It is expected that it will take the distribution agent up to two weeks to issue shares of Pennant common stock to you or to your bank or brokerage firm electronically on your behalf by way of direct registration in book-entry form. Trading of our shares will not be affected during that time. You will not be required to make any payment, surrender or exchange your shares of Ensign common stock or take any other action to receive your shares of Pennant common stock.
Fractional Shares	The distribution agent will not distribute any fractional shares of Pennant common stock to Ensign stockholders. Fractional shares of Pennant common stock to which Ensign stockholders of record would otherwise be entitled will be aggregated and sold in the public market by the distribution agent. The aggregate net cash proceeds of the sales will be distributed ratably to those stockholders who would otherwise have received fractional shares of Pennant common stock. Receipt of the proceeds from these sales generally will result in a taxable gain or loss to those stockholders for U.S. federal income tax purposes. In addition, each Cornerstone stockholder who exchanges Cornerstone equity for interests in Pennant will also generally recognize taxable income to the extent of cash received in lieu of fractional shares. Each stockholder entitled to receive cash proceeds from these shares should consult his, her or its own tax advisor as to such stockholder’s particular circumstances. The material U.S. federal income tax consequences of the distribution are described in more detail under

	"The Spin-Off—Material U.S. Federal Income Tax Consequences of the Spin-Off."
Conditions to the Distribution	The distribution is subject to the satisfaction, or waiver by The Ensign Group, Inc., of the following conditions: • the final approval of the distribution by the Ensign board of directors, which approval may be given or withheld in its absolute and sole discretion; • our Registration Statement on Form 10, of which this information statement forms a part, shall have been declared effective by the SEC, with no stop order in effect with respect thereto, and a notice of internet availability of this information statement shall have been mailed to Ensign stockholders; • the mailing by Ensign of this information statement (or notice of internet availability thereof) to record holders of Ensign common stock as of the record date; • Pennant common stock shall have been approved for listing on NASDAQ, subject to official notice of distribution; • Ensign shall have obtained an opinion from Kirkland & Ellis LLP, in form and substance satisfactory to Ensign, to the effect that, subject to the assumptions and limitations described therein, the distribution of Pennant common stock and certain related transactions will qualify as a reorganization under Sections 368(a)(1)(D) and 355 of the Code, in which no gain or loss is recognized by The Ensign Group, Inc. or its stockholders, except, in the case of Ensign stockholders, for cash received in lieu of fractional shares; • any required material governmental approvals and other consents necessary to consummate the distribution or any portion thereof shall have been obtained and be in full force and effect; • the absence of any events or developments having occurred prior to the spin-off that, in the judgment of the Ensign board of directors, would result in the spin-off having a material adverse effect on Ensign or its stockholders; • the adoption by Pennant of its amended and restated certificate of incorporation and amended and restated bylaws filed by Pennant with the SEC as exhibits to the Registration Statement on Form 10, of which this information statement forms a part; • no order, injunction or decree issued by any governmental entity of competent jurisdiction or other legal restraint or prohibition preventing the consummation of all or any portion of the distribution shall be in effect, and no other event shall have occurred or failed to occur that prevents the consummation of all or any portion of the distribution;

	• the internal reorganization shall have been completed, except for such steps as Ensign in its sole discretion shall have determined may be completed after the distribution date; • each of the master separation agreement, the tax matters agreement, the employee matters agreement, the transition services agreement, the Ensign Leases and the other ancillary agreements shall have been executed and delivered by each party thereto and be in full force and effect; • Ensign shall have completed its own financing transactions, including amending and restating its existing credit facility, to be effective on or prior to the distribution date; and • the financing transaction described herein shall have been completed on or prior to the distribution date. We are not aware of any material federal, foreign or state regulatory requirements that must be complied with or any material approvals that must be obtained, other than compliance with SEC and OIG rules and regulations, approval for listing on NASDAQ and the declaration of effectiveness of the Registration Statement on Form 10, of which this information statement forms a part, by the SEC, in connection with the distribution. Some of these conditions may not be met and The Ensign Group, Inc. may waive any of the conditions to the distribution. In addition, until the distribution has occurred, the Ensign board of directors has the right to not proceed with the distribution, even if all of the conditions are satisfied. For more information, see "The Spin- Off—Conditions to the Distribution."
Trading Market and Symbol	We intend to list Pennant common stock on NASDAQ under the ticker symbol "PNTG." We anticipate that a limited market, commonly known as a "when-issued" trading market, will develop shortly before the record date, and that "regular-way" trading in shares of Pennant common stock will begin on the first trading day following the distribution. If trading begins on a "when-issued" basis, you may purchase or sell Pennant common stock up to the distribution date, in which case your transaction will settle within two trading days after regular-way trading commences following the distribution. If you sell your Ensign common stock in the "regular-way" market before the distribution date, you also will be selling your right to receive shares of Pennant common stock in connection with the spin-off. However, if you sell your Ensign common stock in the "ex-distribution" market before the distribution date, you will still receive shares of Pennant common stock in the spin-off. We cannot predict the trading prices of Pennant common stock before, on or after the distribution date. For more information, see "Trading Market."
Tax Consequences of the Distribution	The distribution is conditioned upon, among other things, the receipt of an opinion from Kirkland & Ellis LLP to the effect that, subject to

	the assumptions and limitations described therein, the distribution and certain related transactions will be treated as a reorganization for U.S. federal income tax purposes under Sections 368(a)(1)(D) and 355 of the Code, in which no gain or loss is recognized by The Ensign Group, Inc. or its stockholders, except, in the case of Ensign stockholders, for cash received in lieu of fractional shares. See "The Spin-Off—Material U.S. Federal Income Tax Consequences of the Spin-Off." **Each stockholder is urged to consult his, her or its tax advisor as to the specific tax consequences of the spin-off to such stockholder, including the effect of any state, local or non-U.S. tax laws and of changes in applicable tax laws.**
Relationship with Ensign after the Spin-Off	Before our spin-off from Ensign, we will enter into a master separation agreement and several other agreements with Ensign related to the spin-off. These agreements will govern the relationship between us and Ensign after completion of the spin-off and provide for the allocation between us and Ensign of various assets, liabilities, rights and obligations. These agreements include: • a master separation agreement with The Ensign Group, Inc., which will provide for the allocation of assets and liabilities between us and Ensign and will establish certain rights and obligations between the parties following the distribution; • a transition services agreement with The Ensign Group, Inc., pursuant to which certain services will be provided by each of Ensign and Pennant to the other, in each case on an interim basis following the distribution; • a tax matters agreement with The Ensign Group, Inc., regarding the sharing of tax liabilities incurred, and tax assets generated, before and after completion of the spin-off, certain indemnification rights with respect to tax matters; • an employee matters agreement with The Ensign Group, Inc., which will set forth the agreements between us and Ensign concerning certain employee, compensation and benefit-related matters; and • certain "triple-net" lease agreements between our operating subsidiaries and subsidiaries of Ensign for the lease of certain senior living properties, which will amend and restate or replace existing leases in connection with the spin-off. In addition, subsidiaries of Ensign and Pennant may opt into a voluntary joint post-acute care preferred provider network called the Ensign Pennant Care Continuum, which will allow participants to collaborate together to enhance voluntary transitions between clinical care settings. We describe these arrangements in greater detail under "Certain Relationships and Related Party Transactions" and describe some of

	the risks of these arrangements under “Risk Factors—Risks Related to the Spin-Off.”
Dividend Policy	We do not intend to pay dividends on our common stock for the foreseeable future. Instead, we anticipate that all of our future earnings will be retained to support our operations and to finance the growth and development of our business. Any decision to declare and pay dividends will be made at the sole discretion of our board of directors and will depend on a number of factors, including: our historic and projected financial condition, liquidity and results of operations; our capital levels and needs; tax considerations; any acquisitions or potential acquisitions that we may consider; statutory and regulatory prohibitions and other limitations; the terms of any credit agreements or other borrowing arrangements that restrict our ability to pay cash dividends; general economic conditions; and other factors deemed relevant by our board of directors. See “Dividend Policy.”
Financing Transactions	We expect to put in place a capital structure that provides us with the flexibility to grow and a cost of debt capital that allows us to compete for investment opportunities. Subject to market conditions, we expect to enter into the Revolving Credit Facility with a syndicate of banks with a borrowing capacity of $75.0 million. We anticipate the interest rates applicable to loans under the Revolving Credit Facility to be, at the Company’s election, either LIBOR plus a margin ranging from 2.5% to 3.5% per annum or Base Rate plus a margin ranging from 1.5% to 2.5% per annum, in each case based on the ratio of Consolidated Total Net Debt to Consolidated EBITDA (each, as defined in the Credit Agreement). In addition, we expect that we will pay a commitment fee on the undrawn portion of the commitments under the Revolving Credit Facility that is estimated to be 0.6% per annum. We anticipate that the Revolving Credit Facility will not be subject to interim amortization. We expect that the Company will not be required to repay any loans under the Revolving Credit Facility prior to maturity. We expect that the Company will be permitted to prepay all or any portion of the loans under the Revolving Credit Facility prior to maturity without premium or penalty, subject to reimbursement of any LIBOR breakage costs of the lenders. This information is based on our current negotiations with the lead banks in an anticipated syndicate. As a result of the financing transaction, we expect to have outstanding indebtedness of approximately $30.0 million. The amount reflects proceeds from issuance of indebtedness under the Revolving Credit Facility, including approximately $1.2 million in estimated financing cost. The foregoing summarizes some of the currently expected terms of the Revolving Credit Facility. However, the foregoing summary does not purport to be complete, and the terms of the Revolving Credit Facility have not yet been finalized. There may be changes to

	the expected size and other terms of the Revolving Credit Facility, some of which may be material. We expect that we will use approximately $25.0 million of the proceeds from the financing transaction to pay transaction fees and to pay a dividend to Ensign in connection with the contribution of assets to us by Ensign prior to the spin-off. We expect to retain approximately $5.0 million in cash for working capital, acquisitions and other general purposes. We expect that Ensign would use the funds received from us to repay certain outstanding third-party bank debt and other indebtedness and/or pay dividends to Ensign's stockholders. After the spin-off, we expect that we will use borrowings under the Revolving Credit Facility for working capital purposes, to fund acquisitions and for other general purposes. See "The Spin-Off—Financing Transactions" and "Description of Certain Indebtedness."
Transfer Agent	Broadridge.
Risk Factors	We face both general and specific risks and uncertainties relating to our business and our industry, the spin-off and our common stock. We also are subject to risks relating to our relationship with Ensign and our being an independent, publicly-traded company following the spin-off. You should carefully read the risk factors set forth in the section titled "Risk Factors" in this information statement.

Summary Historical and Unaudited Pro Forma Combined Financial Data

We derived the summary historical statement of income data for the years ended December 31, 2018, 2017 and 2016 and the summary historical balance sheet data as of December 31, 2018 and 2017 from the Audited Combined Financial Statements of New Ventures included elsewhere in this information statement. We derived the summary historical combined statement of income data for each of the six months ended June 30, 2019 and 2018, and the summary historical balance sheet data as of June 30, 2019 from our Interim Financial Statements included elsewhere in this information statement.

Following the consummation of the spin-off, The Pennant Group, Inc. will hold, directly or through its subsidiaries, New Ventures and will be the financial reporting entity. The following summary unaudited pro forma combined financial data of Pennant has been prepared to reflect the spin-off and related transactions described under "Unaudited Pro Forma Combined Financial Statements." The summary unaudited pro forma combined balance sheet data as of June 30, 2019 has been prepared to reflect the spin-off and related transactions as if they had occurred on June 30, 2019. The summary unaudited pro forma combined statement of income data for the year ended December 31, 2018 and the six months ended June 30, 2019 has been prepared to reflect the spin-off and related transactions as if they had occurred on January 1, 2018. The summary unaudited pro forma financial data is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the relevant transactions had been consummated on the date indicated, nor is it indicative of future operating results. The assumptions used and pro forma adjustments derived from such assumptions are based on currently available information, and we believe such assumptions are reasonable under the circumstances.

This summary historical and unaudited pro forma combined financial data is not indicative of our future performance and does not necessarily reflect what our financial position and results of operations would have been had we been operating as an independent, publicly-traded company during the periods presented, including changes that will occur in our operations and capitalization as a result of the spin-off from Ensign. For example, the historical combined financial statements of New Ventures include certain indirect general and administrative costs allocated from the subsidiaries of The Ensign Group, Inc. for certain functions and services, including executive management, finance, legal, information technology, human resources, employee benefits administration, treasury, risk management, procurement, and other shared services. These costs may not be representative of the future costs we will incur as an independent, public company.

The summary historical and unaudited pro forma combined financial data below should be read together with the Audited Combined Financial Statements and Interim Financial Statements of New Ventures and related notes thereto, as well as the sections titled "Capitalization," "Selected Historical Combined Financial Data," "Unaudited Pro Forma Combined Financial Statements," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Description of Certain Indebtedness," and the other financial information included elsewhere in this information statement.

	Six Months Ended June 30,			Year Ended December 31,			
	Pro forma 2019	2019	2018	Pro forma 2018	2018	2017	2016
	(In thousands)						
Summary Statement of Income Data							
Total revenue	$160,641	$160,641	$137,768	$286,058	$286,058	$250,991	$217,225
Total expenses	152,650	155,502	127,656	268,371	265,427	235,589	204,243
Income from operations	7,991	5,139	10,112	17,687	20,631	15,402	12,982
Interest expense	1,039	—	—	1,944	—	—	—
Income before provision for income taxes	6,952	5,139	10,112	15,743	20,631	15,402	12,982
Provision for income taxes (benefit)	421	(32)	2,200	3,130	4,352	5,375	5,065
Net income	6,531	5,171	7,912	12,613	16,279	10,027	7,917
Less: net income attributable to noncontrolling interest	—	350	370	—	595	160	26
Net income attributable to New Ventures	$ 6,531	$ 4,821	$ 7,542	$ 12,613	$ 15,684	$ 9,867	$ 7,891
Selected financial data by business segment:							
Revenue							
Home health and hospice services	$ 96,325	$ 96,325	$ 81,007	$169,037	$169,037	$142,403	$115,813
Senior living services	64,316	64,316	56,761	117,021	117,021	108,588	101,412
Segment income before provision for income taxes(1)							
Home health and hospice services	12,888	12,888	11,087	23,375	23,375	16,832	13,676
Senior living services	5,638	7,434	8,016	12,399	16,099	13,033	11,754

(1) General and administrative expenses are not allocated to any segment for determining segment profit or loss.

	As of June 30,		As of December 31,	
	Pro forma 2019	2019	2018	2017
	(In thousands)			
Summary Balance Sheet Data				
Total assets	$403,168	$356,665	$98,151	$88,289
Total liabilities	336,957	270,177	32,863	28,373
Total equity	66,211	86,488	65,288	59,916

	Six Months Ended June 30,		Year Ended December 31,		
	2019	2018	2018	2017	2016
Operating Statistics					
Home health services					
Average Medicare revenue per 60-day completed episode	$ 3,024	$ 2,951	$2,982	$3,028	$2,986
Hospice services					
Average daily census	1,544	1,275	1,329	1,102	905
Senior living services					
Occupancy	80.1%	78.7%	79.5%	79.9%	79.2%
Average monthly revenue per occupied unit	$ 3,109	$ 3,054	$3,044	$2,979	$2,916

Other Financial Measures

We believe that certain non-GAAP measures, such as combined and segment EBITDA and Adjusted EBITDA and combined Adjusted EBITDAR when presented in conjunction with comparable GAAP measures, are useful because they are appropriate measures for performance, valuation or liquidity. These measures should be considered in addition to, not a substitute for or superior to, measures of financial performance evaluating our operating results prepared in accordance with GAAP. The non-GAAP financial measures presented below may not be comparable to similarly titled measures.

Combined and segment EBITDA and Adjusted EBITDA and combined Adjusted EBITDAR are non-GAAP financial measures we use in evaluating our operating performance and trends as well as our performance and valuation relative to competitors and peers. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations” for an explanation of how we define each of these measures, a detailed description of why we believe such measures are useful and the limitations of each measure, and a reconciliation of net income to each of these measures.

	Six Months Ended June 30,			Year Ended December 31,			
Non-GAAP Measures	Pro forma 2019	2019	2018	Pro forma 2018	2018	2017	2016
Combined Non-GAAP Measures				(In thousands)			
EBITDA	$ 9,763	$ 6,561	$11,177	$20,651	$23,000	$17,786	$15,811
Adjusted EBITDA	11,757	13,203	12,403	23,192	26,297	21,480	18,345
Adjusted EBITDAR	30,374	30,024		58,061	57,466		

	Six Months Ended June 30,			Year Ended December 31,			
Segment Non-GAAP Measures[1]	Pro forma 2019	2019	2018	Pro forma 2018	2018	2017	2016
				(In thousands)			
EBITDA[1]							
Home health and hospice services	$13,468	$13,118	$11,243	$24,420	$23,825	$17,617	$14,574
Senior living services	6,780	8,576	8,925	14,318	18,018	14,632	13,685
Adjusted EBITDA[1]							
Home health and hospice services	14,319	13,969	11,387	24,771	24,176	19,220	15,020
Senior living services	6,917	8,713	9,075	14,612	18,312	14,903	13,889

(1) General and administrative expenses are not allocated to any segment for determining segment profit or loss.

RISK FACTORS

You should carefully consider each of the following risk factors and all other information set forth in this information statement. The risk factors generally have been separated into three groups: risks relating to our business and industry, risks relating to the spin-off and risks relating to our common stock. Based on the information currently known to us, we believe that the following information identifies the most significant risk factors affecting our company in each of these categories of risks. However, the risks and uncertainties we face are not limited to those set forth in the risk factors described below. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business. In addition, past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

If any of the following risks and uncertainties develops into actual events, these events could have a material adverse effect on our business, financial condition or results of operations. In such case, the trading price of our common stock could decline.

Risks Related to Our Business and Industry

Our revenue could be impacted by federal and state changes to reimbursement and other aspects of Medicaid and Medicare.

We derived 54.1% and 52.7% of our revenue from the Medicaid and Medicare programs for the six months ended June 30, 2019 and 2018, respectively, and 53.1% for the year ended December 31, 2018. If reimbursement rates under these programs are reduced or fail to increase as quickly as our costs, or if there are changes in the way these programs pay for services, our business and results of operations would be adversely affected. The services for which we are currently reimbursed by Medicaid and Medicare may not continue to be reimbursed at adequate levels or at all. Further limits on the scope of services being reimbursed, delays or reductions in reimbursement or changes in other aspects of reimbursement could impact our revenue. For example, in the past, the enactment of the Deficit Reduction Act of 2005, the Medicaid Voluntary Contribution and Provider-Specific Tax Amendments of 1991 and the Balanced Budget Act of 1997 caused changes in government reimbursement systems, which, in some cases, made obtaining reimbursements more difficult and costly and lowered or restricted reimbursement rates for some of our patients.

The Medicaid and Medicare programs are subject to statutory and regulatory changes affecting base rates or basis of payment, retroactive rate adjustments, annual caps that limit the amount that can be paid (including deductible and coinsurance amounts) for rehabilitation therapy services rendered to Medicare beneficiaries, administrative or executive orders and government funding restrictions, all of which may materially adversely affect the rates and frequency at which these programs reimburse us for our services. For example, the Medicaid Integrity Contractor program is increasing the scrutiny placed on Medicaid payments, and could result in recoupments of alleged overpayments in an effort to rein in Medicaid spending. Recent budget proposals and legislation at both the federal and state levels have called for cuts in reimbursement for healthcare providers participating in the Medicare and Medicaid programs. Measures to reduce or delay reimbursement could result in substantial reductions in our revenue and profitability. Payors may disallow our requests for reimbursement based on determinations that certain costs are not reimbursable or reasonable because either adequate or additional documentation was not provided or because certain services were not covered or considered medically necessary. Additionally, revenue from these payors can be retroactively adjusted after a new examination during the claims settlement process or as a result of post-payment audits. New legislation and regulatory proposals could impose further limitations on government payments to healthcare providers.

Various healthcare reform provisions became law upon enactment of the ACA. The reforms contained in the ACA have affected our business in some manner and are directed in large part at increased quality and cost reductions. Several of the reforms are very significant and could ultimately change the nature of our services, the

methods of payment for our services and the underlying regulatory environment. These reforms include the possible modifications to the conditions of qualification for payment, bundling of payments to cover both acute and post-acute care and the imposition of enrollment limitations on new providers. As discussed below under the heading "*—Our business may be materially impacted if certain aspects of the ACA are amended, repealed, or successfully challenged*," any further amendments or revisions to the ACA or its implementing regulations could materially impact our business.

Home Health

On July 11, 2019, CMS issued a proposed rule updating the Medicare Home Health Prospective Payment System ("HH PPS") rates and wage index for calendar year 2020. The rule proposes a 1.3% increase in home health payments, resulting from a 1.5% payment percentage update and a 0.2% decrease in aggregate payments because of changes to the rural add-on policy. The proposed rule implements PDGM, a revised case mix adjustment methodology, for home health services beginning on or after January 1, 2020, and proposes to adjust reimbursement under PDGM for assumed provider behavioral changes. The proposed rule also changes the unit of payment from 60-day episodes of care to 30-day periods of care, modifies payment regulations related to the content of the home health plan of care; allows therapist assistants to furnish maintenance therapy under the supervision of a licensed therapist; and proposes to change and phase out in 2020 and full elimination in 2021 of RAPs. Finally, this rule will include proposals related to the implementation of the permanent home infusion therapy benefit in 2021. These include proposed payment categories, amounts, and required and optional adjustments.

On November 13, 2018, CMS published a final rule which updates the HH PPS rates, including the conversion factor and case-mix weights for calendar years 2019 and 2020. This rule finalizes the definition of remote patient monitoring which will be allowed as an administrative expense on the home health agency's cost report. Further, effective January 1, 2020, CMS will implement PDGM as mandated by the Bipartisan Budget Act of 2018. Under PDGM, the initial certification of patient eligibility, plan of care, and comprehensive assessment will remain valid for 60-day episodes of care, but payments for home health services will be made based upon 30-day payment periods. PDGM refines case mix calculation methodology by removing therapy thresholds and calculating reimbursement based on clinical characteristics including clinical group coding, comorbidity coding, and achievement of LUPA thresholds. While the proposed changes are to be implemented in a budget neutral manner to the industry, CMS's current proposal includes a negative 6.42% adjustment to account for assumed provider behavioral changes. The ultimate impact of these changes will vary by provider based on factors including patient mix and admission source. The finalization of these assumptions could negatively impact our future rate of reimbursement and could have a material adverse effect on our business and consolidated financial condition, results of operations and cash flows. This rule also finalizes changes to the Home Health Value-Based Purchasing ("HHVBP") model and Home Health Quality Reporting Program ("HHQRP"). These changes focus on providing value over volume of services to patients. Once the changes are implemented, health payments will no longer be based on the number of visits provided, but rather the patient's medical condition and care needs. In calendar year 2019, there was an increase of 2.2% in reimbursement to home health agencies based on the agency's finalized policies.

On November 1, 2017, CMS issued a final rule that became effective on January 1, 2018 and updated the calendar year 2018 Medicare payment rates and the wage index for home health agencies serving Medicare beneficiaries. The rule also finalized proposals for the HHVBP model and the HHQRP. Under the final rule, Medicare payments will be reduced by 0.4%. This decrease reflects the effects of a 1% home health payment update, an adjustment to the national, standardized 60-day episode payment rate to account for nominal case-mix growth for an impact of negative 0.9%, and the distributional effects of a 0.5% reduction in payments due to the sunset of the rural add-on provision.

On January 13, 2017, CMS issued a final rule that modernized the Home Health Conditions of Participation ("CoPs"). This rule is a continuation of CMS's effort to improve quality of care while streamlining provider

requirements to reduce unnecessary procedural requirements. The rule makes significant revisions to the conditions currently in place, including (1) adding new conditions of participation related to quality assurance and performance improvement programs and infection control; and (2) expanding or revising requirements related to patient rights, comprehensive evaluations, coordination and care planning, home health aide training and supervision, and discharge and transfer summary and time frames. The new CoPs became effective on January 13, 2018.

On October 31, 2016, CMS issued final payment changes to HH PPS for calendar year 2017. Under this rule, Medicare payments were reduced by 0.7%. This decrease reflects a negative 0.97% adjustment to the national, standardized 60-day episode payment rate to account for nominal case-mix growth from 2012 through 2014; a 2.3% reduction in payments due to the final year of the four-year phase-in of the rebasing adjustments to the national, standardized 60-day episode payment rate, the national per-visit payment rates and the non-routine medical supplies conversion factor; and the effects of the revised fixed-dollar loss ratio used in determining outlier payments; partially offset by the home health payment update of 2.5%.

On November 5, 2015, CMS issued final payment changes to HH PPS for calendar year 2016. Under this rule, Medicare payments were reduced by 1.4%. This decrease reflected a 1.9% home health payment update percentage; a 0.9% decrease in payments due to the 0.97% payment reduction to the national, standardized 60-day episode payment rate to account for nominal case-mix growth from 2012 through 2014; and a 2.4% decrease in payments due to the third year of the four-year phase-in of the rebasing adjustments to the national, standardized 60-day episode payment rate, the national per-visit payment rates, and the NRS conversion factor. Along with the payment update, CMS revised the International Classification of Diseases 10 (“ICD-10”) CM translation list and adding certain initial encounter codes to the HH PPS Grouper based upon revised ICD-10-CM coding guidance.

Pursuant to the rule, CMS also implemented a HHVBP model effective for calendar year 2016, in which all Medicare-certified home health agencies in selected states are required to participate. The model applied a reduction or increase to Medicare payments depending on quality performance, for all agencies delivering services within nine randomly-selected states. Payment adjustments are applied on an annual basis, beginning at 3% in the first payment adjustment year, 5% in the second payment adjustment year, 6% in the third payment adjustment year and 8% in the final two payment adjustment years.

Lastly, CMS implemented a standardized cross-setting measure for calendar year 2016. The CoPs require home health agencies to submit OASIS assessments within 30 days of completing the assessment of the beneficiary, as a condition of payment and also for quality measurement purposes. Commencing on April 3, 2017, if the OASIS assessment is not found in the quality system upon receipt of a final claim for a home health episode and the receipt date of the claim is more than 30 days after the assessment completion date, Medicare systems will deny the claim. Home health agencies that do not submit quality measure data to CMS incur a 2% reduction in their annual home health payment update percentage. Under the rule, all home health agencies are required to timely submit both Start of Care (initial assessment) or Resumption of Care OASIS assessment and a Transfer or Discharge OASIS assessment for a minimum of 70% of all patients with episodes of care occurring during the annual reporting period starting July 1, 2015 and ending June 30, 2016, 80% of all patients with episodes occurring during the reporting period starting July 1, 2016 and ending June 30, 2017, and 90% for all episodes beginning on or after July 1, 2017.

Hospice

On July 31, 2019, CMS issued a final rule that updated the fiscal year 2020 hospice payment rates, wage index and cap amount. The final rule calls for a 2.6% increase in hospice payment rates for fiscal year 2020. This increase is based on the proposed fiscal year 2020 hospital market basket increase of 3.0% reduced by the multifactor productivity adjustment of 0.4%. The rule establishes a rebasing of the continuous home care, general inpatient care, and the inpatient respite care per diem payment rates in a budget-neutral manner to more

accurately align Medicare payments with the costs of providing care. Specifically, the rule proposes to increase these rates by 36.6%, 161.2%, and 31.0%, respectively, to account for the disparity between reimbursement and cost. In order to maintain budget neutrality, CMS also proposes to correspondingly reduce the Routine Home Care ("RHC") rate by 2.7%. Hospices that fail to meet quality reporting requirements receive a 2.0% reduction to the annual market basket update for the year. Further, the rule establishes the hospice cap amount for the fiscal year 2020 cap year at $29,964.78, which is equal to the fiscal year 2019 cap amount of $29,205.44 updated by the final rule for fiscal year 2020 hospice payment update percentage of 2.6%. In addition to payment updates, the final rule contains new regulations to modify the election statement requirements and require hospices to prepare an addendum to the election entitled "Patient Notification of Hospice Non-Covered Items, Services, and Drugs," which will provide the patient with information related to any diagnoses, treatment, or medications that are considered by the hospice to be unrelated to the terminal diagnoses. In addition to its preparation, the hospice is required to provide the addendum upon request by the patient or the patients representative within five days, if requested at the time of election, or within 72 hours if requested thereafter.

On August 1, 2018, CMS issued its final rule outlining the fiscal year 2019 Medicare payment rates, wage index, and cap amount for hospices serving Medicare beneficiaries. Under the final rule, the hospice payment update is 1.8%, which reflects a market basket update of 2.9%, reduced 0.8% by a MFP adjustment, as well as another 0.3% reduction, which decreases are mandated by the ACA. Hospice payments will be reduced by an additional 2%, for a net negative 0.2%, for hospices that do not submit the required quality data. The final rule also specifies that the hospice cap will be updated using the hospice payment update percentage rather than the consumer price index, thus it is anticipated there will be a 1.8% increase in aggregate cap payments made to hospices annually. The final rule also includes language that reflects the change in the Bipartisan Budget Act of 2018 which recognizes physician assistants as attending physicians for Medicare hospice beneficiaries, effective January 1, 2019. Physician assistants will be reimbursed at 85% of the fee schedule amount for their services as designated attending physicians. This change may positively impact reimbursement from Medicare as this may increase the number of episodes that can be reimbursed by Medicare in the aggregate by physicians, nurse practitioners and physician assistants. Additionally, the rule finalizes changes to the Hospice Quality Reporting Program ("HQRP"), also effective January 1, 2019, including changes to the data review and correction timeline for data submitted using the Hospice Item Set.

On August 1, 2017, CMS issued its final rule outlining the fiscal year 2018 Medicare payment rates, wage index and cap amount for hospices serving Medicare beneficiaries. The final rule used a net market basket percentage increase of 1% to update the federal rates, as mandated by section 411(d) of the MACRA. Although, if a hospice fails to comply with quality reporting program requirements, there will be a net 2% reduction to the market basket update for the fiscal year involved. The hospice cap amount for fiscal year 2018 was increased by 1%, which is equal to the 2017 cap amount updated by the fiscal year 2018 hospice payment update percentage of 1%. In addition, this rule discussed changes to the HQRP, including changes to the Consumer Assessment of Healthcare Providers & Systems ("CAHPS") hospice survey measures and plans for sharing HQRP data in fiscal year 2017.

On July 29, 2016, CMS issued its final rule outlining fiscal year 2017 Medicare payment rates, wage index and cap amount for hospices serving Medicare beneficiaries. Under the final rule, there was a net 2.1% increase in hospices' payments effective October 1, 2016. The hospice payment increase was the net result of a 2.7% inpatient hospital market basket update, reduced by a 0.3% productivity adjustment and by a 0.3% adjustment set by the ACA. The hospice cap amount for fiscal year 2017 increased by 2.1%, which is equal to the 2016 cap amount updated by the fiscal year 2017 hospice payment update percentage of 2.1%. In addition, this rule changes the hospice quality reporting program requirements, including care surveys and two new quality measures that will assess hospice staff visits to patients and caregivers in the last three and seven days of life and the percentage of hospice patients who received care processes consistent with guidelines.

On July 31, 2015, CMS issued its final rule outlining fiscal year 2016 Medicare payment rates and the wage index for hospices serving Medicare beneficiaries. Under the final rule, there was a net 1.1% increase in

payments effective October 1, 2015. The hospice payment increase was the net result of a hospice payment update to the hospice per diem rates of 2.1% (a "hospital market basket" increase of 2.4% minus 0.3% for reductions required by law) and 1.2% decrease in payments to hospices due to updated wage data and the phase-out of its wage index budget neutrality adjustment factor, offset by the newly announced Core Based Statistical Areas delineation impact of 0.2%. The rule also created two different payment rates for RHC that resulted in a higher base payment rate for the first 60 days of hospice care and a reduced base payment rate for 61 or more days of hospice care and a Service Intensity Add-On ("SIA") Payment for fiscal year 2016 and beyond in conjunction with the proposed RHC rates.

Senior Living Communities

Senior living services revenue is primarily derived from private pay residents at rates we establish based upon the needs of the resident, the amount of services we provide the resident, and market conditions in the area of operation. In addition, Medicaid or other state-specific programs may supplement payments for board and care services provided in senior living communities. A majority of states provide, or are approved to provide, Medicaid payments for personal care and medical services to some residents in licensed senior living communities under waivers granted by or under Medicaid state plans approved by CMS. State Medicaid programs control costs for assisted living and other home and community based services by various means such as restrictive financial and functional eligibility standards, enrollment limits and waiting lists. Because rates paid to senior living community operators are generally lower than rates paid to SNF operators, some states use Medicaid funding of senior living services as a means of lowering the cost of services for residents who may not need the higher level of health services provided in SNFs. States that administer Medicaid programs for services in senior living communities are responsible for monitoring the services at, and physical conditions of, the participating communities. As a result of the growth of assisted living in recent years, states have adopted licensing standards applicable to assisted living communities. Most state licensing standards apply to assisted living communities regardless of whether they accept Medicaid funding.

Since 2003, CMS has commenced a series of actions to increase its oversight of state quality assurance programs for assisted living communities and has provided guidance and technical assistance to states to improve their ability to monitor and improve the quality of services paid for through Medicaid waiver programs. CMS is encouraging state Medicaid programs to expand their use of home and community based services as alternatives to institutional services, pursuant to provisions of the ACA, and other authorities, through the use of several programs.

Regulations

The Improving Medicare Post-Acute Care Transformation Act of 2014 (the "IMPACT Act"), which was signed into law on October 6, 2014, requires the submission of standardized assessment data for quality improvement, payment and discharge planning purposes across the spectrum of post-acute care providers ("PACs"), including home health agencies. The IMPACT Act requires PACs to begin reporting: (1) standardized patient assessment data at admission and discharge by January 1, 2019 for home health agencies; (2) new quality measures, including functional status, skin integrity, medication reconciliation, incidence of major falls, and patient preference regarding treatment and discharge at various intervals between October 1, 2016 and January 1, 2019; and (3) resource use measures, including Medicare spending per beneficiary, discharge to community, and hospitalization rates of potentially preventable readmissions by January 1, 2017 for home health agencies. Failure to report such data when required would subject a PAC to a 2% reduction in market basket prices then in effect.

The IMPACT Act also included provisions impacting Medicare-certified hospices, including: (1) increasing survey frequency for Medicare-certified hospices to once every 36 months; (2) imposing a medical review process for operations with a high percentage of stays in excess of 180 days; and (3) updating the annual aggregate Medicare payment cap.

Our future revenue, financial condition and results of operations could be impacted by continued cost containment pressures on Medicaid spending.

Medicaid, which is largely administered by the states, is a significant payor for our services. Rapidly increasing Medicaid spending, combined with slow state revenue growth, has led many states to institute measures aimed at controlling spending growth. Historically, state budget pressures have resulted in reductions in state spending. Given that Medicaid outlays are a significant component of state budgets, we can expect continuing cost containment pressures on Medicaid outlays for our services.

To generate funds to pay for the increasing costs of the Medicaid program, many states utilize financial arrangements such as provider taxes. Under provider tax arrangements, states collect taxes or fees from healthcare providers and then return the revenue to these providers as Medicaid expenditures. Congress, however, has placed restrictions on states' use of provider tax and donation programs as a source of state matching funds. These restrictions may reduce Medicaid reimbursement rates, which would adversely affect our revenue, financial condition and results of operations.

Future cost containment initiatives undertaken by payors may limit our future revenue and profitability.

Our non-Medicare and non-Medicaid revenue and profitability may be affected by continuing efforts of third-party payors to maintain or reduce costs of healthcare by lowering payment rates, narrowing the scope of covered services, increasing case management review of services and negotiating pricing. In addition, sustained unfavorable economic conditions may affect the number of patients enrolled in managed care programs and the profitability of managed care companies, which could result in reduced payment rates. There can be no assurance that third-party payors will make timely payments for our services, or that we will continue to maintain our current payor or revenue mix. We are continuing our efforts to develop our non-Medicare and non-Medicaid sources of revenue and any changes in payment levels from current or future third-party payors could have a material adverse effect on our business and combined financial condition, results of operations and cash flows.

Reforms to the U.S. healthcare system could impose new requirements upon us and may lower our reimbursements.

The ACA includes sweeping changes to how healthcare is paid for and furnished in the United States. As discussed below under the heading "—Our business may be materially impacted if certain aspects of the ACA are amended, repealed, or successfully challenged," any further amendments or revisions to the ACA or its implementing regulations could materially impact our business. Presidential and congressional elections in the United States could result in significant changes in, and uncertainty with respect to, legislation, regulation, implementation of Medicare and/or Medicaid, and government policy that could significantly impact our business and the healthcare industry. We continually monitor these developments in an effort to respond to the changing regulatory environment impacting our business.

The ACA is projected to expand access to Medicaid for approximately 11 million to 13 million additional people each year between 2015 and 2024. It also reduces the projected growth of Medicare by $106 billion by 2020 by tying payments to providers more closely to quality outcomes.

To address potential fraud and abuse in federal healthcare programs, including Medicare and Medicaid, the ACA includes provider screening and enhanced oversight periods for new providers and suppliers, as well as enhanced penalties for submitting false claims. It also provides funding for enhanced anti-fraud activities. The new law imposes enrollment moratoria in elevated risk areas by requiring providers and suppliers to establish compliance programs. The ACA also provides the federal government with expanded authority to suspend payment if a provider is investigated for allegations or issues of fraud. Section 6402 of the ACA provides that Medicare and Medicaid payments may be suspended pending a "credible investigation of fraud," unless the Secretary of the United States Department of Health and Human Services ("HHS") determines that good cause

exists not to suspend payments. To the extent the Secretary applies this suspension of payments provision to one of our affiliated operations for allegations of fraud, such a suspension could adversely affect our results of operations.

Under the ACA, HHS will establish, test and evaluate alternative payment methodologies for Medicare services through a five-year, national, voluntary pilot program, which started in 2013. This program will provide incentives for providers to coordinate patient care across the continuum and to be jointly accountable for an entire episode of care centered around a hospitalization. HHS will develop qualifying provider payment methods that may include bundled payments and bids from entities for episodes of care. The bundled payment will cover the costs of acute care inpatient services; physicians' services delivered in and outside of an acute care hospital; outpatient hospital services including emergency department services; post-acute care services, including home health services; inpatient rehabilitation services; and inpatient hospital services. The payment methodology will include payment for services, such as care coordination, medication reconciliation, discharge planning and transitional care services, and other patient-centered activities. Payments for items and services cannot result in spending more than would otherwise be expended for such entities if the pilot program was not implemented. Payment arrangements among providers on the backside of the bundled payment must take into account significant hurdles under anti-kickback statutes and the Stark laws.

The ACA attempts to improve the healthcare delivery system through incentives to enhance quality, improve beneficiary outcomes and increase value of care. One of these key delivery system reforms is the encouragement of Accountable Care Organizations ("ACOs"). ACOs will facilitate coordination and cooperation among providers to improve the quality of care for Medicare beneficiaries and reduce unnecessary costs. Participating ACOs that meet specified quality performance standards will be eligible to receive a share of any savings if the actual per capita expenditures of their assigned Medicare beneficiaries are a sufficient percentage below their specified benchmark amount. Quality performance standards will include measures in such categories as clinical processes and outcomes of care, patient experience and utilization of services.

On June 9, 2017, CMS issued revised requirements for emergency preparedness for Medicare and Medicaid participating providers, including long-term care facilities, hospices, and home health agencies. The revised requirements update the conditions of participation for such providers. Specifically, outpatient operations, such as home health agencies, are required to ensure that patients with limited mobility are addressed within the emergency plan; home health agencies are also required to develop and implement emergency preparedness policies and procedures that are reviewed and updated at least annually and each patient must have an individual plan; hospice-operated inpatient care facilities are required to provide subsistence needs for hospice employees and patients and a means to shelter in place patients and employees who remain in the hospice; all hospices and home health agencies must implement procedures to follow up with on duty staff and patients to determine services that are needed in the event that there is an interruption in services during or due to an emergency; and hospices must train their employees in emergency preparedness policies.

On February 2, 2016, CMS issued its final rule concerning face-to-face requirements for Medicaid home health services. Under the rule, the Medicaid home health service definition was revised consistent with applicable sections of the ACA and MACRA. The rule also requires that for the initial ordering of home health services, the physician must document that a face-to-face encounter that is related to the primary reason the beneficiary requires home health services occurred no more than 90 days before or 30 days after the start of services. The final rule also requires that for the initial ordering of certain medical equipment, the physician or authorized non-physician provider must document that a face-to-face encounter that is related to the primary reason the beneficiary requires medical equipment occurred no more than six months prior to the start of services.

On July 6, 2015, CMS announced a proposal to launch the HHVBP model to test whether incentives for better care can improve outcomes in the delivery of home health services. The model applies a payment reduction or increase to current Medicare-certified home health agency payments, depending on quality

performance, for all agencies delivering services within nine randomly-selected states. Payment adjustments would be applied on an annual basis, beginning at 5.0% in each of the first two payment adjustment years, 6% in the third payment adjustment year and 8% in the final two payment adjustment years.

On June 28, 2012, the U.S. Supreme Court ruled that the enactment of the ACA did not violate the Constitution of the United States. This ruling permits the implementation of most of the provisions of the ACA to proceed. The provisions of the ACA discussed above are only examples of federal health reform provisions that we believe may have a material impact on the long-term care industry and on our business. However, the foregoing discussion is not intended to constitute, nor does it constitute, an exhaustive review and discussion of the ACA. It is possible that these and other provisions of the ACA may be interpreted, clarified, or applied to our affiliated businesses in a way that could have a material adverse impact on the results of operations.

CMS has issued and will continue to issue rules to implement the ACA. Courts will continue to interpret and apply the ACA's provisions. We cannot predict what effect these changes will have on our business, including the demand for our services or the amount of reimbursement available for those services. However, it is possible these new laws may lower reimbursement and adversely affect our business.

The ACA and its implementation could negatively impact our business.

In addition, the ACA could result in sweeping changes to the existing U.S. system for the delivery and financing of healthcare. The details for implementation of many of the requirements under the ACA will depend on the promulgation of regulations by a number of federal government agencies, including the HHS. It is impossible to predict the outcome of these changes, what many of the final requirements of the ACA will be, and the net effect of those requirements on us.

A significant goal of federal healthcare reform is to transform the delivery of healthcare by changing reimbursement for healthcare services to hold providers accountable for the cost and quality of care provided. Medicare and many commercial third-party payors are implementing ACO models in which groups of providers share in the benefit and risk of providing care to an assigned group of individuals at lower cost. Other reimbursement methodology reforms include value-based purchasing, in which a portion of provider reimbursement is redistributed based on relative performance on designated economic, clinical quality, and patient satisfaction metrics. In addition, CMS is implementing programs to bundle acute care and post-acute care reimbursement to hold providers accountable for costs across a broader continuum of care. These reimbursement methodologies and similar programs are likely to continue and expand, both in public and commercial health plans. Providers who respond successfully to these trends and are able to deliver quality care at lower cost are likely to benefit financially.

The ACA and the programs implemented by the law may reduce reimbursements for home health and hospice services and may impact the demand for our services. In addition, various healthcare programs and regulations may be ultimately implemented at the federal or state level. Failure to respond successfully to these trends could negatively impact our business, results of operations and/or financial condition.

Our business may be materially impacted if certain aspects of the ACA are amended, repealed, or successfully challenged.

A number of lawsuits have been filed challenging various aspects of the ACA and related regulations. In addition, the efficacy of the ACA is the subject of much debate among members of Congress and the public. On December 14, 2018, U.S. District Judge Reed O'Connor of the Northern District of Texas held the individual mandate provisions, and therefore the entirety of ACA, unconstitutional. The impact of the ruling is stayed as it is appealed to the Fifth Circuit Court of Appeals. Our business may be materially impacted if the ACA in part or in its entirety is ruled unconstitutional.

Presidential and congressional elections in the United States could result in significant changes in, and uncertainty with respect to, legislation, regulation, implementation of Medicare and/or Medicaid, and government policy that could significantly impact our business and the healthcare industry. In the event that legal challenges are successful or the ACA is repealed or materially amended, particularly any elements of the ACA that are beneficial to our business or that cause changes in the health insurance industry, including reimbursement and coverage by private, Medicare or Medicaid payers, our business, operating results and financial condition could be harmed. While it is not possible to predict whether and when any such changes will occur, specific proposals discussed during and after the election, including a repeal or material amendment of the ACA, could harm our business, operating results and financial condition. In addition, even if the ACA is not amended or repealed, the President and the executive branch of the federal government, as well as CMS and HHS have a significant impact on the implementation of the provisions of the ACA, and the new administration could make changes impacting the implementation and enforcement of the ACA, which could harm our business, operating results and financial condition. If we are slow or unable to adapt to any such changes, our business, operating results and financial condition could be adversely affected.

Increased competition for, or a shortage of, nurses and other skilled personnel could increase our staffing and labor costs and subject us to monetary fines.

Our success depends upon our ability to retain and attract nurses, certified nurse assistants, social workers and speech, physical and occupational therapists. Our success also depends upon our ability to retain and attract skilled personnel who are responsible for the day-to-day operations of each of our affiliated operations. Each operation has a leader responsible for the overall day-to-day operations of the business, including quality of care, social services and financial performance. Depending upon the size of the operation, each leader is supported by staff that is directly responsible for day-to-day care of the patients, marketing and community outreach programs. We compete with various healthcare service providers in retaining and attracting qualified and skilled personnel.

Increased competition for, or a shortage of, nurses or other trained personnel, or general inflationary pressures may require that we enhance our pay and benefits packages to compete effectively for such personnel. We may not be able to offset such added costs by increasing the rates we charge to the patients of our business. Turnover rates and the magnitude of the shortage of nurses or other trained personnel vary substantially from operation to operation. An increase in costs associated with, or a shortage of, skilled nurses, could negatively impact our operating subsidiaries. In addition, if we fail to attract and retain qualified and skilled personnel, our affiliated subsidiaries' ability to conduct their business operations effectively could be harmed.

We depend on our management team and the loss of their service could harm our business.

We believe that our success depends in part on the continued services of our executive management team. The loss of such key personnel could have a material adverse effect on our business and could adversely affect our strategic relationships and impede our ability to execute our business strategies. The market for qualified individuals may be highly competitive and finding and recruiting suitable replacements for senior management may be difficult, time consuming and costly.

We are subject to various government reviews, audits and investigations that could adversely affect our business, including an obligation to refund amounts previously paid to us, potential criminal charges, the imposition of fines, and/or the loss of our right to participate in Medicare and Medicaid programs.

As a result of our participation in the Medicaid and Medicare programs, we are subject to various governmental reviews, audits and investigations to verify our compliance with these programs and applicable laws and regulations. We are subject to regulatory reviews relating to Medicare services, billings and potential overpayments resulting from the Recovery Audit Contractors, Zone Program Integrity Contractors, Program Safeguard Contractors, Unified Program Integrity Contractors and Medicaid Integrity Contributors programs, (collectively referred to as "Reviews"), in which third party firms engaged by CMS conduct extensive reviews of

claims data and medical and other records to identify potential improper payments under the Medicare programs. Private pay sources also reserve the right to conduct audits. We believe that billing and reimbursement errors and disagreements are common in our industry. We are regularly engaged in reviews, audits and appeals of our claims for reimbursement due to the subjectivities inherent in the process related to patient diagnosis and care, record keeping, claims processing and other aspects of the patient service and reimbursement processes, and the errors and disagreements those subjectivities can produce. An adverse review, audit or investigation could result in:

- an obligation to refund amounts previously paid to us pursuant to the Medicare or Medicaid programs or from private payors, in amounts that could be material to our business;
- state or federal agencies imposing fines, penalties and other sanctions on us;
- loss of our right to participate in the Medicare or Medicaid programs or one or more private payor networks;
- an increase in private litigation against us; and
- damage to our reputation in various markets.

All findings of overpayment from CMS contractors are eligible for appeal through the CMS defined continuum. With the exception of rare findings of overpayment related to objective errors in Medicare payment methodology or claims processing, we utilize all defenses reasonably available to us to demonstrate that the services provided meet all clinical and regulatory requirements for reimbursement.

If the government or court were to conclude that such errors and deficiencies constituted criminal violations, or were to conclude that such errors and deficiencies resulted in the submission of false claims to federal healthcare programs, or if it were to discover other problems in addition to the ones identified by the probe reviews that rose to actionable levels, we and certain of our officers might face potential criminal charges and/or civil claims, administrative sanctions and penalties for amounts that could be material to our business, results of operations and financial condition. In addition, we and/or some of the key personnel of our operating subsidiaries could be temporarily or permanently excluded from future participation in state and federal healthcare reimbursement programs such as Medicaid and Medicare. In any event, it is likely that a governmental investigation alone, regardless of its outcome, would divert material time, resources and attention from our management team and our staff, and could have a materially detrimental impact on our results of operations during and after any such investigation or proceedings.

In cases where claim and documentation review by any CMS contractor results in repeated poor performance, an operation can be subjected to protracted oversight. This oversight may include repeat education and re-probe, extended pre-payment review, referral to recovery audit or integrity contractors, or extrapolation of an error rate to other reimbursement outside of specifically reviewed claims. Sustained failure to demonstrate improvement towards meeting all claim filing and documentation requirements could ultimately lead to Medicare decertification. As of June 30, 2019, five of our independent operating subsidiaries had Reviews scheduled, on appeal, or in a dispute resolution process, both pre- and post-payment.

Public and government calls for increased survey and enforcement efforts toward the home health, hospice and senior living industries could result in increased scrutiny by state and federal survey agencies. In addition, potential sanctions and remedies based upon alleged regulatory deficiencies could negatively affect our financial condition and results of operations.

Our home health, hospice and senior living operating subsidiaries are subject to regulation and licensing by federal, state and local regulatory authorities. The regulatory environment for our businesses continues to change and CMS and several states have undertaken several initiatives to increase or intensify Medicaid and Medicare survey and enforcement activities, including federal oversight of state actions. CMS is taking steps to focus more

survey and enforcement efforts on operations with findings of substandard care or repeat violations of Medicaid and Medicare standards, and to identify providers with patterns of noncompliance. CMS is also increasing its oversight of state survey agencies and requiring state agencies to use enforcement sanctions and remedies more promptly when substandard care or repeat violations are identified, to investigate complaints more promptly, and to survey operations more consistently. The intensified and evolving enforcement environment impacts providers like us because of the increase in the scope or number of inspections or surveys by governmental authorities and the severity of consequent citations for alleged failure to comply with regulatory requirements. We also divert personnel resources to respond to federal and state investigations, audits and other enforcement actions. The diversion of these resources, including our management team, clinical and compliance staff, and others, take away from the time and energy that these individuals could otherwise spend on routine operations. As noted, from time to time in the ordinary course of business, we receive deficiency reports from state and federal regulatory bodies resulting from such inspections or surveys. The focus of these deficiency reports tends to vary from year to year and state to state. Although most inspection deficiencies are resolved through an agreed-upon plan of corrective action, the reviewing agency typically has the authority to take further action against a licensed or certified agency or facility, which could result in the imposition of fines, imposition of a provisional or conditional license, suspension or revocation of a license, suspension of new admission or denial of payment for new admissions, loss of certification as a provider under state or federal healthcare programs, or imposition of other sanctions, including criminal penalties. In the past, we have experienced inspection deficiencies that have resulted in the imposition of a provisional license and could experience these results in the future.

Furthermore, in some states, citations in one operation can impact other operations in the state. Revocation of a license or decertification at a given operation could therefore impair our ability to obtain new licenses or to renew existing licenses at other operations, which may also trigger defaults or cross-defaults under our leases and our credit arrangements, or adversely affect our ability to operate or obtain financing in the future. If state or federal regulators were to determine, formally or otherwise, that one operation’s regulatory history ought to impact another of our existing or prospective communities, this could also increase costs, result in increased scrutiny by state and federal survey agencies, and even impact our expansion plans. Therefore, our failure to comply with applicable legal and regulatory requirements in any single operation could negatively impact our financial condition and results of operations as a whole.

Depending on the type of operation and state regulation, unannounced surveys or inspections may occur annually, every other year, or every third year and following a regulator’s receipt of a complaint from a patient, resident or employee of an affiliated operation. During such surveys or inspections, operations may be found to be deficient under Medicare, Medicaid or state licensing standards. Most deficiencies can be resolved through a written plan of corrective action, but the reviewing agency may also have authority to impose additional sanctions on a provider, including civil monetary penalties or other fines, provisional or conditional license, the suspension or revocation of a license, or a suspension of new admissions or denial of payment for new Medicare and Medicaid admissions, focused state and federal oversight and even loss of eligibility for Medicaid and Medicare participation or state licensure. Sanctions such as denial of payment for new admissions often are scheduled to go into effect before surveyors return to verify compliance. Generally, if the surveyors confirm that the operation is in compliance upon their return, the sanctions never take effect. However, if they determine that the operation is not in compliance, the denial of payment goes into effect retroactive to the date given in the original notice. This possibility sometimes leaves affected operators, including us, with the difficult task of deciding whether to continue accepting patients after the potential denial of payment date, thus risking the retroactive denial of revenue associated with those patients’ care if the operators are later found to be out of compliance, or simply refusing admissions from the potential denial of payment date until the operation is actually found to be in compliance. In the past, some of our affiliated operations have been in denial of payment status due to findings of continued regulatory deficiencies, resulting in an actual loss of the revenue. In addition, from time to time, we have opted to voluntarily stop accepting new patients pending completion of a new state survey, in order to avoid possible denial of payment for new admissions during the deficiency cure period, or simply to avoid straining staff and other resources while retraining staff, upgrading operating systems or making other operational improvements. If we elect to voluntarily close any operations in the future or to opt to stop

accepting new patients pending completion of a state or federal survey, it could negatively impact our financial condition and results of operation. The Company did not incur material losses of revenue related to denial of payment status due to findings of continued regulatory deficiencies in the six months ended June 30, 2019 or the years ended December 31, 2018, 2017 and 2016.

Operations with otherwise acceptable regulatory histories generally are given an opportunity to correct deficiencies and continue their participation in the Medicare and Medicaid programs by a certain date, usually within nine months, although where denial of payment remedies are asserted, such interim remedies go into effect much sooner. Operations with deficiencies that immediately jeopardize patient health and safety and those that experience repeat survey findings, however, are not always given an opportunity to correct their deficiencies prior to the imposition of remedies and other enforcement actions. Accordingly, operations that have poor regulatory histories before we acquire them and that develop new deficiencies after we acquire them are more likely to have sanctions imposed upon them by CMS or state regulators. The imposition of such sanctions could negatively impact our financial condition and results of operation.

Our hospice operating subsidiaries are subject to annual Medicare caps calculated by Medicare. If such caps were to be exceeded by any of our hospice providers, our business and combined financial condition, results of operations and cash flows could be materially adversely affected.

With respect to our hospice operating subsidiaries, overall payments made by Medicare to each provider number are subject to an inpatient cap amount and an overall payment cap, which are calculated and published by the Medicare fiscal intermediary on an annual basis covering the period from October 1 through September 30. The caps are detailed below:

The inpatient cap limits hospice care provided on an inpatient basis. This cap limits the number of days that are paid at the higher inpatient care rate to 20.0% of the total number of days of hospice care that are provided to all Medicare beneficiaries served by a provider. The daily rate for all days exceeding the cap is the standard Medicare hospice daily rate, and the provider must reimburse Medicare for any payments in excess of that amount.

The overall payment cap is calculated by the Medicare fiscal intermediary at the end of each hospice cap period to determine the maximum allowable payments to a hospice provider during the period. We estimate our potential cap exposure by using available information to compare our actual reimbursement for all hospice services provided during the period to the number of beneficiaries we served multiplied by the statutory per beneficiary cap amount.

If payments received by any one of our hospice provider numbers exceeds either of these caps, we are required to reimburse Medicare for payments received in excess of the caps, which could have a material adverse effect on our business and combined financial condition, results of operations and cash flows.

Failure to comply with quality reporting requirements may negatively impact reimbursement to our home health and hospice operating subsidiaries.

The ACA mandated the establishment of quality reporting requirements for home health and hospice providers. Beginning in fiscal year 2014, CMS mandated that failure to submit required quality data would result in a 2% reduction to a hospice provider’s market basket percentage increase for that fiscal year. For 2019, hospices are required to submit 12 months of data to the CAHPS Hospice Survey Data Warehouse. The participation requirements for calendar year 2019 will affect the fiscal year 2021 annual payment update. Participation requirements for subsequent years will impact subsequent annual payment updates. The HQRP is currently “pay-for-reporting,” meaning it is the act of submitting timely and complete data that determines compliance with the requirements.

In the calendar year 2015 Home Health Final Rule, CMS established a new "Pay-for-Reporting Performance Requirement" with which provider compliance with quality reporting program requirements is measured. Home health providers that do not submit quality reporting data to CMS are subject to a 2% reduction in their annual home health payment update percentage. Home health providers are required to report prescribed quality assessment data for a minimum of 90.0% of all patients with episodes of care that occur on or after July 1, 2017.

Should our operating subsidiaries fail to meet quality reporting requirements in the future, it may result in one or more of our operations seeing a reduction in its Medicare reimbursements. We have incurred and are likely to continue to incur additional expenses in attempting to comply with these quality reporting requirements.

We are subject to extensive and complex federal and state government laws and regulations which could change at any time and increase our cost of doing business and subject us to enforcement actions.

We, along with other companies in the healthcare industry, are required to comply with extensive and complex laws and regulations at the federal, state and local government levels relating to, among other things:

- operation and professional licensure, certificates of need, permits and other government approvals;
- adequacy and quality of healthcare services;
- qualifications of healthcare and support personnel;
- quality of medical equipment;
- confidentiality, maintenance and security issues associated with medical records and claims processing;
- relationships with physicians and other referral sources and recipients;
- constraints on protective contractual provisions with patients and third-party payors;
- operating policies and procedures;
- certification of additional providers by the Medicare or Medicaid program; and
- payment for services.

The laws and regulations governing our operations, along with the terms of participation in various government programs, regulate how we do business, the services we offer, and our interactions with patients and other healthcare providers. These laws and regulations are subject to frequent change. We believe that such regulations may increase in the future and we cannot predict the ultimate content, timing or impact on us of any healthcare reform legislation. Changes in existing laws or regulations, or the enactment of new laws or regulations, could negatively impact our business. If we fail to comply with these applicable laws and regulations, we could suffer civil or criminal penalties and other detrimental consequences, including denial of reimbursement, imposition of fines, temporary suspension of admission of new patients, suspension or decertification from the Medicaid and Medicare programs, restrictions on our ability to acquire new operations or expand or operate existing operations, the loss of our licenses to operate and the loss of our ability to participate in federal and state reimbursement programs.

We are subject to federal and state laws, such as the FCA, state false claims acts, the illegal remuneration provisions of the Social Security Act, federal anti-kickback laws, state anti-kickback laws, and federal Stark laws, which govern financial and other arrangements among healthcare providers, their owners, vendors and referral sources, and that are intended to prevent healthcare fraud and abuse. Among other things, these laws prohibit kickbacks, bribes and rebates, as well as other direct and indirect payments or fee-splitting arrangements that are designed to induce the referral of patients to a particular provider for medical products or services payable by any federal healthcare program, and prohibit presenting a false or misleading claim for payment under a federal or state program. They also prohibit some physician self-referrals. Possible sanctions for violation of any of these restrictions or prohibitions include loss of eligibility to participate in federal and state

reimbursement programs and civil and criminal penalties. Changes in these laws could increase our cost of doing business. If we fail to comply, even inadvertently, with any of these requirements, we could be required to alter our operations, refund payments to the government, enter into a corporate integrity agreement, deferred prosecution or similar agreements with state or federal government agencies, and become subject to significant civil and criminal penalties.

In May 2009, Congress passed FERA which made significant changes to the FCA, expanding the types of activities subject to prosecution and whistleblower liability. Following changes by FERA, healthcare providers face significant penalties for known retention of government overpayments, even if no false claim was involved. Healthcare providers can now be liable for knowingly and improperly avoiding or decreasing an obligation to pay money or property to the government. This includes the retention of any government overpayment. The government can argue, therefore, that a FCA violation can occur without any affirmative fraudulent action or statement, as long as it is knowingly improper. The ACA supplements FERA by imposing an affirmative obligation on healthcare providers to return an overpayment to CMS within 60 days of "identification" or the date any corresponding cost report is due, whichever is later. On August 3, 2015, the U.S. District Court for the Southern District of New York held that the 60 day clock following "identification" of an overpayment begins to run when a provider is put on notice of a potential overpayment, rather than the moment when an overpayment is conclusively ascertained. On February 12, 2016, CMS published a final rule with respect to Medicare Parts A and B clarifying that providers have an obligation to proactively exercise "reasonable diligence," and that the 60 day clock begins to run after the reasonable diligence period has concluded, which may take at most 6 months from the from receipt of credible information, absent extraordinary circumstances. Retention of any overpayment beyond this period may result in FCA liability. In addition, FERA extended protections against retaliation for whistleblowers, including protections not only for employees, but also contractors and agents. Thus, there is no need for an employment relationship in order to qualify for protection against retaliation for whistleblowing.

We are also required to comply with state and federal laws governing the transmission, privacy and security of health information. HIPAA requires us to comply with certain standards for the use of individually identifiable health information within our company, and the disclosure and electronic transmission of such information to third parties, such as payors, business associates and patients. These include standards for common electronic healthcare transactions and information, such as claim submission, plan eligibility determination, payment information submission and the use of electronic signatures; unique identifiers for providers, employers and health plans; and the security and privacy of individually identifiable health information. In addition, some states have enacted comparable or, in some cases, more stringent privacy and security laws. If we fail to comply with these state and federal laws, we could be subject to criminal penalties and civil sanctions and be forced to modify our policies and procedures.

On January 25, 2013, HHS promulgated new HIPAA privacy, security, and enforcement regulations, which increase significantly the penalties and enforcement practices of the Department regarding HIPAA violations. In addition, any breach of individually identifiable health information can result in obligations under HIPAA and state laws to notify patients, federal and state agencies, and in some cases media outlets, regarding the breach incident. Breach incidents and violations of HIPAA or state privacy and security laws could subject us to significant penalties, and could have a significant impact on our business.

Our failure to obtain or renew required regulatory approvals or licenses or to comply with applicable regulatory requirements, the suspension or revocation of our licenses or our disqualification from participation in federal and state reimbursement programs, or the imposition of other harsh enforcement sanctions could increase our cost of doing business and expose us to potential sanctions. Furthermore, if we were to lose licenses or certifications for any of our affiliated operations as a result of regulatory action or otherwise, we could be deemed to be in default under some of our agreements, including agreements governing outstanding indebtedness and lease obligations.

Increased civil and criminal enforcement efforts of government agencies against home health and hospice agencies and senior living communities could harm our business, and could preclude us from participating in federal healthcare programs.

Both federal and state government agencies have heightened and coordinated civil and criminal enforcement efforts as part of numerous ongoing investigations of healthcare companies. The focus of these investigations includes, among other things:

- cost reporting and billing practices;
- quality of care;
- financial relationships with referral sources; and
- medical necessity of services provided.

If any of our affiliated operations is decertified or loses its licenses, our revenue, financial condition or results of operations would be adversely affected. In addition, the report of such issues at any of our affiliated operations could harm our reputation for quality care and lead to a reduction in the patient referrals of our operating subsidiaries and ultimately a reduction in census at these operations. Also, responding to enforcement efforts would divert material time, resources and attention from our management team and our staff, and could have a materially detrimental impact on our results of operations during and after any such investigation or proceedings, regardless of whether we prevail on the underlying claim.

Federal law provides that practitioners, providers and related persons may not participate in most federal healthcare programs, including the Medicaid and Medicare programs, if the individual or entity has been convicted of a criminal offense related to the delivery of a product or service under these programs or if the individual or entity has been convicted under state or federal law of a criminal offense relating to neglect or abuse of patients in connection with the delivery of a healthcare product or service. Other individuals or entities may be, but are not required to be, excluded from such programs under certain circumstances, including, but not limited to, the following:

- medical necessity of services provided;
- conviction related to fraud;
- conviction relating to obstruction of an investigation;
- conviction relating to a controlled substance;
- licensure revocation or suspension;
- exclusion or suspension from state or other federal healthcare programs;
- filing claims for excessive charges or unnecessary services or failure to furnish medically necessary services;
- ownership or control of an entity by an individual who has been excluded from the Medicaid or Medicare programs, against whom a civil monetary penalty related to the Medicaid or Medicare programs has been assessed or who has been convicted of a criminal offense under federal healthcare programs; and
- the transfer of ownership or control interest in an entity to an immediate family or household member in anticipation of, or following, a conviction, assessment or exclusion from the Medicare or Medicaid programs.

The OIG, among other priorities, is responsible for identifying and eliminating fraud, abuse and waste in certain federal healthcare programs. The OIG has implemented a nationwide program of audits, inspections and investigations and from time to time issues “fraud alerts” to segments of the healthcare industry on particular

practices that are vulnerable to abuse. The fraud alerts inform healthcare providers of potentially abusive practices or transactions that are subject to criminal activity and reportable to the OIG. An increasing level of resources has been devoted to the investigation of allegations of fraud and abuse in the Medicaid and Medicare programs, and federal and state regulatory authorities are taking an increasingly strict view of the requirements imposed on healthcare providers by the Social Security Act and Medicaid and Medicare programs. Although we have created a corporate compliance program that we believe is consistent with the OIG guidelines, the OIG may modify its guidelines or interpret its guidelines in a manner inconsistent with our interpretation or the OIG may ultimately determine that our corporate compliance program is insufficient.

In some circumstances, if one operation is convicted of abusive or fraudulent behavior, then other operations under common control or ownership may be decertified from participating in Medicaid or Medicare programs. Federal regulations prohibit any corporation or operation from participating in federal contracts if it or its principals have been barred, suspended or declared ineligible from participating in federal contracts. In addition, some state regulations provide that all operations under common control or ownership licensed within a state may be de-licensed if one or more of the operations are de-licensed. If any of our operating subsidiaries were decertified or excluded from participating in Medicaid or Medicare programs, our revenue would be adversely affected.

The OIG or other regulatory authorities may choose to more closely scrutinize billing practices in areas where we operate or propose to expand, which could result in an increase in regulatory monitoring and oversight, decreased reimbursement rates, or otherwise adversely affect our business, financial condition and results of operations.

In July 2018, the OIG released a report entitled “Vulnerabilities in the Medicare Hospice Program Affect Quality Care and Program Integrity: an OIG Portfolio” (the “OIG Portfolio”). The OIG Portfolio’s methodology included a review of hospice services provided and claims billed since 2005, including looking at eligibility determinations and billing practices. The OIG found that improper billing by hospices costs Medicare hundreds of millions of dollars each year, including billing for ineligible patients, improper levels of care, duplicative services, and other forms of fraud. Among a total of 15 recommendations, the OIG recommended that CMS (1) strengthen the hospice survey process, including analyzing claims to identify hospices that engage in concerning practices, (2) create additional remedies for poor regulatory performance, and (3) improve billing oversight, including taking steps to tie payment to patient acuity and needs. Of these recommendations, CMS concurred with six recommendations and did not concur with nine recommendations. The OIG remains committed to enhanced oversight of the hospice benefit.

In March 2016, the OIG released a report entitled “Hospices Inappropriately Billed Medicare Over $250 Million for General Inpatient Care.” The report analyzed the results of a medical record review of hospice general inpatient care stays occurring in 2012 to estimate the percentage of such stays that were billed inappropriately, and found that hospices billed one-third of general inpatient stays inappropriately, costing Medicare $268 million in 2012. Consequently, the OIG recommended, and CMS concurred with such recommendations, that CMS (1) increase its oversight of hospice general inpatient stay claims and review Part D payments for drugs for hospice beneficiaries; (2) ensure that a physician is involved in the decision to use general inpatient care; (3) conduct prepayment reviews for lengthy general inpatient care stays; (4) increase surveyor efforts to ensure that hospices meet care planning requirements; (5) establish additional enforcement remedies for poor hospice performance; and (6) follow up on inappropriate general inpatient care stays.

In January 2015, the OIG released a report entitled “Medicare Hospices Have Financial Incentives to Provide Care in Assisted Living Facilities.” The report analyzed all Medicare hospices claims from 2007 through 2012, and raised concerns about the financial incentives created by the current payment system and the potential for hospices-especially for-profit hospices-to target beneficiaries in senior living communities because they may offer the hospices the greatest financial gain. Accordingly, the report recommended that CMS reform payments to reduce the incentive for hospices to target beneficiaries with certain diagnoses and those likely to have long

stays, target certain hospices for review, develop and adopt claims-based measures of quality, make hospice data publicly available for the beneficiaries, and provide additional information to hospices to educate them about how they compare to their peers. CMS concurred with all five recommendations.

Additionally, following recommendations made by the OIG in an April 2014 report entitled "Limited Compliance with Medicare's Home Health Face-to-Face Documentation Requirements," CMS committed to implement a plan for oversight of home health agencies through Supplemental Medical Review Contractor audits of every home health agency in the country. In addition, in many of its recent OIG Work Plans, it indicated that it will review compliance with various aspects which impact reimbursement to home health or hospice providers, including the documentation in support of the claims paid by Medicare. Recent OIG Work Plans provides that the OIG will review documentation to determine if it meets the requirements for certain billing documentation related to Medicare payments for hospice and home health services to ensure they were made in accordance with Medicare requirements.

In August 2012, the OIG released a report entitled "Inappropriate and Questionable Billing for Medicare Home Health Agencies." The report analyzed data from home health, inpatient hospital, and skilled nursing facilities claims from 2010 to identify inappropriate home health payments. The report found that in 2010, Medicare made overpayments largely in connection with three specific errors: overlapping with claims for inpatient hospital stays, overlapping with claims for skilled nursing facility stays, or billing for services on dates after beneficiaries' deaths. The report also concluded that home health agencies with questionable billing were located mostly in Texas, Florida, California, and Michigan. The report recommended that CMS implement claims processing edits or improve existing edits to prevent inappropriate payments for the three specific errors referenced above, increase monitoring of billing for home health services, enforce and consider lowering the ten percent cap on the total outlier payments a home health agency may receive annually, consider imposing a temporary moratorium on new home health agency enrollments in Florida and Texas, and take appropriate action regarding the inappropriate payments identified and home health agencies with questionable billing. CMS concurred with all five recommendations.

Moratoria on enrollment of new home health agencies were subsequently put in place effective July 31, 2013, and were extended multiple times through January 31, 2019. These moratoria were enforced in states or various counties in Florida, Michigan, Texas, Illinois, Pennsylvania and New Jersey. Effective February 1, 2019, all moratoria have been lifted, and there are no active Medicare provider enrollment moratoria in the United States.

Efforts by officials and others to make or advocate for any increase in regulatory monitoring and oversight, reduce payment rates, revise methodologies for assessing and treating patients, conduct more frequent or intense reviews of our treatment and billing practices, or implement moratoria in areas where we operate or propose to expand, could reduce our reimbursement, increase our costs of doing business and otherwise adversely affect our business, financial condition and results of operations.

State efforts to regulate or deregulate the healthcare services industry or the construction or expansion of the number of home health, hospice or senior living operations could impair our ability to expand, or result in increased competition.

Some states require healthcare providers, including home health, hospice, and senior living operators to obtain prior approval, known as a certificate of need, for:

- the purchase, construction or expansion of home health, hospice, or senior living operations;
- capital expenditures exceeding a prescribed amount; and
- changes in services or unit capacity.

In addition, other states that do not require certificates of need have effectively barred the expansion of existing operations and the establishment of new ones by placing partial or complete moratoria on the number of

new providers they will certify in certain areas or in the entire state. Other states have established such stringent development standards and approval procedures for constructing new healthcare communities that the construction of new facilities, or the expansion or renovation of existing communities, may become cost-prohibitive or extremely time-consuming.

Our ability to acquire or establish new home health, hospice or senior living operations or expand or provide new services at existing operations would be adversely affected if we are unable to obtain the necessary approvals, if there are changes in the standards applicable to those approvals, or if we experience delays and increased expenses associated with obtaining those approvals. We may not be able to obtain licensure, certificate of need approval, Medicare or Medicaid certification, Attorney General approval or other necessary approvals for future expansion projects.

Conversely, and specific to the highly competitive industry of senior living, the elimination or reduction of state regulations that limit the construction, expansion or renovation of new or existing communities could result in increased competition to us. In general, regulatory and other barriers to entry into the senior living industry are not prohibitive. Over the last several years there has been a significant increase in the construction of new senior living communities, including in many of the states where we provide services. This new construction has resulted in increased competition in many of our markets. Such new competition may limit our ability to attract new residents, raise rents or otherwise expand our senior living business, which could have a material adverse effect on our revenues, results of operations and cash flow.

Changes in federal and state employment-related laws and regulations could increase our cost of doing business.

Our operating subsidiaries are subject to a variety of federal and state employment-related laws and regulations, including, but not limited to, the U.S. Fair Labor Standards Act which governs such matters as minimum wages, overtime and other working conditions, the Americans with Disabilities Act (the “ADA”) and similar state laws that provide civil rights protections to individuals with disabilities in the context of employment, public accommodations and other areas, the National Labor Relations Act, regulations of the Equal Employment Opportunity Commission, regulations of the Office of Civil Rights, regulations of state Attorneys General, family leave mandates and a variety of similar laws enacted by the federal and state governments that govern these and other employment law matters. Because labor represents such a large portion of our operating costs, changes in federal and state employment-related laws and regulations could increase our cost of doing business.

The compliance costs associated with these laws and evolving regulations could be substantial. For example, all of our affiliated operations are required to comply with the ADA. The ADA has separate compliance requirements for “public accommodations” and “commercial properties,” but generally requires that buildings be made accessible to people with disabilities. Compliance with ADA requirements could require removal of access barriers and non-compliance could result in imposition of government fines or an award of damages to private litigants. Further legislation may impose additional burdens or restrictions with respect to access by disabled persons. In addition, federal proposals to introduce a system of mandated health insurance and flexible work time and other similar initiatives could, if implemented, adversely affect our operations. We also may be subject to employee-related claims such as wrongful discharge, discrimination or violation of equal employment law. While we are insured for these types of claims, we could experience damages that are not covered by our insurance policies or that exceed our insurance limits, and we may be required to pay such damages directly, which would negatively impact our cash flow from operations.

Required regulatory approvals could delay or prohibit transfers of our healthcare operations, which could result in periods in which we are unable to receive reimbursement for such properties.

The operations of our operating subsidiaries must be licensed under applicable state law and, depending upon the type of operation, certified or approved as providers under the Medicare and/or Medicaid programs. In

the process of acquiring or transferring operating assets, including in connection with the spin-off, our operations must receive change of ownership approvals from state licensing agencies, Medicare and Medicaid as well as third party payors. If there are any delays in receiving regulatory approvals from the applicable federal, state or local government agencies, or the inability to receive such approvals, such delays could result in delayed or lost reimbursement related to periods of service prior to the receipt of such approvals.

Compliance with federal and state fair housing, fire, safety and other regulations may require us to make unanticipated expenditures, which could be costly to us.

We must comply with the federal Fair Housing Act and similar state laws, which prohibit us from discriminating against individuals if it would cause such individuals to face barriers in gaining residency in any of our affiliated communities. Additionally, the Fair Housing Act and other similar state laws require that we advertise our services in such a way that we promote diversity and not limit it. We may be required, among other things, to change our marketing techniques to comply with these requirements.

In addition, we are required to operate our affiliated communities in compliance with applicable fire and safety regulations, building codes and other land use regulations and food licensing or certification requirements as they may be adopted by governmental agencies and bodies from time to time. Surveys occur on a regular (often annual or biannual) schedule, and special surveys may result from a specific complaint filed by a patient, a family member or one of our competitors. We may be required to make substantial capital expenditures to comply with these requirements.

We depend largely upon reimbursement from Medicare, Medicaid, and other third-party payors, and our revenue, financial condition and results of operations could be negatively impacted by any changes in the acuity mix of patients in our affiliated operations as well as payor mix and payment methodologies.

Our revenue is determined in part by the acuity of home health and hospice patients and senior living residents. Changes in the acuity level of patients we attract, as well as our payor mix among Medicaid, Medicare, private payors and managed care companies, significantly affect our profitability because we generally receive higher reimbursement rates for high acuity patients and because the payors reimburse us at different rates. For six months ended June 30, 2019 and the year ended December 31, 2018, 54.1% and 53.1%, respectively, of our revenue was provided by government payors that reimburse us at predetermined rates. If our labor or other operating costs increase, we will be unable to recover such increased costs from government payors. Accordingly, if we fail to maintain our proportion of high acuity patients or if there is any significant increase in the percentage of the patients of our operating subsidiaries for whom we receive Medicaid reimbursement, our results of operations may be adversely affected.

Initiatives undertaken by major insurers and managed care companies to contain healthcare costs may adversely affect our business. Among other initiatives, these payors attempt to control healthcare costs by contracting with healthcare providers to obtain services on a discounted basis. We believe that this trend will continue and may limit reimbursements for healthcare services. If insurers or managed care companies from whom we receive substantial payments were to reduce the amounts they pay for services, we may lose patients if we choose not to renew our contracts with these insurers at lower rates.

Compliance with state and federal employment, immigration, licensing and other laws could increase our cost of doing business.

Our operating subsidiaries have hired personnel, including nurses and therapists, from outside the United States. If immigration laws are changed, or if new and more restrictive government regulations proposed by the Department of Homeland Security are enacted, our access to qualified and skilled personnel may be limited.

Our subsidiaries operate in at least one state that requires them to verify employment eligibility using procedures and standards that exceed those required under federal Form I-9 and the statutes and regulations

related thereto. Proposed federal regulations would extend similar requirements to all of the states in which our affiliated operations operate. To the extent that such proposed regulations or similar measures become effective, and our subsidiaries are required by state or federal authorities to verify work authorization or legal residence for current and prospective employees beyond existing Form I-9 requirements and other statutes and regulations currently in effect, it may make it more difficult for our subsidiaries to recruit, hire and/or retain qualified employees, may increase our risk of non-compliance with state and federal employment, immigration, licensing and other laws and regulations and could increase our cost of doing business.

We are subject to litigation that could result in significant legal costs and large settlement amounts or damage awards.

Our business involves a significant risk of liability given the age and health of the patients and residents of our operating subsidiaries and the services we provide. We and others in our industry may be subject to a large and increasing number of claims and lawsuits, including professional liability claims, alleging that our services have resulted in personal injury, elder abuse, wrongful death or other related claims. The defense of these lawsuits has in the past, and may in the future, result in significant legal costs, regardless of the outcome, and can result in large settlement amounts or damage awards. Plaintiffs tend to sue every healthcare provider who may have been involved in the patient's care and, accordingly, we respond to multiple lawsuits and claims every year.

In addition, plaintiffs' attorneys have become increasingly more aggressive in their pursuit of claims against healthcare providers, including home health, hospice and senior living providers, and have employed a wide variety of advertising and publicity strategies. Among other things, these strategies include establishing their own Internet websites, paying for premium advertising space on other websites, paying Internet search engines to optimize their plaintiff solicitation advertising so that it appears in advantageous positions on Internet search results, using newspaper, magazine and television ads targeted at customers of the healthcare industry generally, as well as at customers of large for-profit providers such as us. These advertising and solicitation activities could result in more claims and litigation, which could increase our liability exposure and legal expenses, divert the time and attention of the personnel from day-to-day business operations, and materially and adversely affect our financial condition and results of operations. Furthermore, to the extent the frequency and/or severity of losses from such claims and suits increases, our liability insurance premiums could increase and/or available insurance coverage levels could decline, which could materially and adversely affect our financial condition and results of operations.

Healthcare litigation (including class action litigation) is common and is filed based upon a wide variety of claims and theories, and we are routinely subjected to varying types of claims. Future claims could be brought that may materially affect our business, financial condition and results of operations. Other claims and suits, including class actions, could be filed against us and other companies in our industry. For example, there has been an increase in the number of wage and hour class action claims filed in several of the jurisdictions where we are present. Allegations typically include claimed failures to permit or properly compensate for meal and rest periods, or failure to pay for time worked. If there were a significant increase in the number of these claims or an increase in amounts owing should plaintiffs be successful in their prosecution of these claims, this could have a material adverse effect to our business, financial condition, results of operations and cash flows. In addition, we contract with a variety of landlords, lenders, vendors, suppliers, consultants and other individuals and businesses. These contracts typically contain covenants and default provisions. If the other party to one or more of our contracts were to allege that we have violated the contract terms, we could be subject to civil liabilities which could have a material adverse effect on our financial condition and results of operations.

Were litigation to be instituted against one or more of our subsidiaries, a successful plaintiff might attempt to hold us or another subsidiary liable for the alleged wrongdoing of the subsidiary principally targeted by the litigation. If a court in such litigation decided to disregard the corporate form, the resulting judgment could increase our liability and adversely affect our financial condition and results of operations.

We conduct regular internal investigations into the care delivery, recordkeeping and billing processes of our operating subsidiaries. These reviews sometimes detect instances of noncompliance which we attempt to correct, which can decrease our revenue.

As an operator of healthcare operations, we have a program to help us comply with various requirements of federal and private healthcare programs. Our compliance program includes, among other things, (1) policies and procedures modeled after applicable laws, regulations, government manuals and industry practices and customs that govern the clinical, reimbursement and operational aspects of our subsidiaries, (2) training about our compliance process for all of the employees of our operating subsidiaries, our directors and officers, and training about Medicare and Medicaid laws, fraud and abuse prevention, clinical standards and practices, and claim submission and reimbursement policies and procedures for appropriate employees, and (3) internal controls that monitor, for example, the accuracy of claims, reimbursement submissions, cost reports and source documents, provision of patient care, services, and supplies as required by applicable standards and laws, accuracy of clinical assessment and treatment documentation, and implementation of judicial and regulatory requirements (*i.e.*, background checks, licensing and training).

From time to time our systems and controls highlight potential compliance issues, which we investigate as they arise. Historically, we have, and would continue to do so in the future, initiated internal inquiries into possible recordkeeping and related irregularities. Through these internal inquiries, we have identified potential deficiencies in the assessment of and recordkeeping for small subsets of patients. We have also identified and, at the conclusion of such investigations, assisted in implementing, targeted improvements in the assessment and recordkeeping practices to make them consistent with the existing standards and policies. We continue to monitor the measures implemented for effectiveness, and perform follow-up reviews to ensure compliance. Consistent with healthcare industry accounting practices, we record any charge for refunded payments against revenue in the period in which the claim adjustment becomes known.

If additional reviews result in identification and quantification of additional amounts to be refunded, we would accrue additional liabilities for claim costs and interest, and repay any amounts due in normal course. Furthermore, failure to refund overpayments within required time frames (as described in greater detail above) could result in FCA liability. If future investigations ultimately result in findings of significant billing and reimbursement noncompliance which could require us to record significant additional provisions or remit payments, our business, financial condition and results of operations could be materially and adversely affected and our stock price could decline.

We may be unable to complete future acquisitions at attractive prices or at all, which may adversely affect our revenue; we may also elect to dispose of underperforming or non-strategic operating subsidiaries, which would also decrease our revenue.

To date, our revenue growth has been significantly impacted by our acquisition of new operations. Subject to general market conditions and the availability of essential resources and leadership within our company, we continue to seek both home health, hospice and senior living acquisition opportunities that are consistent with our geographic, financial and operating objectives.

We face competition for the acquisition of operations and businesses and expect this competition to increase. Based upon factors such as our ability to identify suitable acquisition candidates, the purchase price of the operations, prevailing market conditions, the availability of leadership to manage new operations and our own willingness to take on new operations, the rate at which we have historically acquired home health, hospice and senior living operations has fluctuated significantly. In the future, we anticipate the rate at which we may acquire these operations will continue to fluctuate, which may affect our revenue.

We have also historically acquired a few operations, either because they were included in larger, indivisible groups of operations or under other circumstances, which were or have proven to be non-strategic or less

desirable, and we may consider disposing of such operations or exchanging them for operations which are more desirable. To the extent we dispose of such an operation without simultaneously acquiring an operation in exchange, our revenues might decrease.

We may not be able to successfully integrate acquired operations, and we may not achieve the benefits we expect from our acquisitions.

We may not be able to successfully or efficiently integrate new acquisitions with our existing operating subsidiaries, culture and systems. The process of integrating acquisitions into our existing operations may result in unforeseen operating difficulties, divert management's attention from existing operations, or require an unexpected commitment of staff and financial resources, and may ultimately be unsuccessful. Existing operations available for acquisition frequently serve or target different markets than those that we currently serve. We also may determine that renovations of acquired operations and changes in staff and operating management personnel are necessary to successfully integrate those acquisitions into our existing operations. We may not be able to recover the costs incurred to reposition or renovate newly operating subsidiaries. The financial benefits we expect to realize from many of our acquisitions are largely dependent upon our ability to improve clinical performance, overcome regulatory deficiencies, rehabilitate or improve the reputation of the operations in the community, increase and maintain census, control costs, and in some cases change the patient acuity mix. If we are unable to accomplish any of these objectives at the operating subsidiaries we acquire, we will not realize the anticipated benefits and we may experience lower than anticipated profits, or even losses.

From January 1, 2018 through June 30, 2019, we expanded our operations through the acquisition of eight stand-alone senior living operations, six home health agencies, six hospice agencies, and four home care agencies. This growth has placed and will continue to place significant demands on our current management resources. Our ability to manage our growth effectively and to successfully integrate new acquisitions into our existing business will require us to continue to expand our operational, financial and management information systems and to continue to retain, attract, train, motivate and manage key employees, including our local leaders. We may not be successful in attracting qualified individuals necessary for future acquisitions to be successful, and our management team may expend significant time and energy working to attract qualified personnel to manage operations we may acquire in the future. Also, the newly acquired operations may require us to spend significant time improving services that have historically been substandard, and if we are unable to improve such operations quickly enough, we may be subject to litigation and/or loss of licensure or certification. If we are not able to successfully overcome these and other integration challenges, we may not achieve the benefits we expect from any of our acquisitions, and our business may suffer.

In undertaking acquisitions, we may be adversely impacted by costs, liabilities and regulatory issues that may adversely affect our operations.

In undertaking acquisitions, we also may be adversely impacted by unforeseen liabilities attributable to the prior providers who operated the acquired operations, against whom we may have little or no recourse. Many operations we have historically acquired were underperforming financially and had clinical and regulatory issues prior to and at the time of acquisition. Even where we have improved operating subsidiaries and patient care at affiliated operations that we have acquired, we still may face post-acquisition regulatory issues related to pre-acquisition events. These may include, without limitation, payment recoupment related to our predecessors' prior noncompliance, the imposition of fines, penalties, operational restrictions or special regulatory status. Further, we may incur post-acquisition compliance risk due to the difficulty or impossibility of immediately or quickly bringing non-compliant operations into full compliance. Diligence materials pertaining to acquisition targets, especially the underperforming operations that often represent the greatest opportunity for return, are often inadequate, inaccurate or impossible to obtain, sometimes requiring us to make acquisition decisions with incomplete information. Despite our due diligence procedures, operations that we have acquired or may acquire in the future may generate unexpectedly low returns, may cause us to incur substantial losses, may require unexpected levels of management time, expenditures or other resources, or may otherwise not meet a risk profile

that our investors find acceptable. For example, in April 2010, one of our affiliated operating subsidiaries acquired a home health agency that had a history of intermittent noncompliance. Although the agency rapidly improved its compliance after acquisition, the review continued for a significant period of time and resulted in the expenditure of significant agency resources. The affiliated operation has successfully graduated from the targeted medical review and has developed a reputation for quality clinical care.

In addition, we might encounter unanticipated difficulties and expenditures relating to any of the acquired operations, including contingent liabilities. When we acquire an operation we generally assume its existing Medicare provider number for purposes of billing Medicare for services. If CMS later determines that the prior operator had received overpayments from Medicare for the period of time during which it operated, or had incurred fines in connection with service provided prior to our acquisition of the operation, CMS could hold us liable for repayment of the overpayments or fines. For example, one of our operating subsidiaries acquired a home health agency that had a history of intermittent noncompliance. In October 2012, a ZPIC reopened claims at the agency for home health services provided prior to our period of ownership. In March 2014, the ZPIC completed its review and notified the agency of its findings, including a finding that the agency would be required to repay a significant amount of its Medicare reimbursement. While in this instance our operating subsidiary was indemnified for its losses by the prior operator, in future situations where the prior operator is defunct or otherwise unable to reimburse us, we may be unable to recover these funds. We may be unable to improve every operation that we acquire. In addition, these operations may divert management time and attention from other operations and priorities, negatively impact cash flows, result in adverse or unanticipated accounting charges, or otherwise damage other areas of our company if they are not timely and adequately improved.

We also incur regulatory risk in acquiring certain operations due to the licensing, certification and other regulatory requirements affecting our right to operate the acquired operations. For example, in order to acquire operations on a predictable schedule, or to acquire declining operations quickly to prevent further pre-acquisition declines, we frequently acquire such operations prior to receiving license approval or provider certification. We operate as the interim manager for the outgoing licensee, assuming financial responsibility, among other obligations, for the operation. To the extent that we may be unable or delayed in obtaining a license, we may need to operate under a management agreement with the prior operator. Any inability in obtaining consent from the prior operator of a target acquisition to utilizing its license in this manner could impact our ability to acquire additional operations. If we were subsequently denied licensure or certification for any reason, we might not realize the expected benefits of the acquisition and would likely incur unanticipated costs and other challenges which could cause our business to suffer.

Termination of our residency agreements and the resulting vacancies in our affiliated senior living operations could cause revenue at our affiliated operations to decline.

Most state regulations governing senior living communities require written residency agreements with each resident. Several of these regulations also require that each resident have the right to terminate the residency agreement for any reason and without prior notice. Consistent with these regulations, all of our senior living resident agreements allow residents to terminate their agreements upon thirty days' notice. Residents terminate their agreements from time to time for a variety of reasons, causing some fluctuations in our overall census as residents are admitted and discharged in normal course. If an unusual number of residents elected to terminate their agreements within a short time, census levels at our affiliated operations could decline. As a result, units may be unoccupied for a period of time, which would have a negative impact on our revenue, financial condition and results of operations.

We face significant competition from other healthcare providers and may not be successful in attracting patients and residents to our affiliated operations.

The home health, hospice and senior living industries are highly competitive, and we expect that these industries may become increasingly competitive in the future. Increased competition could limit our ability to

attract and retain patients, attract and retain skilled personnel, maintain or increase private pay and managed care rates or expand our business.

We may not be successful in attracting patients to our operating subsidiaries, particularly Medicare, managed care, and private pay patients who generally come to us at higher reimbursement rates. Some of our competitors have greater financial and other resources than us, may have greater brand recognition and may be more established in their respective communities than we are. Competing companies may also offer newer communities or different programs or services than we do and may thereby attract current or potential patients. Other competitors may have lower expenses or other competitive advantages, and, therefore, present significant price competition for managed care and private pay patients. In addition, some of our competitors operate on a not-for-profit basis or as charitable organizations and have the ability to finance capital expenditures on a tax-exempt basis or through the receipt of charitable contributions, neither of which are available to us.

If we do not achieve and maintain competitive quality of care or if the frequency of CMS surveys and enforcement sanctions increases, our business may be negatively affected.

Providing quality patient care is the cornerstone of our business. We believe that hospitals, physicians and other referral sources refer patients to us in large part because of our reputation for delivering quality care. Clinical quality is becoming increasingly important within our industry. Effective October 2012, Medicare began to impose a financial penalty upon hospitals that have excessive rates of patient readmissions within 30 days from hospital discharge. We believe this regulation provides a competitive advantage to home health providers who can differentiate themselves based upon quality, particularly by achieving low patient acute care hospitalization readmission rates and by implementing disease management programs designed to be responsive to the needs of patients served by referring hospitals. We are focused intently upon improving our patient outcomes, particularly our patient acute care hospitalization readmission rates. If we should fail to attain our goals regarding acute care hospitalization readmission rates and other quality metrics, we expect our ability to generate referrals would be adversely impacted, which could have a material adverse effect upon our business and combined financial condition, results of operations and cash flows.

Medicare has established consumer-facing websites, Home Health Compare and Hospice Compare that present data regarding our performance on certain quality measures compared to state and national averages. If we should fail to achieve or exceed these averages, it may affect our ability to generate referrals, which could have a material adverse effect upon our business and combined financial condition, results of operations and cash flows.

CMS has undertaken an initiative to increase Medicaid and Medicare survey and enforcement activities, to focus more survey and enforcement efforts on facilities with findings of condition level deficiencies or repeat violations of Medicaid and Medicare standards, and to require state agencies to use enforcement sanctions and remedies more promptly when substandard care or repeat violations are identified.

On July 17, 2015, CMS announced Home Health Star Ratings for home health agencies. All Medicare-certified home health agencies are potentially eligible to receive a Quality of Patient Care Star Rating. The Star rating includes assessments of quality of patient care based on Medicare claims data and patient experience of care. The Star rating may impact patient choice of home health agencies and reimbursement from home health agencies, as a higher Star rating indicates better patient care than a lower Star rating. A low Star rating may decrease the number of patients for Medicare reimbursement. On December 14, 2017, CMS announced that the influenza vaccination measure would be removed from consideration in the Quality of Patient Care Star Rating beginning with the April 2018 Home Health Compare refresh, reducing the number of quality measures used from nine to eight.

If we are unable to obtain insurance, or if insurance becomes more costly for us to obtain, our business may be adversely affected.

It may become more difficult and costly for us to obtain coverage for patient care liabilities and other risks, including property and casualty insurance. For example, the following circumstances may adversely affect our ability to obtain insurance at favorable rates:

- we experience higher-than-expected professional liability, property and casualty, or other types of claims or losses;
- we receive survey deficiencies or citations of higher-than-normal scope or severity;
- we acquire especially troubled operations that present unattractive risks to current or prospective insurers;
- insurers tighten underwriting standards applicable to us or our industry; or
- insurers or reinsurers are unable or unwilling to insure us or the industry at historical premiums and coverage levels.

If any of these potential circumstances were to occur, our insurance carriers may require us to pay substantially higher premiums for the same or reduced coverage for insurance, including workers compensation, property and casualty, automobile, employment practices liability, directors and officers liability, employee healthcare and general and professional liability coverages.

In some states, the law prohibits or limits insurance coverage for the risk of punitive damages arising from professional liability and general liability claims or litigation. Coverage for punitive damages is also excluded under some insurance policies. As a result, we may be liable for punitive damage awards in these states that either are not covered or are in excess of our insurance policy limits. Claims against us, regardless of their merit or eventual outcome, also could inhibit our ability to attract patients or expand our business, and could require our management to devote time to matters unrelated to the day-to-day operation of our business.

With few exceptions, workers' compensation and employee health insurance costs have also increased markedly in recent years. To partially offset these increases, our insurance deductibles in connection with general and professional liability and auto claims also increased. We also have implemented a self-insurance program for workers compensation in all states, except Washington and Texas, and elected non-subscriber status for workers' compensation in Texas. In Washington, the insurance coverage is financed through premiums paid by the employers and employees. If we are unable to obtain insurance, or if insurance becomes more costly for us to obtain, or if the coverage levels we can economically obtain decline, our business may be adversely affected.

Self-insurance programs may expose us to significant and unexpected costs and losses.

Pennant may maintain certain self-insurance programs including general and professional liability insurance and workers' compensation insurance to insure our self-insurance reimbursements ("SIR") and deductibles as part of a continually evolving overall risk management strategy. Should we establish such programs, we will be required to establish the insurance loss reserves based on an estimation process that uses information obtained from both company-specific and industry data. The estimation process will require us to continuously monitor and evaluate the life cycle of the claims to develop information about the size of ultimate claims. The most significant assumptions used in the estimation process include determining the trend in costs, the expected cost of claims incurred but not reported and the expected costs to settle or pay damages with respect to unpaid claims. It is possible, however, that the actual liabilities may exceed our estimates of loss. We may also experience an unexpectedly large number of successful claims or claims that result in costs or liability significantly in excess of our projections. For these and other reasons, our self-insurance reserves could prove to be inadequate, resulting in liabilities in excess of our available insurance and self-insurance. If a successful claim is made against us and it is not covered by our insurance or exceeds the insurance policy limits, our business and operational results may be negatively impacted.

We may also elect to self-insure our employee health benefits. The related reserves and premiums will be computed based on a mix of company specific and general industry data that is not specific to our own company. Even with a combination of limited company-specific loss data and general industry data, our loss reserves are based on actuarial estimates that may not correlate to actual loss experience in the future. Therefore, our reserves may prove to be insufficient and we may be exposed to significant and unexpected losses.

The actions of a national labor union that has pursued a negative publicity campaign criticizing our business in the past or unionization of our workers may adversely affect our revenue and our profitability.

We maintain our right to inform the employees of our operating subsidiaries about our views of the potential impact of unionization upon the workplace generally and upon individual employees. With one exception, to our knowledge the staffs at our affiliated operations that have been approached to unionize have uniformly rejected union organizing efforts. If employees decide to unionize, our cost of doing business could increase, and we could experience contract delays, difficulty in adapting to a changing regulatory and economic environment, cultural conflicts between unionized and non-unionized employees, strikes and work stoppages, and we may conclude that affected operations would be uneconomical to continue operating.

Because we lease all of our affiliated senior living communities, we could experience risks associated with leased property, including risks relating to lease termination, lease extensions and special charges, which could adversely affect our business, financial position or results of operations.

As of June 30, 2019, we leased all of our senior living communities and administrative offices. Most of our leases are triple-net leases, which means that, in addition to rent, we are required to pay for the costs related to the property (including property taxes, insurance, and maintenance and repair costs). We are responsible for paying these costs notwithstanding the fact that some of the benefits associated with paying these costs accrue to the landlords as owners of the associated communities.

Specifically, as of June 30, 2019, our operating subsidiaries leased 28 senior living operations pursuant to certain “triple-net” lease agreements between our operating subsidiaries and subsidiaries of Ensign, which we anticipate will be amended and restated or replaced by the Ensign Leases in connection with the spin-off. The existing leases with subsidiaries of Ensign are for initial terms of 15 years. After the spin-off, the Ensign Leases will be for initial terms ranging between 14 and 16 years. Fifteen of our affiliated senior living communities, excluding those operated under the Ensign Leases, are operated under two separate master lease arrangements. Under these master leases, a breach at a single community could subject one or more of the other communities covered by the same master lease to the same default risk. Failure to comply with provider requirements is a default under several of the leases and master lease agreements. In addition, other potential defaults related to an individual community may cause a default of an entire master lease portfolio and could trigger cross-default provisions in our outstanding debt arrangements and other leases. With an indivisible lease, it is difficult to restructure the composition of the portfolio or economic terms of the lease without the consent of the landlord.

Each lease provides that the landlord may terminate the lease for a number of reasons, including, subject to applicable cure periods, the default in any payment of rent, taxes or other payment obligations or the breach of any other covenant or agreement in the lease. Any default under the Ensign Leases or the other master lease agreements could be declared an event of default under such agreements, which could result in an acceleration of our indebtedness and the potential loss of certain of our communities. Any such occurrence would have a material adverse effect on our business, financial condition, results of operations, cash flows and profitability. There can be no assurance that we will be able to comply with all of our obligations under the leases in the future.

A housing downturn could decrease demand for assisted living services.

Seniors often use the proceeds of home sales to fund their admission to assisted living communities. A downturn in the housing markets could adversely affect seniors’ ability to afford our resident fees and entrance

fees. If national or local housing markets enter a persistent decline, our occupancy rates, revenues, results of operations and cash flow could be negatively impacted.

If our referral sources fail to view us as an attractive provider, or if our referral sources otherwise refer fewer patients, our patient base may decrease.

We rely significantly on appropriate referrals from physicians, hospitals and other healthcare providers in the communities we serve to attract appropriate residents and patients to our affiliated operations. Our referral sources are not obligated to refer business to us and may refer business to other healthcare providers. We believe many of our referral sources refer business to us as a result of our quality patient care and our commitment to partnerships and communication. If we lose, or fail to maintain, existing relationships with our referral resources, fail to develop new relationships, or if we are perceived by our referral sources as not providing high quality patient care, our census could decline and our patient mix could change. In addition, if any of our referral sources have a reduction in patients whom they can refer due to a decrease in their business, our census could decline and our patient mix could change.

Our systems are subject to security breaches and other cyber-security incidents.

Our business is dependent on the proper functioning and availability of our computer systems and networks. While we have taken steps to protect the safety and security of our information systems and the patient health information and other data maintained within those systems, we cannot assure you that our safety and security measures and disaster recovery plan will prevent damage, interruption or breach of our information systems and operations. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may be difficult to detect, we may be unable to anticipate these techniques or implement adequate preventive measures. In addition, hardware, software or applications we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise the security of our information systems. Unauthorized parties may attempt to gain access to our systems or operations, or those of third parties with whom we do business, through fraud or other forms of deceiving our employees or contractors.

On occasion, we have acquired additional information systems through our business acquisitions. We have upgraded and expanded our information system capabilities and have committed significant resources to maintain, protect, enhance existing systems and develop new systems to keep pace with continuing changes in technology, evolving industry and regulatory standards, and changing customer preferences.

We license certain third party software to support our operations and information systems. Our inability, or the inability of third party software providers, to continue to maintain and upgrade our information systems and software could disrupt or reduce the efficiency of our operations. In addition, costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology or with maintenance or adequate support of existing systems also could disrupt or reduce the efficiency of our operations.

A cyber-security attack or other incident that bypasses our information systems security could cause a security breach which may lead to a material disruption to our information systems infrastructure or business and may involve a significant loss of business or patient health information. If a cyber-security attack or other unauthorized attempt to access our systems or operations were to be successful, it could result in the theft, destruction, loss, misappropriation or release of confidential information or intellectual property, and could cause operational or business delays that may materially impact our ability to provide various healthcare services. Any successful cyber-security attack or other unauthorized attempt to access our systems or operations also could result in negative publicity which could damage our reputation or brand with our patients, referral sources, payors or other third parties and could subject us to substantial penalties under HIPAA and other federal and state privacy laws, in addition to private litigation with those affected.

Failure to maintain the security and functionality of our information systems and related software, or a failure to defend a cyber-security attack or other attempt to gain unauthorized access to our systems, operations or patient health information could expose us to a number of adverse consequences, the vast majority of which are not insurable, including but not limited to disruptions in our operations, regulatory and other civil and criminal penalties, fines, investigations and enforcement actions (including, but not limited to, those arising from the SEC, Federal Trade Commission, the OIG or state attorneys general), fines, private litigation with those affected by the data breach, loss of customers, disputes with payors and increased operating expense, which either individually or in the aggregate could have a material adverse effect on our business, financial position, results of operations and liquidity.

Failure to generate sufficient cash flow to cover required payments or meet operating covenants under our long-term debt, including debt entered into in connection with the spin-off and long-term operating leases, could result in defaults under such agreements and cross-defaults under other debt or operating lease arrangements, which could harm our operating subsidiaries and cause us to lose operations or experience foreclosures.

We have significant future operating lease obligations. We intend to continue financing our operations through long-term operating leases, mortgage financing and other types of financing, including borrowings under our future credit facilities we may obtain. We may not generate sufficient cash flow from operations to cover required interest, principal and lease payments.

Our ability to make payments of principal and interest on our indebtedness and to make lease payments on our operating leases depends upon our future performance, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our business, many of which are beyond our control. If we are unable to generate sufficient cash flow from operations in the future to service our debt or to make lease payments on our operating leases, we may be required, among other things, to seek additional financing in the debt or equity markets, refinance or restructure all or a portion of our indebtedness, sell selected assets, reduce or delay planned capital expenditures or delay or abandon desirable acquisitions. Such measures might not be sufficient to enable us to service our debt or to make lease payments on our operating leases. The failure to make required payments on our debt or operating leases or the delay or abandonment of our planned growth strategy could result in an adverse effect on our future ability to generate revenue and sustain profitability. In addition, any such financing, refinancing or sale of assets might not be available on terms that are economically favorable to us, or at all.

Additionally, in connection with the spin-off, we expect to incur indebtedness, and we will be responsible for servicing our own indebtedness and obtaining and maintaining sufficient working capital and other funds to satisfy our cash requirements. Our financing arrangements may contain restrictions, covenants and events of default that, among other things, could limit our ability to respond to market conditions, provide for capital investment needs or take advantage of business opportunities by restricting our ability to incur or guarantee additional indebtedness or requiring us to offer to repurchase such indebtedness in the event of a change of control or a change of control triggering event; pay dividends or make distributions; make investments or acquisitions; sell, transfer or otherwise dispose of certain assets; create liens; consolidate or merge; enter into transactions with affiliates; and prepay and repurchase or redeem certain indebtedness. In addition, our financing costs may be higher than they were prior to the spin-off from Ensign.

We may need additional capital to finance our growth, and we may not be able to obtain it on terms acceptable to us, or at all, which may limit our ability to grow.

Our ability to maintain and enhance our operating subsidiaries and equipment in a suitable condition to meet regulatory standards, operate efficiently and remain competitive in our markets requires us to commit substantial resources to continued investment in our affiliated operations. We are sometimes more aggressive than our competitors in capital spending to address issues that arise in connection with aging and obsolete facilities and

equipment. In addition, continued expansion of our business through the acquisition of existing operations, expansion of our existing operations and construction of new communities may require additional capital, particularly if we were to accelerate our acquisition and expansion plans. Financing may not be available to us or may be available to us only on terms that are not favorable. In addition, some of our long-term leases restrict, among other things, our ability to incur additional debt. If we are unable to raise additional funds or obtain additional funds on terms acceptable to us, we may have to delay or abandon some or all of our growth strategies. Further, if additional funds are raised through the issuance of additional equity securities, the percentage ownership of our stockholders would be diluted. Any newly issued equity securities may have rights, preferences or privileges senior to those of our common stock.

The condition of the financial markets, including volatility and deterioration in the capital and credit markets, could limit the availability of debt and equity financing sources to fund the capital and liquidity requirements of our business, as well as negatively impact or impair the value of our future portfolio of cash, cash equivalents and investments.

Financial markets experienced significant disruptions from 2008 through 2010. These disruptions impacted liquidity in the debt markets, making financing terms for borrowers less attractive and, in certain cases, significantly reducing the availability of certain types of debt financing. As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets has led many lenders and institutional investors to reduce, and in some cases, cease to provide credit to borrowers.

Further, we anticipate that our future cash, cash equivalents and investments may be held in a variety of interest-bearing instruments. As a result of the uncertain domestic and global political, credit and financial market conditions, investments in these types of instruments pose risks arising from liquidity and credit concerns.

Though we anticipate that the cash amounts generated internally, together with amounts available under our future debt instruments, will be sufficient to implement our business plan for the foreseeable future, we may need additional capital if a substantial acquisition or other growth opportunity becomes available or if unexpected events occur or opportunities arise. We cannot assure you that additional capital will be available or available on terms favorable to us. If capital is not available, we may not be able to fund internal or external business expansion or respond to competitive pressures or other market conditions.

Delays in reimbursement may cause liquidity problems.

If we experience problems with our billing information systems or if issues arise with Medicare, Medicaid or other payors, we may encounter delays in our payment cycle. From time to time, we have experienced such delays as a result of government payors instituting planned reimbursement delays for budget balancing purposes or as a result of prepayment reviews.

In August 2016, CMS initiated its implementation of a three year Medicare pre-claim review demonstration for home health services provided to beneficiaries in the state of Illinois. As of December 10, 2018 this demonstration was set to expand to other states including Ohio, North Carolina, Florida and Texas; however, CMS suspended the program indefinitely, but can restart the demonstration in the announced states after providing 30 days' notice. If the program were to restart, this process could result in increased administrative costs or delays in reimbursement for home health services in states subject to the demonstration. Our operating subsidiaries currently provide home health services in the state of Texas and would be impacted by the expansion of the demonstration in that state.

With the phaseout in 2020 and elimination in 2021 of RAPs, we may experience higher receivables as collections are delayed upon implementation.

Compliance with the regulations of the Department of Housing and Urban Development may require us to make unanticipated expenditures which could increase our costs.

Seventeen of our affiliated senior living communities are currently subject to regulatory agreements with HUD that give the Commissioner of HUD broad authority to require us to be replaced as the operator of those communities in the event that the Commissioner determines there are operational deficiencies at such communities under HUD regulations. Compliance with HUD's requirements can often be difficult because these requirements are not always consistent with the requirements of other federal and state agencies. Appealing a failed inspection can be costly and time-consuming and, if we do not successfully remediate the failed inspection, we could be precluded from obtaining HUD financing in the future or we may encounter limitations or prohibitions on our operation of HUD-insured communities.

Failure to comply with existing environmental laws could result in increased expenditures, litigation and potential loss to our business and in our asset value.

Our operating subsidiaries are subject to regulations under various federal, state and local environmental laws, primarily those relating to the handling, storage, transportation, treatment and disposal of medical waste; the identification and warning of the presence of asbestos-containing materials in buildings, as well as the encapsulation or removal of such materials; and the presence of other substances in the indoor environment.

Our affiliated operations generate infectious or other hazardous medical waste due to the illness or physical condition of the patients. Each of our affiliated operations has an agreement with a waste management company for the proper disposal of all infectious medical waste, but the use of a waste management company does not immunize us from alleged violations of such laws for operating subsidiaries for which we are responsible even if carried out by a third party, nor does it immunize us from third-party claims for the cost to cleanup disposal sites at which such wastes have been disposed.

Some of the affiliated senior living communities we lease or may acquire may have asbestos-containing materials. Federal regulations require building owners and those exercising control over a building's management to identify and warn their employees and other employers operating in the building of potential hazards posed by workplace exposure to installed asbestos-containing materials and potential asbestos-containing materials in their buildings. Significant fines can be assessed for violation of these regulations. Building owners and those exercising control over a building's management may be subject to an increased risk of personal injury lawsuits. Federal, state and local laws and regulations also govern the removal, encapsulation, disturbance, handling and disposal of asbestos-containing materials and potential asbestos-containing materials when such materials are in poor condition or in the event of construction, remodeling, renovation or demolition of a building. Such laws may impose liability for improper handling or a release into the environment of asbestos- containing materials and potential asbestos-containing materials and may provide for fines to, and for third parties to seek recovery from, owners or operators of real properties for personal injury or improper work exposure associated with asbestos-containing materials and potential asbestos-containing materials. The presence of asbestos-containing materials, or the failure to properly dispose of or remediate such materials, also may adversely affect our ability to attract and retain patients and staff, to borrow when using such property as collateral or to make improvements to such property.

The presence of mold, lead-based paint, underground storage tanks, contaminants in drinking water, radon and/or other substances at any of the affiliated senior living communities we lease, own or may acquire may lead to the incurrence of costs for remediation, mitigation or the implementation of an operations and maintenance plan and may result in third party litigation for personal injury or property damage. Furthermore, in some circumstances, areas affected by mold may be unusable for periods of time for repairs, and even after successful remediation, the known prior presence of extensive mold could adversely affect the ability of a community to retain or attract patients and staff and could adversely affect a community's market value and ultimately could lead to the temporary or permanent closure of the community.

If we fail to comply with applicable environmental laws, we would face increased expenditures in terms of fines and remediation of the underlying problems, potential litigation relating to exposure to such materials, and a potential decrease in value to our business and in the value of our underlying assets.

In addition, because environmental laws vary from state to state, expansion of our operating subsidiaries to states where we do not currently operate may subject us to additional restrictions in the conduct and management of our affiliated operations.

We are a holding company with no operations and rely upon our independent operating subsidiaries to provide us with the funds necessary to meet our financial obligations. Liabilities of any one or more of our subsidiaries could be imposed upon us or our other subsidiaries.

We are a holding company with no direct operating assets, employees or revenues. Each of our affiliated operations is operated through a separate, independent subsidiary, which has its own management, employees and assets. Our principal assets are the equity interests we directly or indirectly hold in our operating subsidiaries. As a result, we are dependent upon distributions from our subsidiaries to generate the funds necessary to meet our financial obligations and pay dividends. Our subsidiaries are legally distinct from us and have no obligation to make funds available to us. The ability of our subsidiaries to make distributions to us will depend substantially on their respective operating results and will be subject to restrictions under, among other things, the laws of their jurisdiction of organization, which may limit the amount of funds available for distribution to investors or stockholders, agreements of those subsidiaries, the terms of our financing arrangements and the terms of any future financing arrangements of our subsidiaries.

Changes in federal and state income tax laws and regulations could adversely affect our provision for income taxes and estimated income tax liabilities.

We are subject to both state and federal income taxes. Our effective tax rate could be adversely affected by changes in the mix of earnings in states with different statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws and regulations, changes in interpretations of tax laws, including pending tax law changes. In addition, in certain cases more than one state in which we operate has indicated an intent to attempt to tax the same assets and activities, which could result in double taxation if successful. Unanticipated changes in our tax rates or exposure to additional income tax liabilities could affect our profitability.

The Tax Act was approved by Congress and signed into law in December 2017. This legislation made significant changes to the Code. Such changes include a reduction in the corporate tax rate and limitations on certain corporate deductions and credits, among other changes. Certain of these changes could have a negative impact on our business. In addition, further legislative action could be taken to address questions or issues caused by the Tax Act or the interpretations or guidance thereunder. State governments may also enact tax laws in response to the Tax Act that could result in further changes to our tax obligations and adversely impact our business, results of operations and financial condition.

The U.S. Treasury Department, the Internal Revenue Service, and other standard-setting bodies could interpret or issue additional guidance on how provisions of the Tax Act or other provisions of the Code will be applied or otherwise administered that is different from our interpretations. As we continue our ongoing analysis of the Tax Act and recent regulations promulgated thereunder and the related interpretations, collect and prepare necessary data, and interpret any additional guidance, we may be required to make adjustments to amounts and positions that we have, or intend to, record that may adversely impact our business, results of operations and financial condition.

We may be subject to the continuous examination of our income tax returns by the Internal Revenue Service and other local, state and foreign tax authorities. We regularly assess the likelihood of outcomes resulting from

these examinations to determine the adequacy of our estimated income tax liabilities. The outcomes from these continuous examinations could adversely affect our provision for income taxes and estimated income tax liabilities.

Risks Related to the Spin-Off

The distribution may not be completed on the terms or timeline currently contemplated, if at all.

While we are actively engaged in planning for the distribution, unanticipated developments could delay or negatively affect the distribution, including those related to the filing and effectiveness of appropriate filings with the SEC, the listing of our common stock on a trading market and receiving any required regulatory approvals. In addition, until the distribution has occurred, the Ensign board of directors has the right to not proceed with the distribution, even if all of the conditions are satisfied. Therefore, the distribution may not be completed on the terms or timeline currently contemplated, if at all.

We may be unable to achieve some or all of the benefits that we expect to achieve from our spin-off from Ensign.

We believe that as a standalone, independent public company, our results will benefit from, among other things, allowing our management to design and implement corporate policies and strategies that are based primarily on the characteristics of our business, allowing us to focus our financial resources wholly on our own operations and implement and maintain a capital structure designed to meet our own specific needs. However, by separating from Ensign, we may be more susceptible to market fluctuations and other adverse events than we would have been were we still a part of Ensign. If we fail to achieve some or all of the benefits that we expect to achieve as an independent company, or do not achieve them in the time we expect, our results of operations and financial condition could be materially adversely affected.

We have no operating history as a separate public company; our historical and pro forma financial information is not necessarily representative of the results we would have achieved as a separate publicly-traded company and may not be a reliable indicator of our future results; we may be unable to make, on a timely or cost-effective basis, the changes necessary to operate as an independent company, and as a result, we may experience increased costs.

Prior to the spin-off, Ensign performed various corporate functions for us, including executive management, accounting, human resources, information technology, legal, payroll, insurance, tax, treasury, and other general and administrative items. Our historical and pro forma financial results reflect allocations of corporate expenses from Ensign for these and similar functions that may be less than the comparable expenses we would have incurred had we operated as a separate publicly-traded company. Prior to the spin-off, we shared economies of scope and scale in costs, employees, vendor relationships and relationships with our partners. While we expect to enter into short-term transition agreements and certain other longer-term agreements that will govern certain commercial and other relationships between us and Ensign, those arrangements may not capture the benefits our business has enjoyed as a result of being integrated with the other affiliates of Ensign.

Generally, our working capital requirements, including acquisitions and capital expenditures, have historically been satisfied as part of the company-wide cash management policies of Ensign. Following the completion of the spin-off, Ensign will not be providing us with funds to finance our working capital or other cash requirements, and we may need to obtain financing from banks, through public offerings or private placements of debt or equity securities, strategic relationships or other arrangements. We may be unable to replace in a timely manner or on comparable terms and costs the services or other benefits that Ensign previously provided to us.

The loss of the benefits from being a part of Ensign could have an adverse effect on our business, results of operations and financial condition following the completion of the spin-off. Other significant changes may occur

in our cost structure, management, financing and business operations as a result of our operating as a company separate from Ensign.

We may have received better terms from unaffiliated third parties than the terms we received in our agreements with Ensign entered into in connection with the spin-off.

The agreements related to the spin-off from Ensign were negotiated in the context of the spin-off from Ensign while we were still part of Ensign. Although these agreements are intended to be on an arm's-length basis, they may not reflect terms that would have resulted from arm's-length negotiations among unaffiliated third parties. The terms of the agreements being negotiated in the context of the separation are related to, among other things, allocations of assets and liabilities, rights and indemnification and other obligations between us and Ensign. To the extent that certain terms of those agreements provide for rights and obligations that could have been procured from third parties, we may have received better terms from third parties because third parties may have competed with each other to win our business. See "Certain Relationships and Related Party Transactions—Agreements with Ensign Related to the Spin-Off."

Our accounting and other management systems and resources may not meet the financial reporting and other requirements to which we will be subject following the spin-off, and failure to achieve and maintain effective internal controls could have a material adverse effect on our business and the price of our common stock.

As a result of the spin-off, we will be directly subject to reporting and other obligations under U.S. securities laws and will be required to comply with internal controls and reporting requirements thereunder. These reporting and other obligations may place significant demands on our management, administrative and operational resources, including accounting systems and resources and may require us to upgrade our systems, implement additional financial and management controls, reporting systems and procedures and hire additional accounting and finance staff. If we are unable to obtain or maintain adequate financial and management controls, reporting systems, information technology systems and procedures in a timely and effective fashion, our ability to comply with the financial reporting requirements and other rules that apply to reporting companies under U.S. securities laws may be impaired. We expect to incur additional annual expenses for the purpose of addressing these requirements that may be significant.

The spin-off and related transactions may expose us to potential liabilities arising out of state and federal fraudulent conveyance laws and legal distribution requirements.

While we believe that we and Ensign will be adequately capitalized immediately after the spin-off, the spin-off could be challenged under various state and federal fraudulent conveyance laws. An unpaid creditor could claim that Ensign did not receive fair consideration or reasonably equivalent value in the spin-off, and that the spin-off left Ensign insolvent or with unreasonably small capital or that Ensign intended or believed it would incur debts beyond its ability to pay such debts as they mature. If a court were to agree with such a plaintiff, then such court could void the spin-off as a fraudulent transfer and could impose a number of different remedies, including without limitation, returning our assets or your shares in our company to Ensign or providing Ensign with a claim for money damages against us in an amount equal to the difference between the consideration received by Ensign and the fair market value of our company at the time of the spin-off.

Our success will depend in part on our ongoing relationship with Ensign after the spin-off.

In connection with the spin-off, we will enter into a number of agreements with Ensign that will govern the ongoing relationships between Ensign and us after the spin-off. We also intend to establish the Ensign Pennant Care Continuum, a voluntary post-acute preferred provider network that will provide for robust data sharing and the implementation of tailored transitional care pathways between Ensign and Pennant affiliates. Our success will depend, in part, on the maintenance of these ongoing relationships with Ensign, and Ensign's performance of its obligations under these agreements. If we are unable to maintain a good relationship with Ensign, or if Ensign

does not perform its obligations under these agreements or does not renew such agreements following their expiration, our profitability and revenues could decrease and our growth potential may be adversely affected.

Certain of our directors will continue to serve as directors of the Ensign board of directors, and ownership of shares of Ensign common stock or equity awards of Ensign by our directors and executive officers may create conflicts of interest or the appearance of conflicts of interest.

Certain of our directors who serve on our board of directors will continue to serve on the Ensign board of directors. This could create, or appear to create, potential conflicts of interest when our or Ensign's management and directors face decisions that could have different implications for us and Ensign, including the resolution of any dispute regarding the terms of the agreements governing the spin-off and the relationship between us and Ensign after the spin-off, any commercial agreements entered into in the future between us and Ensign and the allocation of such directors' time between us and Ensign.

Because of their current or former positions with Ensign, substantially all of our executive officers and some of our non-employee directors will own shares of Ensign common stock. The continued ownership of Ensign common stock by Pennant's directors and executive officers following the spin-off creates or may create the appearance of conflicts of interest when these directors and executive officers are faced with decisions that could have different implications for us and Ensign.

If the distribution, together with certain related transactions, were to fail to qualify as a reorganization for U.S. federal income tax purposes under Sections 368(a)(1)(D) and 355 of the Code, then our stockholders, we and Ensign might be required to pay substantial U.S. federal income taxes (including as a result of indemnification under the tax matters agreement).

The distribution is conditioned upon Ensign's receipt of an opinion of Kirkland & Ellis LLP to the effect that, subject to the assumptions and limitations described therein, the distribution, together with certain related transactions, will qualify as a reorganization for U.S. federal income tax purposes under Sections 368(a)(1)(D) and 355 of the Code in which no gain or loss is recognized by Ensign or its stockholders, except, in the case of Ensign stockholders, for cash received in lieu of fractional shares. The opinion of Kirkland & Ellis LLP will be based on, among other things, certain assumptions as well as on the continuing accuracy of certain factual representations and statements that we and Ensign make to Kirkland & Ellis LLP. In rendering its opinion, Kirkland & Ellis LLP will also rely on certain covenants that we and Ensign enter into. If any of the representations or statements that we or Ensign make are or become inaccurate or incomplete, or if we or Ensign breach any of our covenants, the distribution and such related transactions might not qualify for such tax treatment. The opinion of Kirkland & Ellis LLP is not binding on the Internal Revenue Service or a court, and there can be no assurance that the Internal Revenue Service will not challenge the validity of the distribution and such related transactions as a reorganization for U.S. federal income tax purposes under Sections 368(a)(1)(D) and 355 of the Code eligible for tax-free treatment, or that any such challenge ultimately will not prevail.

If the spin-off or any other related transaction does not qualify as a tax-free transaction for any reason, including as a result of a breach of a representation or covenant, Ensign or other members of its affiliated group would recognize a substantial gain attributable to us for U.S. federal income tax purposes. In such case, under U.S. Treasury regulations, each member of the Ensign consolidated group at the time of the spin-off would be jointly and severally liable for the entire resulting amount of any U.S. federal income tax liability. Additionally, if the distribution of our common stock does not qualify as tax-free under Section 355 of the Code, Ensign stockholders will be treated as having received a taxable distribution equal to the value of our stock distributed, treated as a taxable dividend to the extent of Ensign's current and accumulated earnings and profits, and then would have a tax-free basis recovery up to the amount of their tax basis in their shares, and then would have taxable gain from the sale or exchange of the shares to the extent of any excess.

We may not be able to engage in desirable strategic transactions and equity issuances following the spin-off because of certain restrictions related to preserving the tax-free treatment of the spin-off. In addition, we could be liable for adverse tax consequences resulting from engaging in significant strategic or capital-raising transactions.

Our ability to engage in significant strategic transactions and equity issuances may be limited or restricted after the spin-off in order to preserve, for U.S. federal income tax purposes, the tax-free nature of the spin-off. Even if the spin-off otherwise qualifies for tax-free treatment under Sections 368(a)(1)(D) and 355 of the Code, it may result in corporate level taxable gain to Ensign under Section 355(e) of the Code if 50.0% or more, by vote or value, of shares of our stock or Ensign's stock are acquired or issued as part of a plan or series of related transactions that includes the spin-off. The process for determining whether an acquisition or issuance triggering these provisions has occurred is complex, inherently factual and subject to interpretation of the facts and circumstances of a particular case. Any acquisitions or issuances of our stock or Ensign stock within a two-year period after the spin-off generally are presumed to be part of such a plan, although we or Ensign, as applicable, may be able to rebut that presumption.

Under the tax matters agreement that we will enter into with Ensign, we also will generally be responsible for any taxes imposed on Ensign that arise from the failure of the spin-off to qualify as tax-free for U.S. federal income tax purposes, within the meaning of Sections 368(a)(1)(D) and 355 of the Code, to the extent such failure to qualify is attributable to actions, events or transactions relating to our stock, assets or business, or a breach of the relevant representations or any covenants made by us in the tax matters agreement or the representation letter provided to counsel in connection with the tax opinion of Kirkland & Ellis LLP.

Risks Related to Ownership of Our Common Stock

There is no existing market for our common stock, and a trading market that will provide you with adequate liquidity may not develop for our common stock, which could limit your ability to sell your shares of our common stock at an attractive price, or at all.

There is currently no public market for our common stock and an active trading market for our common stock may not develop as a result of the distribution or be sustained in the future. We cannot predict the extent to which investor interest in our company will lead to the development of an active trading market in our common stock or how liquid that market might become. An active public market for our common stock may not develop or be sustained after the consummation of the spin-off. If an active public market does not develop or is not sustained, it may be difficult for you to sell your shares of common stock at a price that is attractive to you, or at all. Further, an inactive market may also impair our ability to raise capital by selling shares of our common stock and may impair our ability to enter into strategic transactions by using our shares of common stock as consideration.

We are an "emerging growth company" under the JOBS Act, and any decision on our part to comply with certain reduced reporting and disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors.

We are an emerging growth company, and, for as long as we continue to be an emerging growth company, we currently intend to take advantage of exemptions from various reporting requirements applicable to other public companies but not to "emerging growth companies," including, but not limited to, not being required to have our independent registered public accounting firm audit our internal control over financial reporting under Section 404 of the Sarbanes-Oxley, reduced disclosure obligations regarding executive compensation in our registration statements, periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We will cease to be an emerging growth company upon the earliest of: (i) the end of the fiscal year following the fifth anniversary of the distribution; (ii) the last day of the first fiscal year during which our total annual gross revenue is $1.07 billion or more; (iii) the date on which we have, during the

previous three-year period, issued more than $1 billion in non-convertible debt securities; or (iv) the end of any fiscal year in which the market value of our common stock held by non-affiliates exceeded $700 million as of the end of the second quarter of that fiscal year. We cannot predict if investors will find our common stock less attractive if we choose to rely on exemptions from certain disclosure requirements. If some investors find our common stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common stock and the price of our common stock may be more volatile.

In addition, as our business grows, we may cease to satisfy the conditions of an "emerging growth company." Under the JOBS Act, "emerging growth companies" can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not "emerging growth companies."

We are currently evaluating and monitoring developments with respect to these new rules, and we may not be able to take advantage of all of the benefits from the JOBS Act.

Our stock price may be volatile or may decline regardless of our operating performance, and you may not be able to sell your shares at an attractive price or at all.

After consummation of the spin-off, the market price for our common stock is likely to be volatile, in part because our shares have not been traded publicly. In addition, the market price of our common stock may fluctuate significantly in response to a number of factors, most of which we cannot control, including:

- quarterly variations in our operating results compared to market expectations;
- public reactions to our press releases, public announcements and/or filings with the SEC;
- speculation in the press or investment community;
- size of the public float;
- stock price performance and valuations of our competitors;
- fluctuations in stock market prices and volumes;
- default on our indebtedness;
- actions by competitors;
- changes in senior management or key personnel;
- actions by our stockholders;
- changes in financial estimates by securities analysts or our failure to meet any such estimates;
- publication of research reports by securities analysts about us, our competitors or our industry;
- strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
- negative earnings or other announcements by us;
- downgrades in our credit ratings or the credit ratings of our competitors;
- issuances (or sales by our stockholders) of common stock;
- changes in accounting principles;
- litigation and governmental investigations;
- terrorist acts, acts of war or periods of widespread civil unrest;

- natural disasters and other calamities;
- general market conditions;
- global economic, legal and regulatory factors unrelated to our performance; and
- the realization of any of the risks described in this section, or other risks that may materialize in the future.

For many reasons, including the risks identified in this information statement, the market price of our common stock following the spin-off may be more volatile than the market price of Ensign common stock before the consummation of the spin-off. These factors may result in short-term or long-term negative pressure on the value of our common stock. Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations may adversely affect the trading price of our common stock.

Your percentage ownership in Pennant may be diluted in the future because of equity awards that we expect will be issued to our directors and officers and employees of our subsidiaries and the accelerated vesting of certain equity awards with respect to our common stock.

Your percentage ownership in Pennant may be diluted in the future because of equity awards that we expect will be issued to our directors and officers and employees of our subsidiaries and the accelerated vesting of certain equity awards with respect to our common stock. Based on information available as of the date of this information statement, we estimate that approximately 28.0 million shares of Pennant common stock will be outstanding immediately after the spin-off, based on the number of shares of Ensign common stock that we expect will be outstanding as of the record date, the distribution ratio, the anticipated exchange of Cornerstone equity awards for Pennant equity awards in anticipation of the distribution.

Anti-takeover provisions in our organizational documents and Delaware law might discourage or delay acquisition attempts for us that you might consider favorable.

Our amended and restated certificate of incorporation and amended and restated bylaws that will become effective immediately prior to the consummation of this spin-off will contain provisions that may make the merger or acquisition of our company more difficult without the approval of our board of directors. Among other things, these provisions:

- would allow us to authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend, or other rights or preferences superior to the rights of the holders of common stock;
- would provide for the election of directors by a plurality of the votes cast at the annual stockholder meeting;
- establish advance notice requirements for nominations for elections to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings;
- creating a classified board of directors whose members serve staggered three-year terms;
- limiting the liability of, and providing indemnification to, our directors and officers;
- limiting the ability of our stockholders to call and bring business before special meetings; and
- controlling the procedures for the conduct and scheduling of board of directors and stockholder meetings.

Further, as a Delaware corporation, we are also subject to provisions of Delaware law, which may impair a takeover attempt that our stockholders may find beneficial. These anti-takeover provisions and other provisions

under Delaware law could discourage, delay or prevent a transaction involving a change in control of our company, including actions that our stockholders may deem advantageous, or negatively affect the trading price of our common stock. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and to cause us to take other corporate actions you desire.

We do not expect to pay any cash dividends for the foreseeable future.

The continued operation and expansion of our business will require substantial funding. Accordingly, we do not anticipate that we will pay any cash dividends on shares of our common stock for the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our board of directors deems relevant. Additionally, our ability to pay dividends on our common stock will be limited by restrictions on the ability of our subsidiaries and us to pay dividends or make distributions, including restrictions under the terms of any agreements governing any of our future indebtedness.

We will incur increased costs as a result of becoming a public company, particularly after we are no longer an "emerging growth company."

As a public company, we will incur significant legal, accounting, insurance and other expenses that we have not incurred as a private company, including costs associated with public company reporting requirements. As a result of the spin-off, we will become obligated to file with the SEC annual and quarterly reports and other reports that are specified in Section 13 and other sections of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We will also be required to ensure that we have the ability to prepare financial statements that are fully compliant with all SEC reporting requirements on a timely basis. In addition, we will become subject to other reporting and corporate governance requirements, including certain requirements of NASDAQ, and certain provisions of Sarbanes-Oxley and the regulations promulgated thereunder, which will impose significant compliance obligations upon us.

The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. These laws and regulations could also make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as our executive officers. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our common stock, fines, sanctions and other regulatory action and potentially civil litigation. In addition, if we fail to implement the requirements with respect to our internal accounting and audit functions, our ability to report our operating results on a timely and accurate basis could be impaired. If we do not implement such requirements in a timely manner or with adequate compliance, we might be subject to sanctions or investigation by regulatory authorities, such as the SEC and NASDAQ. Any such action could harm our reputation and the confidence of investors and customers in us and could materially adversely affect our business and cause our share price to fall.

After we are no longer an "emerging growth company," we expect to incur additional management time and cost to comply with the more stringent reporting requirements applicable to companies that are deemed accelerated filers or large accelerated filers, including complying with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"). See "*—We are an "emerging growth company" under the JOBS Act, and any decision on our part to comply with certain reduced reporting and disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors*."

Our amended and restated certificate of incorporation will designate the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with our company or our company's directors, officers or other employees.

Our amended and restated certificate of incorporation will provide that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall, to the fullest extent permitted by law, be the sole and exclusive forum for any (1) derivative action or proceeding brought on behalf of our company, (2) action asserting a claim of breach of a fiduciary duty owed by any director, officer, employee or agent of our company to our company or our stockholders, or any claim for aiding and abetting any such alleged breach, (3) action asserting a claim against our company or any director or officer of our company arising pursuant to any provision of the Delaware General Corporation Law (the "DGCL") or our amended and restated certificate of incorporation or our amended and restated bylaws, or (4) action asserting a claim against us or any director or officer of our company governed by the internal affairs doctrine except for, as to each of (1) through (4) above, any claim (a) as to which the Court of Chancery determines that there is an indispensable party not subject to the jurisdiction of the Court of Chancery (and the indispensable party does not consent to the personal jurisdiction of the Court of Chancery within ten days following such determination), (b) which is vested in the exclusive jurisdiction of a court or forum other than the Court of Chancery, or (c) arising under the federal securities laws, including the Securities Act of 1933, as amended (the "Securities Act"), as to which the Court of Chancery and the federal district court for the District of Delaware shall concurrently be the sole and exclusive forums. Notwithstanding the foregoing, the provisions of this paragraph will not apply to suits brought to enforce any liability or duty created by the Exchange Act or any other claim for which the federal district courts of the United States of America shall be the sole and exclusive forum. Any person or entity purchasing or otherwise acquiring any interest in any shares of our capital stock shall be deemed to have notice of and to have consented to the forum provisions in our amended and restated certificate of incorporation. If any action the subject matter of which is within the scope the forum provisions is filed in a court other than a court located within the State of Delaware (a "foreign action") in the name of any stockholder, such stockholder shall be deemed to have consented to: (x) the personal jurisdiction of the state and federal courts located within the State of Delaware in connection with any action brought in any such court to enforce the forum provisions (an "enforcement action"), and (y) having service of process made upon such stockholder in any such enforcement action by service upon such stockholder's counsel in the foreign action as agent for such stockholder.

This choice-of-forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with our company or its directors, officers or other employees, which may discourage such lawsuits. Alternatively, if a court were to find this provision of our amended and restated certificate of incorporation inapplicable or unenforceable with respect to one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could materially and adversely affect our business, financial condition and results of operations and result in a diversion of the time and resources of our management and board of directors.

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

This information statement contains forward-looking statements including in the sections titled “Summary,” “Risk Factors,” “The Spin-Off,” “Trading Market,” “Dividend Policy,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Our Business,” that are based on our management’s beliefs and assumptions and on information currently available to our management. Forward-looking statements include, but are not limited to, statements related to our expectations regarding the performance of our business, our financial results, our liquidity and capital resources, the benefits resulting from the spin-off, the effects of competition and the effects of future legislation or regulations and other non-historical statements. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words “outlook,” “believes,” “expects,” “outlook,” “potential,” “continues,” “may,” “might,” “will,” “should,” “could,” “seeks,” “approximately,” “goals,” “future,” “projects,” “predicts,” “guidance,” “target,” “intends,” “plans,” “estimates,” “anticipates” or the negative version of these words or other comparable words.

The risk factors discussed in “Risk Factors” could cause our results to differ materially from those expressed in forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to:

- federal and state changes to, or delays receiving, reimbursement and other aspects of Medicaid and Medicare;
- changes in the regulation of the healthcare services industry;
- increased competition for, or a shortage of, skilled personnel;
- government reviews, audits and investigations of our business;
- changes in federal and state employment related laws;
- compliance with state and federal employment, immigration, licensing and other laws;
- competition from other healthcare providers;
- actions of national labor unions;
- the leases of our affiliated senior living communities;
- inability to complete future community or business acquisitions and failure to successfully integrate acquired communities and businesses into our operations;
- general economic conditions;
- security breaches and other cyber security incidents;
- the performance of the financial and credit markets;
- uncertainties that may delay or negatively impact the spin-off or cause the spin-off to not occur at all;
- uncertainties related to our ability to realize the anticipated benefits of the spin-off;
- uncertainties related to our ability to successfully complete the spin-off on a tax-free basis within the expected time frame or at all, unanticipated developments that delay or otherwise negatively affect the spin-off; and
- uncertainties related to our ability to obtain financing or the terms of such financing.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not place undue reliance on any forward-looking statements in this information statement. We do not have any obligation to update forward-looking statements after we distribute this information statement except as required by law.

THE SPIN-OFF

Background

On May 6, 2019, Ensign announced its intention to implement the spin-off of Pennant from Ensign, following which The Pennant Group, Inc. will be an independent, publicly-traded company, and Ensign will have no continuing stock ownership interest in Pennant. As part of the spin-off, Ensign will effect an internal reorganization to properly align the appropriate businesses within each of Pennant and Ensign whereby, among other things: (i) the assets and liabilities associated with Ensign's home health and hospice agencies and substantially all of its senior living businesses will be transferred to Pennant; and (ii) all other assets and liabilities of Ensign will be retained by Ensign. See "—Manner of Effecting the Spin-Off—Internal Reorganization."

To complete the spin-off, Ensign will, following the internal reorganization, distribute to Ensign stockholders substantially all of the outstanding shares of Pennant common stock. The distribution will occur on the distribution date, which is expected to be , 2019. Each holder of Ensign common stock will receive one share of our common stock for every two shares of Ensign common stock held at , Eastern time, on , 2019, the record date. After completion of the spin-off:

- The Pennant Group, Inc. will be an independent, publicly-traded company (NASDAQ:PNTG), and through its subsidiaries will own Ensign's home health and hospice agencies and substantially all of Ensign's senior living businesses; and
- The Ensign Group, Inc. will continue to be an independent, publicly-traded company (NASDAQ:ENSG) and will include transitional and skilled services, rehabilitative care services, healthcare campuses, post-acute-related new business ventures and real estate investments.

Each holder of Ensign common stock will continue to hold his, her or its shares in Ensign. No vote of Ensign stockholders is required or is being sought in connection with the spin-off, including the internal reorganization, and Ensign stockholders will not have any appraisal rights in connection with the spin-off.

The distribution is subject to the satisfaction or waiver of certain conditions. In addition, until the distribution has occurred, the Ensign board of directors has the right to not proceed with the distribution, even if all of the conditions are satisfied. See "—Conditions to the Distribution."

Reasons for the Spin-Off

The Ensign board of directors believes that the spin-off is in the best interests of Ensign and Ensign stockholders because the spin-off is expected to provide various benefits, including the following:

Amplification of Ensign's Operating and Accountability Model. Our innovative operating model is built upon the balance between providing locally-driven healthcare services with the backing of a strong balance sheet that helps our local leaders maintain focus on becoming the provider of choice in the healthcare communities they serve. An essential ingredient of our model is our mentality of shared ownership and peer accountability. Our leaders and resources feel a collective sense of ownership for the clinical, financial and cultural success of our affiliated operations and hold each other accountable for successes and failures in an environment that fosters transparency and improvement. A spin-off of our businesses expands that model and provides our local leaders even more transparency, accountability and support from cutting-edge data systems and an innovative Service Center.

Creation of Additional Leadership Opportunities within Pennant and Ensign. We believe the spin-off will create more opportunities for leadership and growth within our talented pool of existing leaders. We also believe our position as a separate company following the spin-off will be a powerful recruiting tool that will attract strong leaders from both within and outside the post-acute care continuum looking for opportunities to grow and develop meaningful careers.

Enhanced Ability to Continue Our Growth Strategy. We plan to continue to take advantage of the fragmented home health, hospice and senior living industries by acquiring strategic and underperforming operations within both our existing and new geographic markets. With experienced leaders in place at the local level in each of these industries and demonstrated success in significantly improving operating conditions at acquired businesses, we will be well equipped to successfully expand our footprint. We believe a spin-off will generate even more opportunities for off-market strategic acquisitions as we increase understanding of our innovative operating model, patient-centered approach to care, and emphasis on healthy culture in the home health, hospice and senior living markets.

Increased Ability to Raise Funds Through Capital Market Offerings. Following the spin-off, we will have the ability to tap public markets for capital as we execute on our strategic and organic growth objectives, which in many ways overlap but in other ways diverge from Ensign's, resulting in different capital needs and pressures. Following the spin-off, we will be able to raise capital in ways and at times that Ensign may not. Relatedly, the public market appetite for investments (both debt and equity) in the skilled nursing space stands in contrast to the appetite for similar investments in home health, hospice and senior living businesses, which may attract better equity valuations and more favorable debt financing via certain offerings.

Improved Opportunities for Partnership Outside of Ensign. Some organizations unaffiliated with Ensign may hesitate to refer patients to Ensign-affiliated ancillary service providers despite superior service and clinical outcomes, for no apparent reason other than their affiliation with a competitor. A separation of our home health and hospice and senior living operating subsidiaries allows us freedom to provide services to a broader base of payors, patients and other providers in the acute and post-acute care continuum. Simultaneously, since Ensign-affiliated companies are not, and never have been, obligated to contract with each other or with our businesses, existing partnerships between Ensign's SNFs and our operations are built on a foundation of quality clinical outcomes, effective care coordination and transparent communication. These partnerships will continue to model the deep community relationships that are necessary for success in today's integrated care delivery models.

Pennant's Diversified Payor Mix. We will be well positioned amongst publicly-traded peers in the post-acute care marketplace because of a well diversified payor mix between government, third-party and private sources. While home health and hospice agencies primarily rely on Medicare for reimbursement of services, with a moderate amount of revenue coming from private and commercial payors, our senior living communities receive a majority of their revenue from private pay sources, with a smaller amount from Medicaid and other state-specific programs. Together, these companies will share a balance sheet that we believe will position us well to weather reimbursement changes, market downturns, labor shortages, and a number of other macroeconomic changes.

Equity Compensation Awards More Closely Tied to Value Creation. An important component of a successful personnel recruiting and retention program is an active equity compensation plan that supports our service-minded leaders with opportunities to participate in the financial upside they help create by becoming the provider of choice in the healthcare communities they serve. An appropriate stock incentive plan helps reward leaders and employees that focus on improving the clinical, cultural and financial outcomes of their organizations. An equity plan that allows leaders and employees of our subsidiaries to share in ownership of Pennant helps better align the value created by those leaders and employees with the value of Pennant's common stock.

Improved Investor Understanding. While home health and hospice services and senior living services are disclosed as separate businesses on many of Ensign's public financial disclosures, we believe a spin-off of Pennant's businesses will foster better understanding by public stockholders, analysts and other stakeholders about how the application of Ensign's core operating principles to these lines of business has the ability to produce extraordinary clinical, cultural and financial results. More education about and visibility into these uniquely situated operations will create better understanding of the value that we believe remains somewhat hidden and overshadowed by the market's perception of the skilled nursing industry at large.

Manner of Effecting the Spin-Off

The general terms and conditions relating to the spin-off will be set forth in the master separation agreement between The Pennant Group, Inc. and The Ensign Group, Inc.

Internal Reorganization

The Pennant Group, Inc. was incorporated as a Delaware corporation on January 24, 2019 for the purpose of holding Ensign's home health and hospice agencies and substantially all of its senior living businesses. The senior living communities that will become part of Pennant consist primarily of those that are geographically and operationally strategic to its home health and hospice operations. The operational synergies and resource infrastructure support available in each market will better position each individual operation to best benefit the local healthcare community by providing consistent quality care, resulting in an overall better patient experience across the continuum of care.

As part of the spin-off, Ensign will effect an internal reorganization, pursuant to which, among other things: (i) the assets and liabilities associated with Ensign's home health and hospice agencies and substantially all of its senior living businesses will be transferred to Pennant; and (ii) all other assets and liabilities of Ensign will be retained by Ensign.

Distribution of Shares of Our Common Stock

Under the master separation agreement, the distribution will be effective as of , Eastern time, on , 2019, the distribution date. As a result of the spin-off, on the distribution date, each holder of Ensign common stock will receive one share of our common stock for every two shares of Ensign common stock that he, she or it owns as of , Eastern time, on , 2019, the record date. The actual number of shares to be distributed will be determined based on the number of shares of Ensign common stock expected to be outstanding as of the record date and will be reduced to the extent that cash payments are to be made in lieu of the issuance of fractional shares of Pennant common stock. The shares of Pennant common stock to be distributed by The Ensign Group, Inc. will constitute substantially all of the issued and outstanding shares of Pennant common stock immediately prior to the distribution. Pennant is also anticipating that Cornerstone equity awards will be exchanged for Pennant equity awards in connection with the distribution. See "—Results of the Spin-Off."

On the distribution date, The Ensign Group, Inc. will release the shares of our common stock to our distribution agent to distribute to Ensign stockholders. Our distribution agent will credit the shares of our common stock to the book-entry accounts of Ensign stockholders established to hold their shares of our common stock. Our distribution agent will send these stockholders a statement reflecting their ownership of our common stock. Book-entry refers to a method of recording stock ownership in our records in which no physical certificates are issued. For stockholders who own Ensign common stock through a broker or other nominee, their shares of our common stock will be credited to these stockholders' accounts by the broker or other nominee. It may take the distribution agent up to two weeks to distribute shares of our common stock to Ensign stockholders or to their bank or brokerage firm electronically by way of direct registration in book-entry form. Trading of our stock will not be affected by this delay in distribution by the distribution agent.

Ensign stockholders will not be required to make any payment or surrender or exchange their shares of Ensign common stock or take any other action to receive their shares of our common stock. No vote of Ensign stockholders is required or sought in connection with the spin-off, including the internal reorganization, and Ensign stockholders have no appraisal rights in connection with the spin-off.

Treatment of Fractional Shares

The distribution agent will not distribute any fractional shares of Pennant common stock to Ensign stockholders. Instead, as soon as practicable on or after the distribution date, the distribution agent will aggregate

fractional shares of Pennant common stock to which Ensign stockholders of record would otherwise be entitled into whole shares, sell them in the open market at the prevailing market prices and then distribute the aggregate net sale proceeds ratably to Ensign stockholders who would otherwise have been entitled to receive fractional shares of Pennant common stock. The amount of this payment will depend on the prices at which the distribution agent sells the aggregated fractional shares of Pennant common stock in the open market shortly after the distribution date and will be reduced by any amount required to be withheld for tax purposes and any brokerage fees and other expenses incurred in connection with these sales of fractional shares. Receipt of the proceeds from these sales generally will result in a taxable gain or loss to those Ensign stockholders. In addition, each Cornerstone stockholder who exchanges Cornerstone equity for interests in Pennant will generally recognize taxable income to the extent of cash received in lieu of fractional shares. Each stockholder entitled to receive cash proceeds from these shares should consult his, her or its own tax advisor as to the stockholder's particular circumstances. The tax consequences of the distribution are described in more detail under "—Material U.S. Federal Income Tax Consequences of the Spin-Off."

Transaction and Separation Costs

One-time separation costs related to the spin-off are expected to be approximately $14.0 million, consisting of estimated transaction costs, including debt issuance costs, legal, accounting, capital markets fees and expenses, investment banking, transaction bonuses, modifications to incentive equity awards, and other costs relating to the internal reorganization. Pursuant to the master separation agreement, these separation costs and expenses are to be borne by Pennant.

Material U.S. Federal Income Tax Consequences of the Spin-Off

The following is a summary of the material U.S. federal income tax consequences to the holders of shares of Ensign common stock in connection with the distribution and certain related transactions. This summary is based on the Code, the Treasury regulations promulgated thereunder, and judicial and administrative interpretations thereof, all as in effect as of the date of this information statement, and all of which are subject to differing interpretations and may change at any time, possibly with retroactive effect. Any such change could affect the tax consequences described below. This summary assumes that the spin- off will be consummated in accordance with the master separation agreement and as described in this information statement.

This summary 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 United States;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized under the laws of the United States 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 (i) with respect to which a court within the United States 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 (ii) that has a valid election in place under applicable Treasury regulations to be treated as a U.S. person.

This summary does not discuss all tax considerations that may be relevant to Ensign stockholders in light of their particular circumstances, nor does it address the consequences to Ensign stockholders subject to special treatment under the U.S. federal income tax laws, such as:

- persons acting as nominees or otherwise not as beneficial owners;
- dealers or traders in securities or currencies;

- broker-dealers;
- traders in securities that elect to use the mark-to-market method of accounting;
- tax-exempt entities;
- 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 The Ensign Group, Inc. 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;
- regulated investment companies;
- real estate investment trusts;
- former citizens or former long-term residents of the United States or entities subject to Section 7874 of the Code;
- holders who are subject to the alternative minimum tax;
- pass-through entities (such as entities treated as partnerships for U.S. federal income tax purposes); or
- persons that own Ensign common stock through partnerships or other pass-through entities, including any persons subject to Section 1061 of the Code.

This summary does 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 summary does not address any state, local or non-U.S. tax consequences, or any federal tax other than U.S. federal income tax consequences (such as estate or gift tax consequences or the Medicare tax on certain investment income).

If a partnership (or any other entity or arrangement 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 generally will depend on the status of the partner and the activities of the partner and the partnership. Such a partner or partnership is urged to consult its tax advisor as to the tax consequences of the spin-off.

WE URGE YOU TO CONSULT WITH YOUR TAX ADVISOR AS TO THE SPECIFIC U.S. FEDERAL, STATE AND LOCAL, AND NON-U.S. TAX CONSEQUENCES OF THE SPIN-OFF IN LIGHT OF YOUR PARTICULAR CIRCUMSTANCES.

Treatment of the Spin-Off

The distribution is conditioned upon Ensign's receipt of the opinion of Kirkland & Ellis LLP to the effect that, subject to the assumptions and limitations described therein, the distribution of our common stock and certain related transactions will qualify as a reorganization under Sections 368(a)(1)(D) and 355 of the Code in which no gain or loss is recognized by The Ensign Group, Inc. and its stockholders, except, in the case of Ensign stockholders, for cash received in lieu of fractional shares. Assuming the distribution of our common stock qualifies for such treatment, for U.S. federal income tax purposes:

- no gain or loss will be recognized by Ensign as a result of the spin-off (except possible gain or loss arising out of certain internal reorganization transactions undertaken in connection with the spin-off);

- no gain or loss will be recognized by, or be includible in the income of, a U.S. Holder solely as a result of the receipt of our common stock in the spin-off;
- the aggregate tax basis of the shares of Ensign common stock and shares of our common stock, including any fractional share deemed received, in the hands of each U.S. Holder immediately after the distribution will be the same as the aggregate tax basis of the shares of Ensign common stock held by such holder immediately before the distribution, allocated between the shares of Ensign common stock and shares of our common stock, including any fractional share deemed received, in proportion to their relative fair market values immediately following the distribution; and
- the holding period with respect to shares of our common stock received by U.S. Holders will include the holding period of their shares of Ensign common stock, provided that such shares of Ensign common stock are held as capital assets immediately following the spin-off.

U.S. Holders that have acquired different blocks of Ensign common stock at different times or at different prices are urged to consult their tax advisors regarding the allocation of their aggregate adjusted basis among, and their holding period of, our common stock and Ensign common stock.

If a U.S. Holder receives cash in lieu of a fractional share of our common stock as part of the distribution (or in the case of a former Cornerstone stockholder, if a U.S. holder receives cash in lieu of a fractional share of our common stock as part of the exchange of Cornerstone equity for interests in Pennant), the U.S. Holder will be treated as though it first received a distribution of the fractional share in the distribution and then sold it for the amount of cash actually received. Such U.S. Holder will generally recognize capital gain or loss measured by the difference between the cash received for such fractional share and the U.S. Holder's tax basis in that fractional share, as determined above. Such capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period for the Ensign common stock exceeds one year on the date of the distribution. The deductibility of capital losses is subject to significant limitations.

The opinion of Kirkland & Ellis LLP will not address any U.S. state or local or non-U.S. consequences of the spin-off. The opinion will assume that the distribution and certain related transactions will be completed according to the terms of the master separation agreement, and will rely on the facts as stated in the master separation agreement, the tax matters agreement, the other ancillary agreements, this information statement and a number of other documents. The opinion will also be based on, among other things, current law and certain assumptions and representations as to factual matters made by Ensign and us. Any change in currently applicable law, which may or may not be retroactive, or the failure of any factual representation or assumption to be true, correct and complete in all material respects, could adversely affect the conclusions reached by Kirkland & Ellis LLP in the opinion. The opinion will be expressed as of the date issued and does not cover subsequent periods. The opinion will represent Kirkland & Ellis LLP's best legal judgment based on current law. The opinion of Kirkland & Ellis LLP will not be binding on the IRS or the courts, and the IRS or the courts may not agree with the conclusions expressed in the opinion. We cannot assure you that the IRS will agree with the conclusions set forth in the opinion, and it is possible that the IRS or another tax authority could adopt a position contrary to one or all of those conclusions and that a court could sustain that contrary position. If any of the facts, representations, assumptions or undertakings described or made in connection with the opinion are not correct, are incomplete or have been violated, our ability to rely on the opinion could be jeopardized. We are not aware of any facts or circumstances, however, that would cause these facts, representations or assumptions to be untrue or incomplete, or that would cause any of these undertakings to fail to be complied with, in any material respect.

If, notwithstanding the conclusions included in the opinion, it is ultimately determined that the spin-off of our common stock or certain related transactions do not qualify for tax-free treatment for U.S. federal income tax purposes, then Ensign would recognize taxable gain or loss in an amount equal to the difference, if any, of the fair market value of the shares of our common stock over its tax basis in such shares, or other amounts including such that are recognized by certain subsidiaries of Ensign. In addition, if the distribution of our common stock does not qualify as tax-free under Section 355 of the Code, each Ensign stockholder that receives shares of our

common stock in the spin-off would be treated as receiving a distribution in an amount equal to the fair market value of our common stock that was distributed to the stockholder, which would generally be taxed as a dividend to the extent of the stockholder's *pro rata* share of The Ensign Group, Inc.'s current and accumulated earnings and profits, including The Ensign Group, Inc.'s taxable gain, if any, on the spin-off, then treated as a non-taxable return of capital to the extent of the stockholder's basis in the Ensign stock and thereafter treated as capital gain from the sale or exchange of Ensign common stock.

Under current U.S. federal income tax law, certain non-corporation citizens or residents of the United States (including individuals) currently are subject to U.S. federal income tax on dividends (assuming certain holding period requirements are met) and long-term capital gains (*i.e.*, capital gains on assets held for more than one year) at reduced rates.

Even if the distribution otherwise qualifies for tax-free treatment under Section 355 of the Code, the spin-off may result in corporate level taxable gain to Ensign under Section 355(e) of the Code if 50% or more, by vote or value, of the Ensign stock or our stock is treated as directly or indirectly acquired or issued as part of a plan or series of related transactions that includes the distribution (including as a result of transactions occurring before the spin-off). The process for determining whether an acquisition or issuance triggering these provisions has occurred is complex, inherently factual and subject to interpretation of the facts and circumstances of a particular case, and any such acquisitions may not be within our or Ensign's control. For this purpose, any acquisitions or issuances of Ensign stock within two years before the day of the distribution, and any acquisitions or issuances of our stock or Ensign stock within two years after the day of the distribution generally are presumed to be part of such a plan (subject to certain exceptions and safe harbors), although we or Ensign, as applicable, may be able to rebut that presumption. If an acquisition or issuance of our stock or Ensign stock triggers the application Section 355(e) of the Code, Ensign or we could incur significant U.S. federal income tax liabilities attributable to the distribution and certain related transactions, but the distribution would generally be tax-free to each of Ensign stockholders, as described above.

Treasury regulations require each U.S. Holder that owns immediately before the distribution at least 5% of the total outstanding Ensign common stock to attach to their U.S. federal income tax returns for the year in which the spin-off occurs a statement setting forth certain information with respect to the transaction. U.S. Holders are urged to consult their tax advisors to determine whether they are required to provide the foregoing statement and the contents thereof.

Results of the Spin-Off

After the spin-off, we will be an independent, publicly-traded company. Immediately following the spin-off, we expect to have approximately 300 record holders of shares of our common stock and approximately 28.0 million shares of our common stock outstanding, based on the number of stockholders and shares of Ensign common stock that we expect will be outstanding as of the record date, the distribution ratio and the anticipated exchange of Cornerstone equity awards for Pennant equity awards in connection with the distribution. The actual number of shares to be distributed will be determined as of the record date and will reflect any repurchases of shares of Ensign common stock and issuances of shares of Ensign common stock in respect of awards under The Ensign Group, Inc. equity-based incentive plans between the date the Ensign board of directors declares the dividend for the distribution and the record date for the distribution.

The following table provides additional information regarding each type of Ensign equity award held by employees who will remain as an employee of a subsidiary of Ensign or Pennant following the distribution date:

Type of Award	Treatment in Connection with the Spin-Off
Restricted Stock Awards	Awards of restricted stock held by employees of subsidiaries of Ensign or Pennant will be treated in the same manner as other shares of Ensign common stock regardless of the employer following the spin-off.
Stock Options	Employees of Ensign subsidiaries shall continue to hold Ensign stock options, but the number of options covered by such awards and exercise prices associated with such awards will be adjusted to maintain economic value. Ensign stock options held by employees of Pennant subsidiaries will be converted into Pennant stock options but the number of options covered by such awards and exercise prices associated with such awards will be adjusted to maintain economic value.

The following table provides additional information regarding each type of Cornerstone equity award:

Type of Award	Treatment in Connection with the Spin-Off
Restricted Stock Awards	Cornerstone restricted stock will be converted into restricted stock of Pennant pursuant to the Subsidiary Equity Plan, with the number of shares covered by such awards adjusted to maintain economic value.
Stock Options	Cornerstone stock options will be converted into Pennant stock options pursuant to the Subsidiary Equity Plan, with the number of shares covered by such awards and exercise prices associated with such awards adjusted to maintain economic value.

For information regarding the treatment of equity awards of directors and executive officers of The Pennant Group, Inc. after the distribution, see “Certain Relationships and Related Party Transactions—Agreements with Ensign Related to the Spin-Off—Employee Matters Agreement” and “Management.”

Based on the best information available to date, it is expected that all cash bonuses in respect of the 2019 performance year will continue to accrue through the distribution date, based on actual levels of performance, and will be paid by Pennant at a later date, and that no payment will become immediately due at the time of the spin-off. Subsequent bonuses and other incentive compensation structures, including bonuses for our executive officers relating to the fourth quarter 2019 performance year (which will be included in any program established in respect of the 2020 performance year) shall be determined and established by the compensation committee.

Before the spin-off, we will enter into several agreements with Ensign to effect the spin-off and provide a framework for our relationship with Ensign after the spin-off. These agreements will govern the relationship between us and Ensign after completion of the spin-off and provide for the allocation between us and Ensign of the assets, liabilities, rights and obligations of Ensign. See “Certain Relationships and Related Party Transactions—Agreements with Ensign Related to the Spin-Off.”

Trading Prior to the Distribution Date

Beginning shortly before the record date and continuing up to and including the distribution date, we expect that a limited market, commonly known as a "when-issued" trading market, will develop in our common stock. "When-issued" trading refers to a sale or purchase made conditionally because the security has been authorized but not yet issued. The "when-issued" trading market will be a market for shares of our common stock that will be distributed to Ensign stockholders on the distribution date. If you own shares of Ensign common stock at , Eastern time, as of the record date, you will be entitled to shares of Pennant common stock distributed pursuant to the spin-off. You may trade this entitlement to shares of Pennant common stock, without trading the shares of Ensign common stock you own, on the "when-issued" market. On the first trading day following the distribution date, "when-issued" trading with respect to our common stock will end and "regular-way" trading will begin. See "Trading Market."

Following the distribution date, we expect shares of our common stock to be listed on NASDAQ, under the ticker symbol "PNTG." We will announce the when-issued ticker symbol if and when it becomes available.

It is also anticipated that, beginning shortly before the record date and continuing up to and including the distribution date, we expect that there will be two markets in Ensign common stock: a "regular-way" market and an "ex-distribution" market. Shares of Ensign common stock that trade on the "regular-way" market will trade with an entitlement to shares of Pennant common stock distributed pursuant to the spin-off. Shares that trade on the "ex-distribution" market will trade without an entitlement to shares of our common stock distributed pursuant to the spin-off. Therefore, if you own shares of Ensign common stock at the close of business on the record date and sell those shares on the "regular-way" market before the distribution date, you will be selling your right to receive shares of our common stock in connection with the spin-off. If you own shares of Ensign common stock at the close of business on the record date and sell those shares on the "ex-distribution" market before the distribution date, you will still receive the shares of our common stock that you would be entitled to receive pursuant to your ownership of the shares of Ensign common stock on the record date. However, if Ensign stockholders own shares of Ensign common stock as of , Eastern time, as of the record date and sell those shares on the "ex-distribution" market up to and including the distribution date, the selling stockholders will still receive the shares of our common stock that they would otherwise receive pursuant to the distribution. See "Trading Market."

Financing Transactions

We expect to put in place a capital structure that provides us with the flexibility to grow and a cost of debt capital that allows us to compete for investment opportunities. Subject to market conditions, we expect to enter into the Revolving Credit Facility with a syndicate of banks with a borrowing capacity of $75.0 million. We anticipate the interest rates applicable to loans under the Revolving Credit Facility to be, at the Company's election, either LIBOR plus a margin ranging from 2.5% to 3.5% per annum or Base Rate plus a margin ranging from 1.5% to 2.5% per annum, in each case based on the ratio of Consolidated Total Net Debt to Consolidated EBITDA (each, as defined in the Credit Agreement). In addition, we expect that we will pay a commitment fee on the undrawn portion of the commitments under the Revolving Credit Facility that is estimated to be 0.6% per annum.

We anticipate that the Revolving Credit Facility will not be subject to interim amortization. We expect that the Company will not be required to repay any loans under the Revolving Credit Facility prior to maturity. We expect that the Company will be permitted to prepay all or any portion of the loans under the Revolving Credit Facility prior to maturity without premium or penalty, subject to reimbursement of any LIBOR breakage costs of the lenders. This information is based on our current negotiations with the lead banks in an anticipated syndicate.

As a result of the financing transaction, we expect to have outstanding indebtedness of approximately $30.0 million. The amount reflects proceeds from issuance of indebtedness under the Revolving Credit Facility,

including approximately $1.2 million in estimated financing cost. The foregoing summarizes some of the currently expected terms of the Revolving Credit Facility. However, the foregoing summary does not purport to be complete, and the terms of the Revolving Credit Facility have not yet been finalized. There may be changes to the expected size and other terms of the Revolving Credit Facility, some of which may be material.

We expect that we will use approximately $25.0 million of the proceeds from the financing transaction to pay transaction fees and to pay a dividend to Ensign in connection with the contribution of assets to us by Ensign prior to the spin-off. We expect to retain approximately $5.0 million in cash for working capital, acquisitions and other general purposes. We expect that Ensign would use the funds received from us to repay certain outstanding third-party bank debt and other indebtedness and/or pay dividends to Ensign's stockholders. After the spin-off, we expect that we will use borrowings under the Revolving Credit Facility for working capital purposes, to fund acquisitions and for other general purposes.

Conditions to the Distribution

We expect that the distribution will be effective as of , Eastern time, on , 2019, the distribution date. The distribution is subject to the satisfaction, or waiver by The Ensign Group, Inc., of the following conditions:

- the final approval of the distribution by the Ensign board of directors, which approval may be given or withheld in its absolute and sole discretion;
- our Registration Statement on Form 10, of which this information statement forms a part, shall have been declared effective by the SEC, with no stop order in effect with respect thereto, and a notice of internet availability of this information statement shall have been mailed to Ensign stockholders;
- the mailing by Ensign of this information statement (or notice of internet availability thereof) to record holders of Ensign common stock as of the record date;
- Pennant common stock shall have been approved for listing on NASDAQ, subject to official notice of distribution;
- Ensign shall have obtained an opinion from Kirkland & Ellis LLP, in form and substance satisfactory to Ensign, to the effect that, subject to the assumptions and limitations described therein, the distribution of Pennant common stock and certain related transactions will qualify as a reorganization under Sections 368(a)(1)(D) and 355 of the Code, in which no gain or loss is recognized by The Ensign Group, Inc. or its stockholders, except, in the case of Ensign stockholders, for cash received in lieu of fractional shares;
- any required material governmental approvals and other consents necessary to consummate the distribution or any portion thereof shall have been obtained and be in full force and effect;
- the absence of any events or developments having occurred prior to the spin-off that, in the judgment of the Ensign board of directors, would result in the spin-off having a material adverse effect on Ensign or its stockholders;
- the adoption by Pennant of its amended and restated certificate of incorporation and amended and restated bylaws filed by Pennant with the SEC as exhibits to the Registration Statement on Form 10, of which this information statement forms a part;
- no order, injunction or decree issued by any governmental entity of competent jurisdiction or other legal restraint or prohibition preventing the consummation of all or any portion of the distribution shall be in effect, and no other event shall have occurred or failed to occur that prevents the consummation of all or any portion of the distribution;
- the internal reorganization shall have been completed, except for such steps as Ensign in its sole discretion shall have determined may be completed after the distribution date;

- each of the master separation agreement, the tax matters agreement, the employee matters agreement, the transition services agreement, the Ensign Leases and the other ancillary agreements shall have been executed and delivered by each party thereto and be in full force and effect;
- Ensign shall have completed its own financing transactions, including amending and restating its existing credit facility, to be effective on or prior to the distribution date; and
- the financing transactions described herein shall have been completed on or prior to the distribution date.

We are not aware of any material federal, foreign or state regulatory requirements that must be complied with or any material approvals that must be obtained, other than compliance with SEC and OIG rules and regulations, approval for listing on NASDAQ and the declaration of effectiveness of the Registration Statement on Form 10, of which this information statement forms a part, by the SEC, in connection with the distribution. Some of these conditions may not be met and The Ensign Group, Inc. may waive any of the conditions to the distribution. In addition, until the distribution has occurred, the Ensign board of directors has the right to not proceed with the distribution, even if all of the conditions are satisfied. In the event the Ensign board of directors determines to waive a material condition to the distribution, to modify a material term of the distribution or not to proceed with the distribution, Ensign intends to promptly issue a press release or other public announcement and file a Current Report on Form 8-K to report such event.

Reasons for Furnishing this Information Statement

This information statement is being furnished solely to provide information to Ensign stockholders that are entitled to receive shares of Pennant common stock in the spin-off. This information statement is not, and is not to be construed as, an inducement or encouragement to buy, hold or sell any of our securities or any securities of Ensign. We believe that the information in this information statement is accurate as of the date set forth on the cover. Changes may occur after that date and neither Ensign nor we undertake any obligation to update the information.

TRADING MARKET

Market for Our Common Stock

There is currently no public market for our common stock and an active trading market may not develop or may not be sustained. Beginning shortly before the record date and continuing up to and including the distribution date, we expect that a limited market, commonly known as a "when-issued" trading market, will develop in our common stock. "When-issued" trading refers to a sale or purchase made conditionally because the security has been authorized but not yet issued. The "when-issued" trading market will be a market for shares of our common stock that will be distributed to Ensign stockholders on the distribution date. If you own shares of Ensign common stock at , Eastern time, as of the record date, you will be entitled to shares of Pennant common stock distributed pursuant to the spin-off. You may trade this entitlement to shares of Pennant common stock, without trading the shares of Ensign common stock you own, on the "when-issued" market. On the first trading day following the distribution date, "when-issued" trading with respect to our common stock will end and "regular-way" trading will begin. We intend to list our common stock on NASDAQ under the ticker symbol "PNTG." We will announce our when-issued trading symbol when and if it becomes available.

It is also anticipated that, beginning shortly before the record date and continuing up to and including the distribution date, there will be two markets in Ensign common stock: a "regular-way" market and an "ex-distribution" market. Shares of Ensign common stock that trade on the "regular-way" market will trade with an entitlement to shares of Pennant common stock distributed pursuant to the spin-off. Shares that trade on the "ex-distribution" market will trade without an entitlement to shares of our common stock distributed pursuant to the spin-off. Therefore, if you own shares of Ensign common stock at the close of business on the record date and sell those shares on the "regular-way" market before the distribution date, you will be selling your right to receive shares of our common stock in connection with the spin-off. If you own shares of Ensign common stock at the close of business on the record date and sell those shares on the "ex-distribution" market before the distribution date, you will still receive the shares of our common stock that you would be entitled to receive pursuant to your ownership of the shares of Ensign common stock on the record date. However, if Ensign stockholders own shares of Ensign common stock at , Eastern time, as of the record date and sell those shares on the "ex-distribution" market up to and including the distribution date, the selling stockholders will still receive the shares of our common stock that they would otherwise receive pursuant to the distribution.

We cannot predict the prices at which our common stock may trade before the spin-off on a "when-issued" basis or after the spin-off. Those prices will be determined by the marketplace. Prices at which trading in our common stock occurs may fluctuate significantly. Those prices may be influenced by many factors, including anticipated or actual fluctuations in our operating results or those of other companies in our industry, investor perception of Pennant and the home health, hospice and senior living industry, market fluctuations and general economic conditions. In addition, the stock market in general has experienced extreme price and volume fluctuations that have affected the performance of many stocks and that have often been unrelated or disproportionate to the operating performance of these companies. These are just some factors that may adversely affect the market price of our common stock. See "Risk Factors—Risks Related to Ownership of Our Common Stock" for further discussion of risks relating to the trading prices of our common stock.

Transferability of Shares of Our Common Stock

Based on information available as of the date of this information statement, we estimate that approximately 28.0 million shares of our common stock will be outstanding immediately after the spin-off, based on the number of shares of Ensign common stock that we expect will be outstanding as of the record date, the distribution ratio, and the anticipated exchange of Cornerstone equity awards for Pennant equity awards in connection with the distribution. The shares of our common stock that you will receive in the distribution will be freely transferable, unless you are considered an "affiliate" of ours under Rule 144 under the Securities Act. Persons who can be

considered our affiliates after the spin-off generally include individuals or entities that directly, or indirectly through one or more intermediaries, control, are controlled by, or are under common control with, us, and may include certain of our officers and directors. As of the distribution date, we estimate that our directors and officers will beneficially own in the aggregate less than seven percent of our shares. In addition, individuals who are affiliates of Ensign on the distribution date may be deemed to be affiliates of ours. Our affiliates may sell shares of our common stock received in the distribution only:

- under a registration statement that the SEC has declared effective under the Securities Act; or
- under an exemption from registration under the Securities Act, such as the exemption afforded by Rule 144.

In general, under Rule 144 as currently in effect, an affiliate will be entitled to sell, within any three-month period commencing 90 days after the date that the registration statement of which this information statement is a part is declared effective, a number of shares of our common stock that does not exceed the greater of:

- 1% of our common stock then outstanding; or
- the average weekly trading volume of our common stock on NASDAQ during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale. Sales under Rule 144 are also subject to restrictions relating to manner of sale and the availability of current public information about us.

We expect to adopt new equity-based compensation plans and issue stock-based awards. We currently expect to file a registration statement under the Securities Act to register shares to be issued under these equity plans. Shares issued pursuant to awards after the effective date of that registration statement, other than shares issued to affiliates, generally will be freely tradable without further registration under the Securities Act.

Except for our common stock distributed in the distribution and employee-based equity awards, we will have no equity securities outstanding immediately after the spin-off.

DIVIDEND POLICY

We do not intend to pay dividends on our common stock for the foreseeable future. Instead, we anticipate that all of our future earnings will be retained to support our operations and to finance the growth and development of our business. As a result, you will need to sell your shares of common stock to receive any income or realize a return on your investment. You may not be able to sell your shares at or above the price you paid for them. Any decision to declare and pay dividends will be made at the sole discretion of our board of directors and will depend on a number of factors, including:

- our historic and projected financial condition, liquidity and results of operations;
- our capital levels and needs;
- tax considerations;
- any acquisitions or potential acquisitions that we may consider;
- statutory and regulatory prohibitions and other limitations;
- the terms of any credit agreements or other borrowing arrangements that restrict our ability to pay cash dividends;
- general economic conditions; and
- other factors deemed relevant by our board of directors.

As a Delaware corporation, we will be subject to certain restrictions on dividends under DGCL. Generally, a Delaware corporation may only pay dividends either out of “surplus” or out of the current or the immediately preceding year’s net profits. Surplus is defined as the excess, if any, at any given time, of the total assets of a corporation over its total liabilities and statutory capital. The value of a corporation’s assets can be measured in a number of ways and may not necessarily equal their book value.

CAPITALIZATION

The following table presents our unaudited cash and capitalization as of June 30, 2019 on a historical basis, and on a pro forma basis to give effect to the spin-off as if it occurred on June 30, 2019. You can find an explanation of the pro forma adjustments, including our financing transaction, made to the historical combined financial statements under "Unaudited Pro Forma Combined Financial Statements." The capitalization table below should be read together with "Selected Historical Combined Financial Data," "Unaudited Pro Forma Combined Financial Statements," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Audited Combined Financial Statements and Interim Financial Statements and accompanying notes included in the "Index to Financial Statements" section of this information statement.

We are providing the capitalization table below for informational purposes only. The capitalization table below may not reflect the capitalization or financial condition that would have resulted had we been operated as a stand-alone public company at that date and is not necessarily indicative of our future capitalization or financial condition.

	As of June 30, 2019 (In thousands, except per share data)	
	Actual	Pro Forma(2)
Cash	$ 43	$ 5,043
Debt:		
Revolving credit facility	—	30,000
Total debt	—	30,000
Equity:		
Common stock, $0.001 par value	—	28 (1)
Additional paid-in capital	—	66,183 (1)
Net parent investment	73,315	—
Non-controlling interest	13,173	—
Total equity	86,488	66,211
Total capitalization	$86,488	$ 96,211

(1) Represents adjustments to reflect the pro forma recapitalization of our equity.
(2) The assumptions used, and pro forma adjustments derived from such assumptions, are based on currently available information, and we believe such assumptions are reasonable under the circumstances.

We currently expect to incur indebtedness in the amount of approximately $30.0 million, of which approximately $5.0 million will be included in cash on hand at the time of the spin-off. The amount of indebtedness reflects proceeds from issuance, including approximately $1.2 million in estimated financing cost.

SELECTED HISTORICAL COMBINED FINANCIAL DATA

The following selected historical combined statement of income data for the years ended December 31, 2018, 2017 and 2016 and the historical balance sheet data as of December 31, 2018 and 2017 are derived from the Audited Combined Financial Statements of New Ventures included elsewhere in this information statement. The unaudited interim combined statement of income data for the six months ended June 30, 2019 and 2018 and the historical balance sheet data as of June 30, 2019 are derived from the Interim Financial Statements of New Ventures included elsewhere in this information statement.

This selected historical financial data is not necessarily indicative of our future performance and does not necessarily reflect what our financial position and results of operations would have been had we been operating as an independent, publicly-traded company during the periods presented, including changes that will occur in our operations and capitalization as a result of the spin-off from Ensign. For example, the historical combined financial statements of New Ventures include allocations of expenses for certain functions and services provided by Ensign subsidiaries, including executive management, accounting, human resources, information technology, legal, payroll, insurance, tax, treasury, and other general and administrative items. These costs may not be representative of the future costs we will incur as an independent, public company.

The selected historical combined financial data below should be read together with the Audited Combined Financial Statements and the Interim Financial Statements of New Ventures, including the notes thereto, and the sections titled “Capitalization,” “Unaudited Pro Forma Combined Financial Statements,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Description of Certain Indebtedness” appearing elsewhere in this information statement.

	Six Months Ended June 30,		Year Ended December 31,		
	2019	2018	2018	2017	2016
	(In thousands)				
Summary Statement of Income Data					
Total revenue	$ 160,641	$ 137,768	$286,058	$250,991	$217,225
Total expenses	155,502	127,656	265,427	235,589	204,243
Income from operations	5,139	10,112	20,631	15,402	12,982
Provision for income taxes	(32)	2,200	4,352	5,375	5,065
Net income	5,171	7,912	16,279	10,027	7,917
Less: net income attributable to noncontrolling interest	350	370	595	160	26
Net income attributable to New Ventures	$ 4,821	$ 7,542	$ 15,684	$ 9,867	$ 7,891

	June 30,	December 31,	
	2019	2018	2017
	(In thousands)		
Balance Sheet Data			
Total assets	$ 356,665	$ 98,151	$ 88,289
Total liabilities	270,177	32,863	28,373
Total equity	86,488	65,288	59,916

UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma combined financial statements are derived from the Audited Combined Financial Statements of New Ventures and Interim Financial Statements of New Ventures, which are included elsewhere in this information statement.

The following unaudited pro forma combined financial statements give effect to the spin-off and the related transactions, including: the distribution of Pennant common stock by Ensign to Ensign stockholders and the financing transaction, resulting in expected total indebtedness of approximately $30.0 million. The unaudited pro forma combined statement of income presented for the six months ended June 30, 2019 and for the year ended December 31, 2018 assume the spin-off and the related transactions occurred on January 1, 2018. The unaudited pro forma combined balance sheet assumes the spin-off and the related transactions occurred on June 30, 2019. The pro forma adjustments are based on currently available information and assumptions we believe are reasonable, factually supportable, directly attributable to our separation from Ensign, and for purposes of the statement of income, are expected to have a continuing impact on us.

The historical financial data has been adjusted to give pro forma effect to events that are directly attributable to the transactions described above, have an ongoing effect on our statement of income and are factually supportable. Our unaudited pro forma combined financial statements and explanatory notes present how our financial statements may have appeared had our capital structure reflected the above transactions as of the dates noted above.

Our unaudited pro forma combined financial statements were prepared in accordance with Article 11 of Regulation S-X, using the assumptions set forth in the notes to our unaudited pro forma combined financial statements. The following unaudited pro forma combined financial statements are presented for illustrative purposes only and do not purport to reflect the results we may achieve in future periods or the historical results that would have been obtained had the above transactions been completed on January 1, 2018 or as of June 30, 2019, as the case may be. Our unaudited pro forma combined financial statements also do not give effect to the potential impact of current financial conditions, any anticipated synergies, operating efficiencies or cost savings that may result from the transactions described above.

The unaudited pro forma combined financial statements of New Ventures are derived from and should be read in conjunction with the Audited Combined Financial Statements and Interim Financial Statements of New Ventures and with the accompanying notes included elsewhere in this information statement. To the extent that facts and circumstances change between now and the distribution date, amounts included in the unaudited pro forma combined financial statements may change.

NEW VENTURES
UNAUDITED PRO FORMA
CONDENSED COMBINED BALANCE SHEET

	June 30, 2019			
	Historical	Pro Forma Adjustments		Pro Forma Combined
	(In thousands, except per share data)			
Assets				
Current assets:				
Cash	$ 43	$ 5,000	(1)	$ 5,043
Accounts receivable—less allowance for doubtful accounts of $935	27,704	—		27,704
Prepaid expenses and other current assets	4,461	—		4,461
Total current assets	32,208	5,000		37,208
Property and equipment, net	13,158	—		13,158
Right of use asset	237,948	40,347	(9)	278,295
Restricted and other assets	2,611	1,156	(7)	3,767
Intangible assets, net	62	—		62
Goodwill	42,392	—		42,392
Other indefinite-lived intangibles	28,286	—		28,286
Total assets	$356,665	$ 46,503		$403,168
Liabilities and equity				
Current liabilities:				
Accounts payable	$ 4,902	$ (3,567)	(6)	$ 1,335
Accrued wages and related liabilities	12,458	—		12,458
Lease liability—current	13,152	3,665	(9)	16,817
Other accrued liabilities	12,521	—		12,521
Total current liabilities	43,033	98		43,131
Long-term lease liability—less current portion	226,453	36,682	(9)	263,135
Other long-term liabilities	691	—		691
Long-term debt	—	30,000	(1)	30,000
Total liabilities	270,177	66,780		336,957
Commitments and contingencies				
Equity:				
Common stock, $0.001 par value	—	28	(2)(3)(4)	28
Additional paid-in capital	—	66,183	(2)(3)(4)	66,183
Net parent investment	73,315	(48,315)	(2)	—
		(14,000)	(12)	
		(11,000)	(12)	
Non-controlling interest	13,173	(13,173)	(3)	—
Total equity	86,488	(20,277)		66,211
Total liabilities and equity	$356,665	$ 46,503		$403,168

See accompanying notes to unaudited pro forma condensed combined financial statements.

NEW VENTURES
UNAUDITED PRO FORMA
CONDENSED COMBINED STATEMENT OF INCOME

	Six Months Ended June 30,			
	Historical	Pro Forma Adjustments		Pro Forma Combined
	(In thousands, except per share amounts)			
Revenue	$160,641	$ —		$160,641
Expense				
Cost of services	121,767	—		121,767
Rent—cost of services	16,830	1,796	(5)	18,626
General and administrative expense	15,133	(4,648)	(6)	10,485
Depreciation and amortization	1,772	—		1,772
Total expenses	155,502	(2,852)		152,650
Income from operations	5,139	2,852		7,991
Interest expense	—	1,039	(7)	1,039
Income before provision for income taxes	5,139	1,813		6,952
Provision for income taxes	(32)	453	(8)	421
Net income	5,171	1,360		6,531
Less: net income attributable to noncontrolling interest	350	(350)	(3)	—
Net income attributable to New Ventures	$ 4,821	$ 1,710		$ 6,531
Earnings per share:				
Basic earnings per share			(10)	$ 0.24
Diluted earnings per share			(11)	$ 0.23
Weighted average number of shares outstanding:				
Basic			(10)	27,418
Diluted			(11)	28,354

See accompanying notes to unaudited pro forma condensed combined financial statements.

NEW VENTURES
UNAUDITED PRO FORMA
COMBINED STATEMENTS OF INCOME

	Year Ended December 31, 2018			
	Historical	Pro Forma Adjustments		Pro Forma Combined
	(In thousands, except per share amounts)			
Revenue				
Service revenue	$169,037	$ —		$169,037
Senior living revenue	117,021	—		117,021
Total revenue	286,058	—		286,058
Expense				
Cost of services	212,421	—		212,421
Rent—cost of services	31,199	3,700	(5)	34,899
General and administrative expense	18,843	(756)	(6)	18,087
Depreciation and amortization	2,964	—		2,964
Total expenses	265,427	2,944		268,371
Income from operations	20,631	(2,944)		17,687
Interest expense	—	1,944	(7)	1,944
Income before provision for income taxes	20,631	(4,888)		15,743
Provision for income taxes	4,352	(1,222)	(8)	3,130
Net income	16,279	(3,666)		12,613
Less: net income attributable to noncontrolling interest	595	(595)	(3)	—
Net income attributable to New Ventures	$ 15,684	$ (3,071)		$ 12,613
Earnings per share:				
Basic earnings per share			(10)	$ 0.46
Diluted earnings per share			(11)	$ 0.44
Weighted average number of shares outstanding:				
Basic			(10)	27,418
Diluted			(11)	28,354

See accompanying notes to unaudited pro forma combined financial statements.

NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

Pro Forma Adjustments

(1) We expect to enter into the Revolving Credit Facility with a syndicate of banks with a borrowing capacity of $75.0 million. We anticipate the interest rates applicable to loans under the Revolving Credit Facility to be, at the Company's election, either LIBOR plus a margin ranging from 2.5% to 3.5% per annum or Base Rate plus a margin ranging from 1.5% to 2.5% per annum, in each case based on the ratio of Consolidated Total Net Debt to Consolidated EBITDA (each, as defined in the Credit Agreement). In addition, we expect that we will pay a commitment fee on the undrawn portion of the commitments under the Revolving Credit Facility that is estimated to be 0.6% per annum. We currently expect the foregoing summary of terms to be an accurate description of the Revolving Credit Facility based on preliminary negotiations with the lead banks of our anticipated syndication. There may be changes to the expected size and other terms of the Revolving Credit Facility as the Credit Agreement is finalized, some of which may be material.

The target outstanding balance of borrowings at the time of the separation arrangement was determined by management based on a review of a number of factors including credit rating considerations, forecasted liquidity and capital requirements, expected operating results and general economic conditions. Cash on hand following the separation is expected to be used for working capital and other general corporate purposes.

	June 30, 2019 Pro Forma Adjustments
Draw on the Revolving Credit Facility	$ 30,000
Less: Uses	
Payment of transaction fees	14,000
Dividend to The Ensign Group, Inc.	11,000
Total Uses	25,000
Net cash proceeds	$ 5,000

(2) On the separation and distribution date, Ensign's net investment in Pennant will be redesignated as Pennant shareholders' equity and will be allocated between common stock and additional paid-in capital based on the number of shares of Pennant common stock outstanding at the distribution date. The cash distribution back to parent will impact Ensign's net investment in Pennant prior to the redesignation of the investment as Pennant shareholders' equity. The assumptions used, and pro forma adjustments derived from such assumptions, are based on currently available information, and we believe such assumptions are reasonable under the circumstances.

(3) Represents an adjustment to reflect the pro forma recapitalization of our equity. The Company is anticipating that the equity awards granted under the Subsidiary Equity Plan will be exchanged for shares of common stock of Pennant as part of the recapitalization of its equity. As of the distribution date, non-controlling shareholders net investment in subsidiaries of Pennant will be eliminated. These shareholders will receive a distribution of shares of Pennant's common stock based on a conversion ratio established by a third-party valuation.

(4) Represents the issuance of approximately 28.0 million common shares at a par value of $0.001 per share. The number of common shares is based on the number of Ensign common shares outstanding at the end of the period and a distribution ratio of one share of Pennant common stock for every two shares of Ensign common stock. The number of shares also includes the capital structure conversion of non-controlling interest shareholders into Pennant common stock based on third party valuation. The assumptions used, and pro forma adjustments derived from such assumptions, are based on currently available information, and we believe such assumptions are reasonable under the circumstances.

(5) Reflects changes in rent resulting from the removal of intercompany rental charges and replacement of such in accordance with the Ensign Leases, and new third-party master lease agreements based on negotiations

with landlords that will replace the existing lease agreements between our subsidiaries and such landlords. We anticipate that the Ensign Leases and new third-party master lease agreements will have initial terms ranging between 14 and 16 years, with extension options and annual rent escalators based on changes in the Consumer Price Index.

(6) Represents the removal of non-recurring transaction and pre-separation costs and related unpaid payables or accrued expenses incurred in the historical periods that are directly related to the separation of Pennant from Ensign.

(7) Represents the adjustments to deferred financing fee of $1.2 million and interest expense related to approximately $30.0 million of debt that we expect to incur as described in note (1). Interest expense was calculated assuming constant debt levels throughout the periods. The estimated variable interest rate of 5.2% for the six months ended June 30, 2019 and 4.8% for the twelve months ended December 31, 2018 is an estimate and may be higher or lower if there are changes in market conditions or the banking environment, or if our leverage ratio or the actual LIBOR rate following the spin-off are different than the estimate we used. This estimate is based on an average of the LIBOR daily rate for the past five quarters plus a percentage spread we expect to incur based on current negotiations with the lead banks in our anticipated syndication. Each 1.0% change to the annual interest rate would change interest expense by approximately $0.3 million on an annual basis.

	June 30, 2019 Pro Forma Adjustments	December 31, 2018 Pro Forma Adjustments
Net increase to amortization of deferred financing costs	$ 116	$ 231
Interest related to revolving debt expected to be issued by Pennant and unusued revolving credit facility fee	923	1,713
Net increase to interest expense	$ 1,039	$ 1,944

(8) Reflects the tax effects of the tax deductible pro forma adjustments at the applicable jurisdictional statutory income tax rates of 25.0%.

(9) Represents the adjustments to the right-of-use (ROU) assets and lease liability as a result of the removal of intercompany rental charges and replacement with new or amended master lease agreements see note (5). In accordance with Topic 842, *Leases*, these new and amended master lease agreements are considered to be modified and subjected to lease modification guidance. The ROU asset and lease liability related to these agreements were remeasured based on the change in the lease terms and conditions such as rent payment and lease terms. The incremental borrowing rate has also been adjusted to mirror the revised lease terms which become effective at the date of the modification. As the unaudited pro forma combined balance sheet assumes the spin-off and the related transactions occurred on the most recent reporting date.

(10) The pro forma basic weighted average shares outstanding were based on the weighted average number of Ensign's common shares outstanding for the period adjusted for an assumed distribution ratio of one share of Pennant common stock for every two Ensign common shares, including the conversion of non controlling interest shareholders into Pennant common stock. Earnings per share is computed by dividing net income less earnings allocable to participating securities by the estimate of weighted average number of shares outstanding. The assumptions used, and pro forma adjustments derived from such assumptions, are based on currently available information, and we believe such assumptions are reasonable under the circumstances.

(11) The pro forma weighted-average number of Pennant shares used to compute pro forma diluted net income per share is based on the weighted-average number of basic shares of Pennant common stock as described in note (10) above, plus incremental shares assuming exercise of dilutive outstanding options and restricted stock awards granted to our employees assuming no fractional shares under Ensign's stock based compensation programs converted into the Pennant awards based on the assumed distribution ratio. The incremental shares also assumed exercise of diluted outstanding options and restricted stock awards granted under the Subsidiary Equity Plan converted into the Pennant awards based on the most recent third-party

valuation. The actual effect of the dilution on a go-forward basis will depend on various factors, including the employment of our personnel in one company or the other, the value of the equity awards at the time of distribution and the fractional share. We estimated the dilutive effects at this time based on applying the distribution ratio as described in note (10) above to the Ensign weighted-average shares outstanding for identified Pennant employees and the conversion of the non controlling interest shareholders into Pennant common stock provides a reasonable approximation of the potential dilutive effect of the equity awards based on the currently available information.

(12) Represents reduction in net parent investment related to the payment of transaction fees and dividend to The Ensign Group, Inc. as disclosed in note (1).

OUR BUSINESS

Our Company

We are a leading provider of high quality healthcare services to the growing senior population in the United States. We strive to be the provider of choice in the communities we serve through our innovative operating model. We operate in multiple lines of business including home health, hospice and senior living across Arizona, California, Colorado, Idaho, Iowa, Nevada, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin and Wyoming.

We believe our key differentiators are (i) our innovative operating model focused on empowering and developing strong local leaders, (ii) our disciplined growth strategy, and (iii) our ability to achieve quality care outcomes in lower cost settings. In our experience, healthcare is a local endeavor, largely dependent upon personal and professional relationships, community reputation and an ability to adapt to the changing needs of patients, partners and communities. As our operational leaders build strong relationships with key partners in their local healthcare communities, they are empowered to make informed and critical operational decisions that produce quality care outcomes and more effectively meet the needs of our patients.

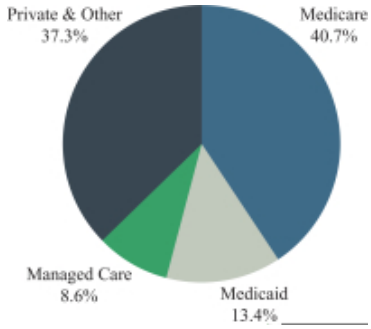
In our home health and hospice business, we believe we are able to achieve quality outcomes—as measured by many industry and value-based metrics such as hospital readmission rates—in a lower cost setting. In our senior living business, we believe we are able to offer our residents a better quality of life experience at an affordable cost, thus appealing to a broader population. With our platform of diversified service offerings, we believe that we are well-positioned to take advantage of favorable demographic shifts as well as industry trends that reward providers offering quality care in lower cost settings.

As of June 30, 2019, we provided home health and hospice services through 62 agencies. Our home health services generally consist of providing some combination of clinical services including nursing, speech, occupational and physical therapy, medical social work and home health aide services. Home health is often a cost-effective solution for patients and can also increase their quality of life by allowing them to receive excellent clinical services in the comfort and convenience of a familiar setting. Using CMS's star rating criteria, our home health agencies achieved an average of 4 out of 5 stars across all agencies compared to the industry average of 3.5. Our hospice services focus on the physical, spiritual and psychosocial needs of terminally ill patients and their families and consist primarily of clinical care, education and counseling. During the six months ended June 30, 2019 and the year ended December 31, 2018, we generated approximately 67.9% and 68.6%, respectively, of our home health and hospice revenue from Medicare.

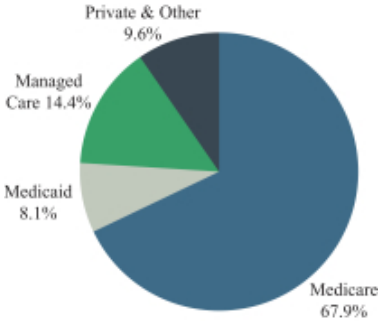
As of June 30, 2019, we provided senior living services at 51 communities with 3,872 total units in our assisted living, independent living and memory care business. Our senior living operations provide a variety of services based on residents' needs including residential accommodations, activities, meals, housekeeping and assistance in the activities of daily living to seniors who are independent or who require some support, but not the level of clinical care provided in a skilled nursing facility. We generate revenue at these communities primarily from private pay and other sources, with a portion earned from Medicaid. During the six months ended June 30, 2019 and the year ended December 31, 2018, approximately 78.7% and 79.8%, respectively, of our senior living revenue was derived from private pay sources.

Payor Mix for the Six Months Ended June 30, 2019

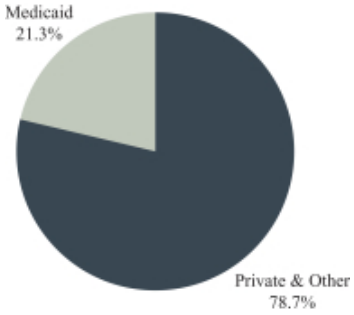
Combined



Home Health and Hospice



Senior Living



Our Innovative Operating Model

Our innovative operating model is the foundation of our superior performance and success. Our operating model is founded on two core principles: (1) healthcare is a local business where providers are most successful when key operational decision-making meets local community needs and occurs close to patients and employees, and (2) peer accountability from operational and resource partners is more effective at driving excellent clinical and financial results than traditional hierarchical or "top-down" accountability structures.

Our model is innovative because each operation has been and will continue to be an independent operating subsidiary that functions under the direction of local clinical and operational leaders, each of whom are empowered to make decisions based on the unique needs of the patients, partners and communities they serve. This is in contrast to typical models where control and key decision-making is centralized at the corporate level. Moreover, we utilize a "cluster model," where every operation is part of a defined, "cluster", which is a group of geographically proximate operations working together to allow leaders to communicate and provide support and accountability to each other. This creates incentives for leaders to share best practices and real-time data and benchmark clinical and financial performance against their cluster partners. We believe this locally-driven data-sharing and peer accountability model is unique amongst healthcare providers and has proven effective in improving clinical care, enhancing patient satisfaction and promoting operational efficiencies. This "cluster" operating model is the same model used by local leaders prior to the spin-off and will be key to the success of our future operations.

This organizational structure empowers our highly dedicated leaders and staff at the local level to make key decisions and creates a sense of ownership over operational and clinical results and the employee experience. Each leader and his or her staff are encouraged to make their operations the "provider of choice" in the community they serve. To accomplish this goal, leaders work closely with clinical staff and our expert resources to identify unique patient needs and priorities in a given community and create superior service offerings tailored to those needs. We believe that our localized approach to program development and patient care leads prospective patients and referral sources to choose or recommend our operations to others. Similarly, our emphasis on empowering local decision-makers encourages leaders to strive to become the "employer of choice" in the community they serve. One of our core values is the principle that the best patient care is provided by employees that experience significant work satisfaction because they are valued as individuals. Our leaders work hard to embody this core value and to attract, train and retain outstanding clinical staff by creating a work environment that fosters critical thinking, measurement, and relevance. Our local teams are motivated and empowered to quickly and proactively meet the needs of those they serve, without waiting for permission to act or being bound to a "one-size-fits-all" corporate strategy. In many markets, we attribute census growth and excellent clinical and financial outcomes to a healthy organizational culture built on these principles. With strong employee satisfaction across the organization, we believe we can continue to attract and retain the best talent in our industries.

Lastly, while our teams are local, they are also supported by cutting-edge systems and a "Service Center" staffed with teams of subject matter expert resources that advise on their respective fields of information technology, compliance, human resources, accounting, payroll, legal, risk management, education and other services. The partnership and peer accountability that exists between our local leaders and Service Center resources allows each operation to improve while benefiting from the technical expertise, systems and accountability of the Service Center.

Partner of Choice in Local Healthcare Communities

We view healthcare services primarily as a local business driven by personal relationships, reputation and the ability to identify and address unmet community needs. We believe our success is largely a result of our ability to build strong relationships within local healthcare communities based on a solid foundation of reliably superior care.

We believe we are a partner of choice to payors, providers, patients and employees in the healthcare communities we serve. As a partner, we focus on improving care outcomes and the quality of life of our patients in home or home-like settings. Our local leadership approach facilitates the development of strong professional relationships, allowing us to better understand and meet the needs of our partners. We believe our emphasis on working closely with other providers, payors and patients yields unique, customized solutions and programs that meet local market needs and improve clinical outcomes, which in turn accelerates revenue growth and profitability.

We are a trusted partner to, and work closely with, payors and other acute and post-acute providers to deliver innovative healthcare solutions in lower cost settings. In the markets we serve, we have developed formal and informal preferred provider relationships with key referral sources and transitional care programs that result in better coordination within the care continuum. These partnerships have resulted in significant benefits to payors, patients and other providers including reduced hospital readmission rates, appropriate transitions within the care continuum, overall cost savings, increased patient satisfaction and improved quality outcomes. Positive, repeated interactions and data-sharing result in strong local relationships and encourage referrals from our acute and post-acute care partners. As we continue to strengthen these formal and informal relationships and expand our referral base, we believe we will continue to drive revenue growth and operational results.

Company History

The Pennant Group, Inc. was incorporated as a Delaware corporation on January 24, 2019, for the purpose of holding the home health and hospice agencies and substantially all of the senior living businesses of The Ensign Group, Inc. (NASDAQ: ENSG), which was formed in 1999 with the goal of establishing a new level of quality care within the skilled nursing industry. The name "Ensign" is synonymous with a "flag" or a "standard," and refers to Ensign's goal of setting the standard by which all others in its industry are measured. The name "Pennant" draws on similar imagery and themes to represent our mission of becoming the "Ensign" to the home health, hospice and senior living industries. We believe that through our innovative operating model, we can foster a new level of patient care and professional competence at our independent operating subsidiaries and set a new industry standard for quality home health and hospice and senior living services.

On May 6, 2019, Ensign announced its intention to implement the spin-off of Pennant from Ensign, following which The Pennant Group, Inc. will be an independent, publicly-traded company, and Ensign will have no continuing stock ownership interest in Pennant. As part of the spin-off, Ensign will effect an internal reorganization to properly align the appropriate businesses within each of Pennant and Ensign whereby, among other things: (i) the assets and liabilities associated with Ensign's home health and hospice agencies and substantially all of its senior living businesses will be transferred to Pennant; and (ii) all other assets and liabilities of Ensign will be retained by Ensign.

Our independent operating subsidiaries are organized into industry-specific portfolio companies, which we believe has enabled us to maintain a local, field-driven organizational structure, to attract qualified leaders and expert resources, and to effectively identify, acquire, and improve operations. Each of our portfolio companies has its own leader. These experienced and proven leaders are generally taken from the ranks of operational leaders to serve as resources to independent operating subsidiaries within their own portfolio companies and have the primary responsibility for recruiting qualified talent, finding potential acquisition targets, and identifying other strategic and organic growth opportunities. We believe this decentralized organizational structure will continue to improve the quality of our recruiting and facilitate successful acquisitions.

We have two reportable segments: (1) home health and hospice services, which includes our home health, hospice and home care businesses, and (2) senior living services, which includes our assisted living, independent living and memory care communities. We also report an "all other" category that includes general and administrative expense. Our reporting segments are business units that offer different services and that are managed separately to provide greater visibility into those operations. For more information about our operating segments, as well as financial information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 6, *Business Segments*, to the Audited Combined Financial Statements.

Our Segments

Home Health and Hospice

As of June 30, 2019, we provided home health and hospice services through 62 agencies. Our home health services generally consist of providing some combination of clinical care services including nursing, speech, occupational and physical therapy, medical social work and home health aide services. Home health is often a cost-effective solution for patients and can also increase their quality of life by allowing them to receive quality clinical services in the comfort and convenience of a familiar setting. Using CMS's star rating criteria, our home health agencies achieved an average of 4 out of 5 stars across all agencies compared to the industry average of 3.5. Our hospice services focus on the physical, spiritual and psychosocial needs of terminally ill individuals and their families and consist primarily of palliative care, education and counseling. During the six months ended June 30, 2019, we generated 67.9% of our home health and hospice revenue from Medicare.

Senior Living

As of June 30, 2019, we provided assisted living, independent living and memory care services at 51 communities with 3,872 total units located across Arizona, California, Nevada, Texas, Washington and Wisconsin. Our senior living operations provide a variety of services based on residents' needs, including residential accommodations, activities, meals, housekeeping and assistance in the activities of daily living to seniors who are independent or who require some support, but not the level of clinical care provided in a skilled nursing operation. We generate revenue at these units primarily from private pay sources, with a portion earned from Medicaid or other state-specific programs. During the six months ended June 30, 2019, 78.7% of our senior living revenue was derived from private pay sources.

Our Competitive Strengths

We believe that we are well-positioned to benefit from the ongoing changes within the home health, hospice and senior living industries. We believe that we will achieve clinical, financial and cultural success as a direct result of the following key competitive strengths:

- ***Innovative Operating Model.*** We believe healthcare services is primarily a local business. Our local leadership-centered operating model encourages our leaders to make key operational decisions that meet the individualized needs of their patients and community partners. Recognizing the local nature of our business, our leaders develop each operation's reputation at the local level, rather than being bound by a traditional organization-wide branding strategy. In addition, our local leaders work closely with their cluster partners to share data and improve clinical and financial outcomes. Moreover, we do not

maintain a traditional corporate headquarters, rather we operate a Service Center that accelerates operational results by developing world-class systems and by providing expertise in fields such as information technology, compliance, human resources, accounting, legal and education. This enables individual operations to function with the strength, synergies and economies of scale found in larger organizations without the disadvantages of a top-down management structure or corporate hierarchy. We believe this approach is unique within our industries and allows us to preserve the "one-operation-at-a-time" focus and culture that has contributed to our success.

- ***Proven Track Record of Successful Acquisitions.*** We adhere to a disciplined acquisition strategy focused on sourcing and selectively acquiring operations within our target markets. Local leaders are heavily involved in the acquisition process and are recognized and rewarded as these acquired operations become the provider of choice in the communities they serve. Through our innovative operating model and disciplined approach to strategic growth, we have completed and successfully transitioned dozens of value-add operations. Our expertise in acquiring and transforming strategic and underperforming operations allows us to consider a broad range of potential acquisition targets and will be a key element of our future success.

- ***Superior Clinical Outcomes and Quality Care.*** We will continue to achieve success by delivering high quality home health, hospice and senior living services. Our locally-driven, patient-centered approach to clinical care allows us to meet the unique needs of our patients, resulting in improved clinical outcomes, including reduced hospital readmission rates. These improved outcomes are driven by both our talented local clinicians and our data-driven analytical approach to patient care and risk stratification. We believe that our achievement of high quality clinical outcomes positions us as a solution for patients and referral sources, leading to census growth and improved profitability.

- ***Diversified Portfolio by Payor and Services.*** As of June 30, 2019, we operated 62 home health and hospice agencies and 51 senior living communities across 13 states. Because of this diversified portfolio, our blended payor mix was 40.7% Medicare, 13.4% Medicaid, 8.6% managed care and 37.3% private pay for the six months ended June 30, 2019. Our balanced payor mix provides greater business stability through economic cycles and mitigates volatility arising from government-driven reimbursement changes. For the six months ended June 30, 2019, we generated 60.0% of our revenue from home health and hospice services and 40.0% of our revenue from senior living services. This diversified service portfolio allows us to opportunistically execute on our acquisition strategy as valuations fluctuate over industry cycles.

- ***Proven Track Record of Talent Recruitment, Development and Retention.*** We have been successful in attracting, developing and retaining outstanding business and clinical leaders to lead our operating subsidiaries. Our unique operating model, which emphasizes local decision-making and team building, supported by our platform of expert resources and best-in-class systems, attracts a highly talented and entrepreneurial group of leaders. Our operational leaders are committed to ongoing training and participate in regular leadership development and educational programs. We believe that our commitment to professional development strengthens the quality of our operational leaders and staff and will continue to differentiate us from our competitors.

Our Strategy

We believe that the following strategies are primarily responsible for our growth to date and will continue to drive the growth of our business:

- ***Grow Talent Base and Develop Future Leaders.*** Our growth strategy is focused on expanding our talent base and developing future leaders. A key component of our organizational culture is our belief that strong local leadership is a primary ingredient to operational success. We use a multi-faceted strategy to identify and recruit proven business leaders from various industries and backgrounds. To develop these leaders, we have a rigorous "CEO-in-Training Program" that includes significant

in-person instruction on leadership, clinical and operational topics as well as extensive on-the-ground training and active learning with key leaders from across the organization. After placement in a local operation, our leaders continue to receive training and regular feedback and support from operational and resource peers as they seek to achieve great results. We believe our model of empowering local leaders and providing them a platform of support from expert resources and systems will continue to attract and retain highly talented and entrepreneurial leaders.

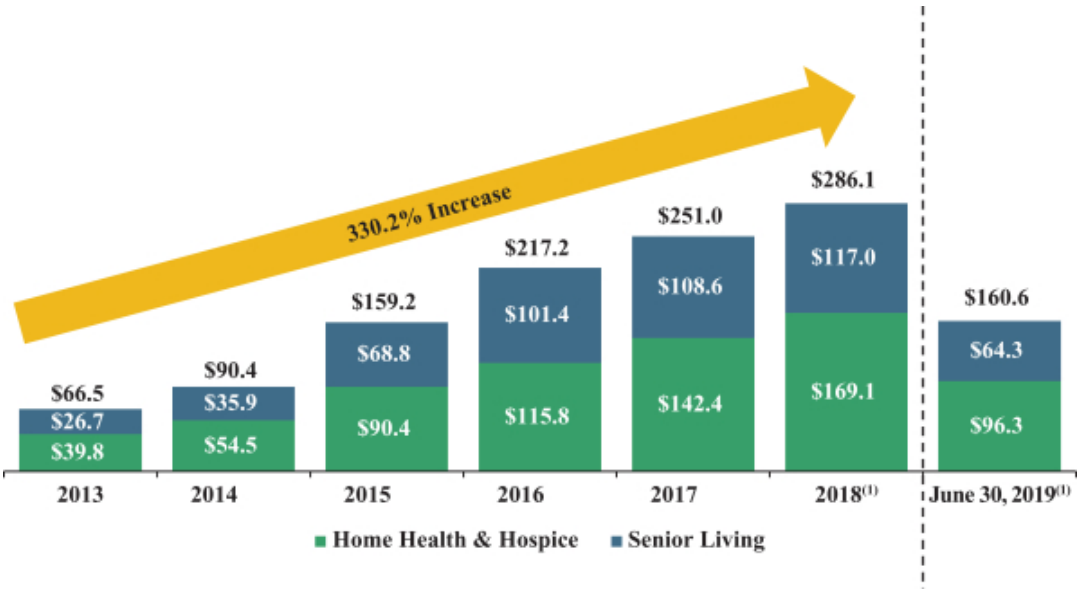
- ***Focus on Organic Growth.*** We believe that we have a significant opportunity to drive organic growth within our current portfolio and recently acquired operations. As we improve clinical outcomes, quality of care and operational results at each of our existing and newly acquired operations, we become a provider of choice in the communities we serve, which leads to census growth. Through this census growth, and as we continue to expand our service offerings, we believe we will continue to translate revenue growth into bottom line success with rigorous adherence to our core operating principles. By effectively using data systems and analytics and embracing a culture of transparency and accountability, our local leaders have a track record of steadily improving operational results. We believe our unique operating model will continue to cultivate steady and consistent organic growth in the future.
- ***Pursue Disciplined Acquisition Strategy.*** The disciplined acquisition and integration of strategic and underperforming operations is a key element of our past success and future growth. We have proven the ability to successfully transition both turnaround and stable acquisitions, transforming them into top-quality operations preferred by referral sources, thus creating a strong return on investment. We plan to continue to take advantage of the fragmented home health, hospice and senior living industries by acquiring strategic and underperforming operations within both our existing and new geographic markets. With experienced leaders in place at the local level and demonstrated success in significantly improving operating conditions at acquired businesses, we believe we are well positioned to continue successfully expanding our footprint.
- ***Leverage Our Operational Capabilities to Expand Partnerships.*** We have a unique and proven operating model with a track record of becoming the provider of choice through deep local payor and provider relationships. Our local leadership approach enables us to adapt to and efficiently meet the needs of our partners in the communities we serve. Our clinical and data analytics capabilities foster solutions and allow us to optimize clinical outcomes. We use this data to communicate with key partners in an effort to reduce overall cost of care and drive improved clinical outcomes. We will continue to expand formal and informal partnerships throughout the healthcare continuum by strategically investing in programs and data analytics that help us and our partners improve care transitions, achieve better outcomes and reduce costs.
- ***Strategically Invest In and Integrate Other Post-Acute Healthcare Businesses.*** Another important element to our growth strategy includes in-house development and acquisition of other post-acute care businesses that are adjacent to our existing service offerings. These businesses either directly or indirectly benefit our patients, help us collaborate more effectively with our partners, and allow us to compete more effectively in the rapidly-changing healthcare environment. Our leadership development programs facilitate these investments, and we have supported local leaders in exploring new business opportunities. We expect to continue to selectively incubate ancillary solutions in a disciplined manner that incentivizes our local leaders and bolsters the depth and breadth of services we offer within the post-acute care continuum.

Growth and Acquisition History

Much of our historical growth can be attributed to our expertise in acquiring strategic and underperforming operations and transforming them into market leaders in clinical quality, staff competency and financial performance. Our local leaders are trained to identify these opportunities for long-term organic growth as we strive to become the provider of choice in our local communities. Accordingly, we plan to continue to drive organic growth and acquire additional operations in existing and new markets in a disciplined manner.

From 2013 to 2018, we grew our home health and hospice services and senior living services revenue by 330.2%.

Revenue Growth Since 2013 (Dollars in Millions)

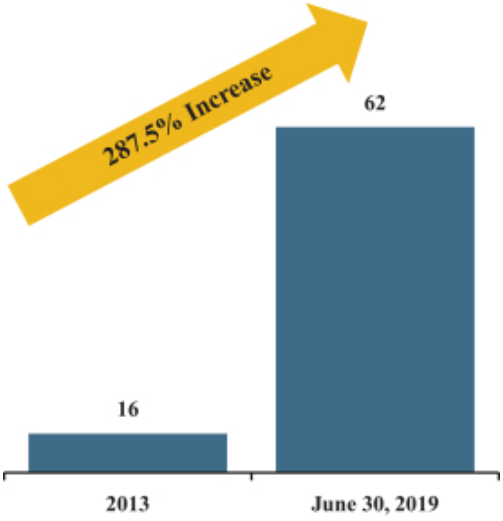


(1) Reflects the adoption of ASC 606, which includes a reduction to revenue of $1.8 million and $1.4 million for the year ended December 31, 2018 and the six months ended June 30, 2019, respectively.

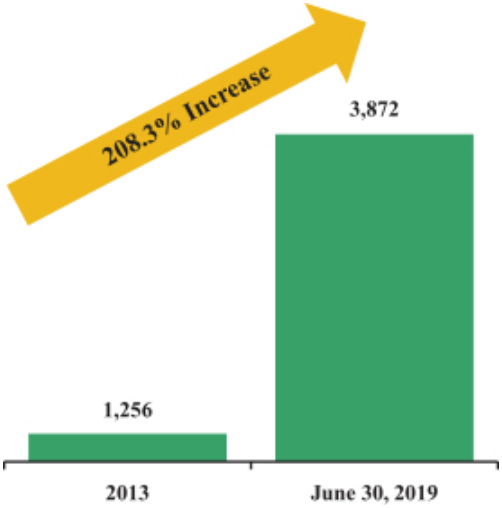
From 2013 to June 30, 2019, we grew the number of our home health and hospice agencies and senior living units by 287.5% and 208.3%, respectively.

Agency and Unit Growth Since 2013

Home Health and Hospice Agencies



Senior Living Units



We aim to continue to grow our revenue and earnings by acquiring additional operations in existing and new markets and expanding and renovating our existing operations.

	December 31,								June 30,
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Cumulative number of home health and hospice agencies	7	10	16	25	32	39	46	54	62
Cumulative number of senior living communities	8	10	12	15	36	36	43	50	51
Cumulative number of senior living units	887	1,034	1,256	1,587	3,184	3,184	3,434	3,820	3,872
Total number of home health, hospice, and senior living operations	15	20	28	40	68	75	89	104	113

Industry Trends

The healthcare sector is one of the largest and fastest-growing sectors of the U.S. economy. According to the Centers for Medicare and Medicaid Services, national healthcare spending increased from 8.9% of U.S. GDP, or $255 billion, in 1980 to an estimated 18% of GDP, or $3.6 trillion, in 2018. CMS projects national healthcare spending will grow by an average of 5.6% annually from 2018 through 2026, accounting for approximately 20% of U.S. GDP in 2026.

The home health, hospice and senior living segments are growing within the overall healthcare landscape in the United States. The home health market is estimated at approximately $90 billion and is growing at an estimated CAGR of 7%. The hospice industry is estimated at approximately $35 billion and is growing at an estimated CAGR of 5%. The senior living market is estimated at approximately $53 billion and growing at an

estimated CAGR of 5%. We believe that the industries in which we operate will continue to benefit from several macroeconomic and regulatory trends highlighted below:

- ***Increased Demand Driven by Aging Populations.*** As seniors account for an increasing percentage of the total U.S. population, we believe the demand for home health and hospice and senior living services will continue to increase. According to the census projection released by the U.S. Census Bureau in early 2018, between 2010 and 2030, the number of individuals over 65 years old is projected to be one of the fastest growing segments of the United States population, growing from 13% to 21%. The Bureau expects this segment to increase nearly 90% to 73 million, as compared to the total U.S. population which is projected to increase by 17% over that time period. Furthermore, the generation currently retiring has accumulated less savings than in the past, creating demand for more affordable senior housing and in-home care options. As a high quality provider in lower cost settings, we believe we are well-positioned to benefit from this trend.
- ***Shift of Patient Care to Lower Cost Alternatives.*** The growth of the senior population in the U.S. continues to increase healthcare costs, often faster than the available funding from government-sponsored healthcare programs. In response, government payors have adopted measures that encourage the treatment of patients in their homes and other cost-effective settings where the staffing requirements and associated costs are often significantly lower than the alternatives. With our emphasis on the home health, hospice and senior living industries, which are among the lowest cost settings within the post-acute care continuum, we expect this shift to continue to drive our growth.
- ***Transition to Value-Based Payment Models.*** In response to rising healthcare spending, commercial, government and other payors are generally shifting away from fee-for-service payment models toward value-based models, including risk-based payment models that tie financial incentives to quality, efficiency and coordination of care. We believe that payors will continue to emphasize reimbursement models driven by value and that our clinical outcomes combined with our services in lower cost settings will be increasingly rewarded. Many of our home health agencies already receive value-based payments, and we are well-positioned to capitalize on this growth.
- ***Significant Acquisition and Consolidation Opportunities.*** The home health, hospice and senior living industries are highly fragmented markets with thousands of small and regional providers and only a handful of large national players. There are over 12,300 Medicare-certified home health agencies, with the top ten largest operators accounting for about 21% of the market. There are approximately 4,200 hospice agencies in the U.S. with the top five largest operators accounting for about 14% of the total market share. As with the home health and hospice industries, there is significant fragmentation in the senior housing industry, with approximately 17,000 providers in the U.S. We believe that our strategy of acquiring strategic and underperforming operations in these highly fragmented markets will be an instrumental piece of our future growth.
- ***Changing Regulatory Framework.*** Regulations and reimbursement change frequently in our industries. Our model is designed to successfully navigate these regulatory and reimbursement changes. For example, in January 2017, CMS announced its intent to significantly modify the home health conditions of participation. Prior to the effective date in January 2018, our resources and operators worked together with local teams to formulate systems, policies and procedures to meet the new regulatory requirements at each operation, resulting in strong outcomes at our home health operations that have been surveyed. Similarly, CMS has proposed changes to the home health prospective payment system with the proposed implementation of the PDGM. This new reimbursement structure involves case mix calculation methodology refinements, changes to LUPA thresholds, the elimination of therapy thresholds, a change to the unit of payment from a 60-day episode to a 30-day episode, and phase out in 2020 and full elimination in 2021 of RAPs. Just as we have navigated other major reimbursement and regulatory changes, we believe that our unique operating model will mitigate the negative impacts of PDGM as local operations and clinical leaders, supported by our expert resources, effectively adapt to the new reimbursement environment.

Effects of Changing Prices

Medicare reimbursement rates and procedures are subject to change from time to time, which could materially impact our revenue. Our Medicare reimbursement rates and procedures for our home health and

hospice operations are based on the severity of the patient's condition, his or her service needs and other factors relating to the cost of providing services and supplies.

Various healthcare reform provisions became law upon enactment of the ACA. The reforms contained in the ACA have affected our operating subsidiaries in some manner and are directed in large part at increased quality and cost reductions. Several of the reforms are very significant and could ultimately change the nature of our services, the methods of payment for our services and the underlying regulatory environment. These reforms include modifications to the conditions of qualification for payment, bundling of payments to cover both acute and post-acute care and the imposition of enrollment limitations on new providers. Elections in the United States could result in significant changes in, and uncertainty with respect to, legislation, regulation, implementation of Medicare and/or Medicaid, and government policy that could significantly impact our business and the healthcare industry. We continually monitor these developments in an effort to respond to the changing regulatory environment impacting our business.

Home Health

On July 11, 2019, CMS issued a proposed rule updating the Medicare HH PPS rates and wage index for calendar year 2020. The rule proposes a 1.3% increase in home health payments, resulting from a 1.5% payment percentage update and a 0.2% decrease in aggregate payments because of changes to the rural add-on policy. The proposed rule implements the Patient Driven Groupings Model (PDGM), a revised case mix adjustment methodology, for home health services beginning on or after January 1, 2020, and proposes to adjust reimbursement under PDGM for assumed provider behavioral changes. The proposed rule also changes the unit of payment from 60-day episodes of care to 30-day periods of care, modifies payment regulations related to the content of the home health plan of care; allows therapist assistants to furnish maintenance therapy under the supervision of a licensed therapist; and proposes to change and eventually eliminate the split percentage payment approach under the HH PPS. Finally, this rule will include proposals related to the implementation of the permanent home infusion therapy benefit in 2021. These include proposed payment categories, amounts, and required and optional adjustments.

On November 13, 2018, CMS published a final rule which updates the Medicare HH PPS rates, including the conversion factor and case-mix weights for calendar years 2019 and 2020. This rule finalizes the definition of remote patient monitoring which will be allowed as an administrative expense on the home health agency's cost report. Further, effective January 1, 2020, CMS will implement PDGM, as mandated by the Bipartisan Budget Act of 2018. Under PDGM, the initial certification of patient eligibility, plan of care, and comprehensive assessment will remain valid for 60-day episodes of care, but payments for home health services will be made based upon 30-day payment periods. PDGM refines case mix calculation methodology by removing therapy thresholds and calculating reimbursement based on clinical characteristics including clinical group coding, comorbidity coding, and achievement of LUPA thresholds. While the proposed changes are to be implemented in a budget neutral manner to the industry, CMS's current proposal includes a negative 6.42% adjustment to account for assumed provider behavioral changes. The ultimate impact of these changes will vary by provider based on factors including patient mix and admission source. The finalization of these assumptions could negatively impact our future rate of reimbursement and could have a material adverse effect on our business and consolidated financial condition, results of operations and cash flows. This rule also finalizes changes to the HHVBP model. These changes focus on providing value over volume of services to patients. Once the changes are implemented, health payments will no longer be based on the number of visits provided, but rather the patient's medical condition and care needs. In calendar year 2019, there was an increase of 2.2% in reimbursement to home health agencies based on the agency's finalized policies.

On November 1, 2017, CMS issued a final rule that became effective on January 1, 2018 and updated the calendar year 2018 Medicare payment rates and the wage index for home health agencies serving Medicare beneficiaries. The rule also finalized proposals for the HHVBP model and the HHQRP. Under the final rule, Medicare payments will be reduced by 0.4%. This decrease reflects the effects of a 1% home health payment update, a 0.9% adjustment to the national, standardized 60-day episode payment rate to account for nominal case-mix growth, and a 0.5% adjustment in payments due to the sunset of the rural add-on provision.

On January 13, 2017, CMS issued a final rule that modernized CoPs. This rule is a continuation of CMS's effort to improve quality of care while streamlining provider requirements to reduce unnecessary procedural requirements. The rule makes significant revisions to the conditions currently in place, including (1) adding new CoPs related to quality assurance and performance improvement programs and infection control; and (2) expanding or revising requirements related to patient rights, comprehensive evaluations, coordination and care planning, home health aide training and supervision, and discharge and transfer summary and time frames. The new CoPs became effective on January 13, 2018.

On October 31, 2016, CMS issued final payment changes to HH PPS for calendar year 2017. Under this rule, Medicare payments were reduced by 0.7%. This decrease reflects a negative 0.97% adjustment to the national, standardized 60-day episode payment rate to account for nominal case-mix growth from 2012 through 2014; a 2.3% reduction in payments due to the final year of the four-year phase-in of the rebasing adjustments to the national, standardized 60-day episode payment rate, the national per-visit payment rates and the non-routine medical supplies ("NRS") conversion factor; and the effects of the revised fixed-dollar loss ratio used in determining outlier payments; partially offset by the home health payment update percentage of 2.5%.

On November 5, 2015, CMS issued final payment changes to HH PPS for calendar year 2016. Under this rule, Medicare payments were reduced by 1.4%. This decrease reflects a 1.9% home health payment update percentage; a 0.9% decrease in payments due to the 0.97% payment reduction to the national, standardized 60-day episode payment rate to account for nominal case-mix growth from 2012 through 2014; and a 2.4% decrease in payments due to the third year of the four-year phase-in of the rebasing adjustments to the national, standardized 60-day episode payment rate, the national per-visit payment rates, and the NRS conversion factor. Along with the payment update, CMS revised the International Classification of Diseases 10 ("ICD-10") CM translation list and adding certain initial encounter codes to the HH PPS Grouper based upon revised ICD-10-CM coding guidance.

Pursuant to the rule, CMS also implemented a HHVBP model effective for calendar year 2016, in which all Medicare-certified home health agencies in selected states are required to participate. The model applied a reduction or increase to Medicare payments depending on quality performance, for all agencies delivering services within nine randomly-selected states. Payment adjustments are applied on an annual basis, beginning at 3% in the first payment adjustment year, 5% in the second payment adjustment year, 6% in the third payment adjustment year and 8% in the final two payment adjustment years.

Lastly, CMS implemented a standardized cross-setting measure for calendar year 2016. The CoPs require home health agencies to submit OASIS assessments within 30 days of completing the assessment of the beneficiary, as a condition of payment and also for quality measurement purposes. Commencing on April 3, 2017, if the OASIS assessment is not found in the quality system upon receipt of a final claim for a home health episode and the receipt date of the claim is more than 30 days after the assessment completion date, Medicare systems will deny the claim. Home health agencies that do not submit quality measure data to CMS incur a 2% reduction in their annual home health payment update percentage. Under the rule, all home health agencies are required to timely submit both Start of Care (initial assessment) or Resumption of Care OASIS assessment and a Transfer or Discharge OASIS assessment for a minimum of 70% of all patients with episodes of care occurring during the annual reporting period starting July 1, 2015 and ending June 30, 2016, 80% of all patients with episodes occurring during the reporting period starting July 1, 2016 and ending June 30, 2017, and 90% for all episodes beginning on or after July 1, 2017.

Hospice

On July 31, 2019, CMS issued a final rule that updated the fiscal year 2020 hospice payment rates, wage index and cap amount. The final rule calls for a 2.6% increase in hospice payment rates for fiscal year 2020. This increase is based on the proposed fiscal year 2020 hospital market basket increase of 3.0% reduced by the multifactor productivity adjustment of 0.4%. The rule establishes a rebasing of the continuous home care, general

inpatient care, and the inpatient respite care per diem payment rates in a budget-neutral manner to more accurately align Medicare payments with the costs of providing care. Specifically, the rule proposes to increase these rates by 36.6%, 161.2%, and 31.0% respectively to account for the disparity between reimbursement and cost. In order to maintain budget neutrality, CMS also proposes to correspondingly reduce the RHC rate by 2.7%. Hospices that fail to meet quality reporting requirements receive a 2.0% reduction to the annual market basket update for the year. Further, the rule establishes the hospice cap amount for the fiscal year 2020 cap year at $29,964.78, which is equal to the fiscal year 2019 cap amount of $29,205.44 updated by the final rule for fiscal year 2020 hospice payment update percentage of 2.6%. In addition to payment updates, the final rule contains new regulations to modify the election statement requirements and require hospices to prepare an addendum to the election entitled “Patient Notification of Hospice Non-Covered Items, Services, and Drugs,” which will provide the patient with information related to any diagnoses, treatment, or medications that are considered by the hospice to be unrelated to the terminal diagnoses. In addition to its preparation, the hospice is required to provide the addendum upon request by the patient or the patients representative within five days, if requested at the time of election, or within 72 hours if requested thereafter.

On August 1, 2018, CMS issued its final rule outlining the fiscal year 2019 Medicare payment rates, wage index, and cap amount for hospices serving Medicare beneficiaries. Under the final rule, the hospice payment update is 1.8%, which reflects a market basket update of 2.9%, a 0.8% reduction for the MFP adjustment and an additional 0.3% reduction as mandated under the ACA. For hospices that do not submit required quality data, the hospice payment update percentage will be reduced by an additional 2%, for a net negative 0.2%. The final rule also specified that the hospice cap was updated using the hospice payment update rather than the consumer price index. Accordingly, there was be a 1.8% increase in aggregate cap payments made to hospices annually. The final rule also includes language that reflected the change in the Bipartisan Budget Act of 2018 which recognizes physician assistants as attending physicians for Medicare hospice beneficiaries effective January 1, 2019. Physician assistants are reimbursed for their services at 85% of the fee schedule amount for designated attending physicians. Additionally, the rule finalized changes to HQRP, also effective January 1, 2019, including changes to the data review and correction timeline for data submitted using the Hospice Item Set.

On August 1, 2017, CMS issued its final rule outlining the fiscal year 2018 Medicare payment rates, wage index and cap amount for hospices serving Medicare beneficiaries. The final rule used a net market basket percentage increase of 1% to update the federal rates, as mandated by section 411(d) of the MACRA. Although, if a hospice fails to comply with quality reporting program requirements, there will be a 2% reduction to the market basket update for the fiscal year involved. The hospice cap amount for fiscal year 2018 was increased by 1%, which is equal to the 2017 cap amount updated by the fiscal year 2018 hospice payment update percentage of 1%. In addition, this rule discusses changes to the HQRP, including changes to CAHPS hospice survey measures and plans for sharing HQRP data in fiscal year 2017.

On July 29, 2016, CMS issued its final rule outlining fiscal year 2017 Medicare payment rates, wage index and cap amount for hospices serving Medicare beneficiaries. Under the final rule, there was a net 2.1% increase in hospice payments effective October 1, 2016. The hospice payment increase was the net result of 2.7% inpatient hospital market basket update, reduced by a 0.3% productivity adjustment and by a 0.3% adjustment set by the ACA. The hospice cap amount for fiscal year 2017 increased by 2.1%, which is equal to the 2016 cap amount updated by the fiscal year 2017 hospice payment update percentage of 2.1%. In addition, this rule changes the HQRP requirements, including care surveys and two new quality measures that assess hospice staff visits to patients and caregivers in the last three and seven days of life and the percentage of hospice patients who received care processes consistent with guidelines.

On July 31, 2015, CMS issued its final rule outlining fiscal year 2016 Medicare payment rates and the wage index for hospices serving Medicare beneficiaries. Under the final rule, there was a net 1.1% increase in payments effective October 1, 2015. The hospice payment increase was the net result of a hospice payment update to the hospice per diem rates of 2.1% (a “hospital market basket” increase of 2.4% minus 0.3% for reductions required by law) and 1.2% decrease in payments to hospices due to updated wage data and the

phase-out of its wage index budget neutrality adjustment factor, offset by the newly announced Core Based Statistical Areas delineation impact of 0.2%. The rule also created two different payment rates for RHC that resulted in a higher base payment rate for the first 60 days of hospice care and a reduced base payment rate for 61 or more days of hospice care and a Service Intensity Add-On ("SIA") Payment for fiscal year 2016 and beyond in conjunction with the proposed RHC rates.

Medicare Coverage Settlement Agreement. A proposed federal class action settlement was filed in federal district court on October 16, 2012 that would end the Medicare coverage standard for skilled nursing, home health and outpatient therapy services that a beneficiary's condition must be expected to improve. The settlement was approved on January 24, 2013, which tasked CMS with revising its Medicare Benefit Manual and numerous other policies, guidelines and instructions to ensure that Medicare coverage is available for skilled maintenance services in the home health, skilled nursing and outpatient settings. CMS was also required to develop and implement a nationwide education campaign for all who make Medicare determinations to ensure that beneficiaries with chronic conditions are not denied coverage for critical services because their underlying conditions will not improve, after which the members of the class were given the opportunity for re-review of their claims. The major provisions of this settlement agreement have been implemented by CMS, which could favorably impact Medicare coverage reimbursement for our services. However, healthcare providers may be subject to liability in the event they fail to appropriately adapt to the newly clarified reimbursement rules and consequently overbill state Medicaid programs in connection with services rendered to dual-eligible Medicare patients (*i.e.*, by not maximizing Medicare coverage before billing Medicaid).

Historically, adjustments to reimbursement under Medicare have had a significant effect on our revenue. For a discussion of historic adjustments and recent changes to the Medicare program and related reimbursement rates, see "Risk Factors" under the headings "*Risks Related to Our Business and Industry—Our revenue could be impacted by federal and state changes to reimbursement and other aspects of Medicaid and Medicare*," "*—Our future revenue, financial condition and results of operations could be impacted by continued cost containment pressures on Medicaid spending*," and "*—Reforms to the U.S. healthcare system could impose new requirements upon us and may lower our reimbursements*." The federal government and state governments continue to focus on efforts to curb spending on healthcare programs such as Medicare and Medicaid. We are not able to predict the outcome of the legislative process. We also cannot predict the extent to which proposals will be adopted or, if adopted and implemented, what effect, if any, such proposals and existing new legislation will have on us. Efforts to impose reduced allowances, greater discounts and more stringent cost controls by government and other payors are expected to continue and could adversely affect our business, financial condition and results of operations.

Payor Sources

We derive revenue primarily from the Medicare and Medicaid programs, private pay patients and residents and managed care payors.

Medicare. Medicare is a federal program that provides healthcare benefits to individuals who are 65 years of age or older or are disabled. The Medicare home health benefit is available both for patients who need care following discharge from a hospital and patients who suffer from chronic conditions that require ongoing but intermittent care. As a condition of participation under Medicare, beneficiaries must be homebound (meaning that the beneficiary is unable to leave his/her home without a considerable and taxing effort), require intermittent skilled nursing, physical therapy or speech therapy services, and receive treatment under a plan of care established and periodically reviewed by a physician. Medicare rates are based on the severity of the patient's condition, his or her service needs and other factors relating to the cost of providing services and supplies, bundled into 60-day episodes of care. There is no limit to the number of episodes a patient may receive as long as he or she remains Medicare eligible.

The Medicare hospice benefit is also available to Medicare-eligible patients with terminal illnesses, certified by a physician, where life expectancy is six months or less. Medicare rates are based on standard prospective rates for delivering care over a base 90-day or 60-day period (90-day episodes of care for the first two episodes and 60-day episodes of care for any subsequent episodes). Payments are based on daily rates for each day a beneficiary is enrolled in the hospice benefit. Rates are set based on specific levels of care, are adjusted by a wage index to reflect healthcare labor costs across the country and are established annually through Federal legislation. Medicare payments are subject to two fixed annual caps, which are assessed on a provider number basis. The annual caps per patient, known as hospice caps, are calculated and published by the Medicare fiscal intermediary on an annual basis and cover the twelve month period from November 1 through October 31. The caps can be subject to annual and retroactive adjustments, which can cause providers to owe money back to Medicare if such caps are exceeded.

Medicaid. Medicaid is a state-administered program financed by state funds and matching federal funds. Medicaid programs are administered by the states and their political subdivisions, and often go by state-specific names, such as Medi-Cal in California and the Arizona Healthcare Cost Containment System in Arizona. Medicaid programs generally provide health benefits for qualifying individuals, and may supplement Medicare benefits for financially needy persons aged 65 and older. Medicaid reimbursement formulas are established by each state with the approval of the federal government in accordance with federal guidelines.

Medicaid reimburses home health and hospice providers, senior living communities, physicians, and certain other healthcare providers for care provided to certain low income patients. Reimbursement varies from state to state and is based upon a number of different systems, including cost-based, prospective payment and negotiated rate systems. Rates are subject to statutory and regulatory changes and interpretations and rulings by individual state agencies.

Managed Care and Private Insurance. Managed care patients consist of individuals who are insured by certain third-party entities, or who are Medicare beneficiaries who have assigned their Medicare benefits to a senior managed care organization plan. Another type of insurance, long-term care insurance, is also becoming more widely available to consumers, but is not expected to contribute significantly to industry revenues in the near term.

Private and Other Payors. Private and other payors consist primarily of individuals, family members or other third parties who directly pay for the services we provide.

Billing and Reimbursement. Our revenue from government payors, including Medicare and state Medicaid agencies, is subject to retroactive adjustments in the form of claimed overpayments and underpayments based on rate adjustments, audits or asserted billing and reimbursement errors. We believe billing and reimbursement errors, disagreements, overpayments and underpayments are common in our industries and, when necessary, we engage government payors and their contractors in reviews, audits and appeals of our claims for reimbursement due to the subjectivity inherent in the processes related to patient diagnosis and care, recordkeeping, claims processing and other aspects of the patient service and reimbursement processes, and the errors or disagreements those subjectivities can produce.

We take seriously our responsibility to act appropriately under applicable laws and regulations, including Medicare and Medicaid billing and reimbursement laws and regulations. Accordingly, our subsidiaries employ accounting, reimbursement and compliance specialists who train, mentor and assist our clerical and clinical staffs in the preparation of claims and supporting documentation, regularly monitor billing and reimbursement practices within our operating subsidiaries, and assist with the appeal of overpayment and recoupment claims generated by Medicare contractors and other auditors and reviewers. In addition, due to the potentially serious consequences that could arise from any impropriety in our billing and reimbursement processes, we investigate allegations of impropriety or irregularity relative thereto, and sometimes do so with the aid of outside auditors (other than our independent registered public accounting firm), attorneys and other professionals.

Whether information about our billing and reimbursement processes is obtained from external sources or activities such as Medicare and Medicaid audits or probe reviews, internal investigations, or our regular day-to-day monitoring and training activities, we collect and utilize such information to improve our billing and reimbursement functions and the various processes related thereto. While, like other operators in our industry, we experience billing and reimbursement errors, disagreements and other effects of the inherent subjectivities in reimbursement processes on a regular basis, we believe that we are in substantial compliance with applicable Medicare and Medicaid reimbursement requirements. We continually strive to improve the efficiency and accuracy of all of our operational and business functions, including our billing and reimbursement processes.

The following table sets forth our total revenue by payor source generated by each of our reportable segments and as a percentage of total revenue for the periods indicated (dollars in thousands):

	Six Months Ended June 30, 2019				
	Home Health and Hospice Services				
	Home Health Services	Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 23,360	$ 42,039	$ —	$ 65,399	40.7%
Medicaid	2,953	4,887	13,697	21,537	13.4
Subtotal	26,313	46,926	13,697	86,936	54.1
Managed care	13,185	690	—	13,875	8.6
Private and other (1)	9,149	62	50,619	59,830	37.3
Total revenue	$ 48,647	$ 47,678	$ 64,316	$ 160,641	100.0%

(1) Private and other payors in our home health and hospice services segment includes revenue from all payors generated in our home care operations.

	Six Months Ended June 30, 2018				
	Home Health and Hospice Services				
	Home Health Services	Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 20,353	$ 35,584	$ —	$ 55,937	40.6%
Medicaid	2,215	3,543	10,933	16,691	12.1
Subtotal	22,568	39,127	10,933	72,628	52.7
Managed care	11,590	308	—	11,898	8.6
Private and other (1)	7,347	67	45,828	53,242	38.7
Total revenue	$ 41,505	$ 39,502	$ 56,761	$ 137,768	100.0%

(1) Private and other payors in our home health and hospice services segment includes revenue from all payors generated in our home care operations.

	Year Ended December 31, 2018				
	Home Health and Hospice Services				
	Home Health Services	Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 42,091	$ 73,906	$ —	$ 115,997	40.5%
Medicaid	4,680	7,729	23,624	36,033	12.6
Subtotal	46,771	81,635	23,624	152,030	53.1
Managed care	23,541	918	—	24,459	8.6
Private and other (1)	16,067	105	93,397	109,569	38.3
Total revenue	$ 86,379	$ 82,658	$ 117,021	$ 286,058	100.0%

(1) Private and other payors in our home health and hospice services segment includes revenue from all payors generated in our home care operations.

The following table demonstrates the impact of adopting ASC 606 on the Company's segment revenues by major payor source for the year ended December 31, 2018, by showing revenue amounts as if the previous accounting guidance was still in effect.

	Year Ended December 31, 2018 (Adjusted to reflect prior revenue guidance)				
	Home Health and Hospice Services				
	Home Health Services	Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 42,405	$ 74,321	$ —	$ 116,726	40.5%
Medicaid	5,042	7,760	23,624	36,426	12.7
Subtotal	47,447	82,081	23,624	153,152	53.2
Managed care	24,103	946	—	25,049	8.7
Private and other (1)	16,178	116	93,397	109,691	38.1
Total revenue	$ 87,728	$ 83,143	$ 117,021	$ 287,892	100.0%

(1) Private and other payors in our home health and hospice services segment includes revenue from all payors generated in our home care operations.

	Year Ended December 31, 2017				
	Home Health and Hospice Services				
	Home Health Services	Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 36,592	$ 61,422	$ —	$ 98,014	39.0%
Medicaid	4,398	6,832	19,813	31,043	12.4
Subtotal	40,990	68,254	19,813	129,057	51.4
Managed care	21,058	765	—	21,823	8.7
Private and other (1)	10,997	339	88,775	100,111	39.9
Total revenue	$ 73,045	$ 69,358	$ 108,588	$ 250,991	100.0%

(1) Private and other payors in our home health and hospice services segment includes revenue from all payors generated in our home care operations.

	Year Ended December 31, 2016				
	Home Health and Hospice Services				
	Home Health Services	Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 32,376	$ 48,124	$ —	$ 80,500	37.1%
Medicaid	4,131	6,367	16,708	27,206	12.5
Subtotal	36,507	54,491	16,708	107,706	49.6
Managed care	16,913	751	—	17,664	8.1
Private and other (1)	6,906	245	84,704	91,855	42.3
Total revenue	$ 60,326	$ 55,487	$ 101,412	$ 217,225	100.0%

(1) Private and other payors in our home health and hospice services segment includes revenue from all payors generated in our home care operations.

Reimbursement for Specific Services

Reimbursement for Home Health Services. Our home health business derives substantially all of its revenue from Medicare and managed care sources. Our home health services generally consist of providing some combination of the services of registered nurses, speech, occupational and physical therapists, medical social workers and certified home health aides. Home health is often a cost-effective solution for patients, and can also increase their quality of life and allow them to receive quality medical care in the comfort and convenience of a familiar setting.

Under the current rate, we receive a standard prospective Medicare payment for delivering care over a 60-day episode. There is no limit to the number of episodes a beneficiary may receive as long as he or she remains eligible. The base episode payment is a flat rate that is adjusted upward or downward based upon differences in the expected resource needs of individual patients as indicated by clinical severity, functional severity and service utilization. The magnitude of the adjustment is determined by each patient's categorization into one of 153 payment groups, known as Home Health Resource Groups and the costliness of care for patients in each group relative to the average patient. Payment is further adjusted for differences in local labor costs using the hospital wage index. We bill and are reimbursed for services in two stages: an initial request for advance payment when the episode commences and a final claim when the episode is completed. We submit all Medicare claims through the Medicare Administrative Contractors for the federal government. We receive 60% of the estimated payment for a patient's initial episode up-front (after the initial assessment is completed and upon initial billing) and the remaining 40% upon completion of the episode and after all final treatment orders are signed by the physician. In the event of subsequent episodes, reimbursement timing is 50% up-front and 50% upon completion of the episode. Final payments may reflect base payment adjustments for case-mix and geographic wage differences and a 2.0% sequestration reduction. In addition, final adjustments may reflect retroactive adjustments to ensure the adequacy and effectiveness of the total reimbursement, including (a) an outlier payment if the patient's care was unusually costly; (b) a low utilization adjustment if the number of visits was fewer than five; (c) a partial payment if the patient transferred to another provider or transferred from another provider before completing the episode; (d) a payment adjustment based upon the level of covered therapy services; (e) the number of episodes of care provided to a patient, regardless of whether the same home health provider provided care for the entire series of episodes; (f) changes in the base episode payments established by the Medicare program; (g) adjustments to the base episode payments for case mix and geographic wages; and (h) recoveries of overpayments. Because such adjustments are determined upon the completion date of the episode, retroactive adjustments could impact our financial results.

Effective January 1, 2020, CMS intends to implement the PDGM prospective payment system, as mandated by the Bipartisan Budget Act of 2018. Under PDGM, the initial certification of patient eligibility, plan of care, and comprehensive assessment will remain valid for 60-day episodes of care, but payments for home health services will be made based upon 30-day payment periods and the upfront payment will be phased out in 2020 and eliminated by 2021. PDGM refines case mix calculation methodology by removing therapy thresholds and calculating reimbursement based on clinical characteristics including clinical group coding, admission source, comorbidity coding, and achievement of LUPA thresholds. CMS proposes to implement PDGM in a budget neutral manner, but that neutrality assumes that providers will make certain coding and behavioral changes. Therefore, the rule's ultimate impact will vary by provider based on factors including patient mix, admission source, and providers' ability to adapt to the new reimbursement model.

We verify a patient's eligibility for home health benefits at the time of admission. Through the verification process we are able to determine the payor source and eligibility for reimbursement of each patient. Accordingly, we do not have material amounts of reimbursements pending approval based on the eligibility of a patient to receive reimbursement from the applicable payor program. Further, we provide only limited services to patients who are ineligible for reimbursement from a third-party payor. Therefore, we do not have any material amounts of reimbursements due from patients who are self-pay.

Home health payment rates are updated annually by the home health market basket percentage as adjusted by Congress. CMS establishes the home health market basket index, which measures inflation in the prices of an appropriate mix of goods and services included in home health services.

Reimbursement for Hospice Services. Hospice revenues are primarily derived from Medicare. We receive one of four predetermined rate categories based on four different levels of care provided: RHC, continuous home care, inpatient respite care and general inpatient care. This payment structure is designed to include all of the services needed to manage a beneficiary's care. These rates are subject to annual adjustments based on inflation and geographic wage considerations. CMS has established a two-tiered payment system for RHC. Effective January 1, 2016, hospices are reimbursed at a higher rate for RHC services provided from days of service 1 through 60 and a lower rate for all subsequent days of service. CMS also provided for a Service Intensity Add-On, which increases payments for certain RHC services provided by registered nurses and social workers to hospice patients during the final seven days of life.

We are subject to two limitations on Medicare payments for hospice services. First, we are subject to an inpatient cap. This cap limits the number of days that can be reimbursed at an inpatient care rate (both respite and general) to 20% of the total number of days of hospice care (both inpatient and in the home) that we provide to Medicare beneficiaries. Payments for days in excess of this limit are paid at the RHC rate, and we must reimburse the government for any amounts received in excess of that rate.

Second, hospices are subject to an aggregate payment cap. This cap amount is calculated annually by multiplying the number of beneficiaries electing hospice care during the year by a statutory amount that is indexed for inflation. For cap years ended on or after October 31, 2012, and all subsequent cap years, the hospice aggregate cap is calculated using the proportional method. Under the proportional method, the hospice shall include in its number of Medicare beneficiaries only that fraction which represents the portion of a patient's total days of care in all hospices and all years that were spent in that hospice in that cap year, using the best data available at the time of the calculation. The whole and fractional shares of Medicare beneficiaries' time in a given cap year are then summed to compute the total number of Medicare beneficiaries served by that hospice in that cap year. The hospice's total Medicare beneficiaries in a given cap year is multiplied by the Medicare per beneficiary cap amount, resulting in that hospice's aggregate cap, which is the allowable amount of total Medicare payments that hospice can receive for that cap year. If a hospice exceeds its aggregate cap, then the hospice must repay the excess back to Medicare. The Medicare cap amount is reduced proportionately for patients who transferred in and out of our hospice services.

Traditionally, the hospice inpatient and aggregate caps covered revenue received and services provided from November 1 to October 31. The 2017 cap year was an 11 month transition year with cap amounts calculated for the 11 month period from November 1, 2016 to September 30, 2017. Beginning October 1, 2017, CMS has changed the hospice inpatient and aggregate cap year to coincide with the federal fiscal year (October 1 to September 30).

Reimbursement for Senior Living Services. Assisted living, independent living and memory care community revenue is primarily derived from private pay residents at rates we establish based upon the services we provide and market conditions in the area of operation. In addition, Medicaid or other state-specific programs in some states where we operate supplement payments for board and care services provided in assisted living and memory care communities.

Competition

The post-acute care industry is highly competitive, and we expect that the industry will become increasingly competitive in the future. The industry is highly fragmented and characterized by numerous local and regional providers, in addition to large national providers that have achieved geographic diversity and economies of scale. Some of our operating subsidiaries also compete with skilled nursing facilities, inpatient rehabilitation facilities

and long-term acute care hospitals. Competitiveness may vary significantly from location to location, depending upon factors such as the number of competing operations, availability of services, expertise of staff, and the physical appearance and amenities of senior living communities. We believe that the primary competitive factors in the post-acute care industry are:

- ability to attract and to retain qualified management and caregivers;
- reputation and achievements of quality healthcare outcomes and patient and resident satisfaction;
- attractiveness and location of senior living communities and other physical assets;
- the expertise and commitment of operational management teams and employees; and
- community value, including amenities and ancillary services.

We seek to compete effectively in each market by establishing a reputation within the local community as the "operation of choice." This means that the operation leaders are generally free to discern and address the unique needs and priorities of healthcare professionals, customers and other stakeholders in the local community or market, and then create superior service offerings for that particular community or market that are calculated to encourage prospective customers and referral sources to choose or recommend the operation.

Increased competition could limit our ability to attract and retain patients and residents, maintain or increase rates or to expand our business. Some of our competitors have greater financial and other resources than we have, may have greater brand recognition and may be more established in their respective communities than we are. Competing companies may also offer newer communities or different programs or services than we offer, and may therefore attract individuals who are currently patients of our communities, potential patients of our facilities, or who are otherwise receiving our healthcare services. Other competitors may have lower expenses or other competitive advantages than us and, therefore, provide services at lower prices than we offer.

There are few barriers to entry in the home health and hospice business in jurisdictions that do not require certificates of need or permits of approval. Our primary competition in these jurisdictions comes from local privately and publicly-owned and hospital-owned healthcare providers. We compete based on the availability of personnel, the quality of services, expertise of visiting staff, and, in certain instances, on the price of our services. In addition, we compete with a number of non-profit organizations that finance acquisitions and capital expenditures on a tax-exempt basis and charity-funded programs that may have strong ties to their local medical communities and receive charitable contributions that are unavailable to us.

Our senior living services also compete with local, regional and national companies. The primary competitive factors in these businesses include reputation, cost of services, quality of clinical services, responsiveness to patient/resident needs, location and the ability to provide support in other areas such as third-party reimbursement, information management and patient recordkeeping. The market for acquiring and/or operating senior living communities is highly competitive, and some of our present and potential senior living competitors have, or may obtain, greater financial resources than us and may have a lower cost of capital. In addition, several publicly-traded and non-traded real estate investment trusts, or REITs, and private equity firms have similar asset acquisition objectives as we do, along with greater financial resources and/or lower costs of capital than we are able to obtain.

Labor

The operation of our home health and hospice operations and senior living communities requires a large number of highly skilled healthcare professionals and support staff. As of June 30, 2019, we had approximately 4,672 employees who were employed by our operating subsidiaries and Service Center. For the six months ended June 30, 2019, 52.7% of our total expenses were payroll related for our operations. Periodically, market forces, which vary by region, require that we increase wages in excess of general inflation or in excess of increases in

reimbursement rates we receive. We believe that we staff appropriately, focusing primarily on the acuity level and day-to-day needs of our patients and residents. We seek to manage our labor costs by improving staff retention, improving operating efficiencies, maintaining competitive wage rates and benefits and reducing reliance on overtime compensation and temporary nursing agency services.

The healthcare industry as a whole has been experiencing shortages of qualified professional clinical staff. We believe that our ability to attract and retain qualified professional clinical staff stems from our ability to offer attractive wage and benefits packages, a high level of employee training, a culture that provides incentives for individual efforts and a quality work environment.

Relationship with Ensign

Following the spin-off, we will continue to benefit from the existing relationship with Ensign, which provides, and expects to continue to provide, healthcare services across the post-acute care continuum, including its skilled nursing, senior living and other ancillary services. Under a transition services agreement, Ensign and Pennant will provide transition services to each other for, among other things, finance, information technology, human resources, payroll, tax and other services for a limited time to help ensure an orderly transition following the distribution. Certain subsidiaries of each of Ensign and Pennant will also enter into the Ensign Leases, which are long term, "triple-net" lease agreements for the lease of certain senior living properties. In addition, subsidiaries of Ensign and Pennant may opt into a voluntary joint post-acute care preferred provider network called the Ensign Pennant Care Continuum, which will allow participants to collaborate together to enhance voluntary transitions between clinical care settings.

For a more detailed description, see "Certain Relationships and Related Party Transactions."

Properties

Our headquarters is located in a leased office at 1675 East Riverside Drive, Suite 150, Eagle, Idaho 83616, which lease expires March 31, 2026. We have two options to extend our lease term at this location for an additional 5-year term for each option.

Service Center.

We believe our operating model is best supported with an innovative Service Center, where highly trained resources provide centralized accounting, payroll, human resources, information technology, legal, risk management and other centralized services to home health and hospice or senior living subsidiaries through contractual relationships with such subsidiaries.

In order to accommodate our Service Center resources, we currently lease two offices. We lease approximately 8,065 square feet of office space located at 1675 East Riverside Drive, Suite 200, Eagle, Idaho 83616, pursuant to a lease that expires March 31, 2024. We have two options to extend our lease term at this location for an additional 5-year term for each option. In addition, we currently lease 6,101 rentable square feet of office space located at 1600 West Broadway Road, Tempe, Arizona 85282, pursuant to a lease that expires September 30, 2021. We have one option to extend our lease term at this location for an additional 5-year term.

Home Health and Hospice Agencies and Senior Living Communities.

As of June 30, 2019, we had 62 home health, hospice and home care agencies in Arizona, California, Colorado, Idaho, Iowa, Nevada, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin and Wyoming.

As of June 30, 2019, we had 51 affiliated senior living communities in Arizona, California, Nevada, Texas, Washington and Wisconsin, with 3,872 operating units. As of June 30, 2019, all of our communities were leased through long-term lease arrangements. We currently do not manage any communities for third parties, except on a short-term basis pending receipt of new operating licenses by our operating subsidiaries.

The following table provides summary information regarding the locations of our home health and hospice agencies and our senior living communities and operational units as of June 30, 2019:

State	Home Health Agencies	Hospice Agencies	Senior Living Communities	Senior Living Units
Arizona	2	4	7	1,249
California	5	3	8	670
Colorado	2	1	—	—
Idaho	3	3	—	—
Iowa	1	1	—	—
Nevada	—	1	4	385
Oklahoma	2	1	—	—
Oregon	1	1	—	—
Texas	3	6	12	712
Utah	8	3	—	—
Washington	6	1	1	98
Wisconsin	1	1	19	758
Wyoming	1	1	—	—
Total	35	27	51	3,872

Government Regulation

We are highly regulated by federal, state, and local authorities. In order to operate our businesses we must comply with federal, state and local laws relating to licensure, delivery and adequacy of medical care, distribution of pharmaceuticals, equipment, personnel, operating policies, fire prevention, rate-setting, billing and reimbursement, building codes and environmental protection. Additionally, we must also adhere to anti-kickback statutes, physician referral laws, and safety and health standards set by the Occupational Safety and Health Administration. Changes in the law or new interpretations of existing laws may have an adverse impact on our methods and costs of doing business.

Our operating subsidiaries are also subject to various regulations and licensing requirements promulgated by state and local health and social service agencies and other regulatory authorities. Requirements vary from state to state and these requirements can affect, among other things, personnel education and training, patient and personnel records, services, staffing levels, monitoring of patient wellness, patient furnishings, housekeeping services, dietary requirements, emergency plans and procedures, certification and licensing of staff prior to beginning employment, and patient rights. These laws and regulations could limit our ability to expand into new markets and to expand our services and operations in existing markets.

Federal Healthcare Reform. On January 13, 2017, CMS issued a Final Rule revising the CoPs for home health agencies serving Medicare beneficiaries. The rule makes significant revisions to the conditions currently in place, including (1) adding new CoPs related to quality assurance and performance improvement programs; and (2) expanding or revising requirements related to patient rights, comprehensive evaluations, coordination and care planning, home health aide training and supervision, and discharge and transfer summary and time frames. Without any contrary action by the new administration, the new CoPs became effective January 13, 2018.

On February 2, 2016, CMS issued its final rule concerning face-to-face requirements for Medicaid home health services. Under the rule, the Medicaid home health service definition was revised to be consistent with applicable sections of the ACA and MACRA. The rule also requires that for the initial ordering of home health services, the physician must document the occurrence of a face-to-face encounter related to the primary reason the beneficiary requires home health services occurred no more than 90 days before or 30 days after the start of services. The final rule also requires that for the initial ordering of certain medical equipment, the physician or

authorized non-physician provider must document a face-to-face encounter that is related to the primary reason the beneficiary requires medical equipment which occur no more than six months prior to the start of services.

On October 30, 2015, CMS released a final rule addressing, among other things, implementation of certain provisions of MACRA, including the implementation of the new Merit-Based Incentive Payment System ("MIPS") that streamlines multiple quality programs and Alternative Payment Models ("APMs") that give bonus payments for participation in eligible APMs. The current Value-Based Payment Modifier program is set to expire in 2018, with the first MIPS adjustments to begin in 2019. The October 30, 2015 final rule added measures where gaps exist in the current Physician Quality Reporting System, which is used by CMS to track the quality of care provided to Medicare beneficiaries. The final rule could impact our revenue in the future.

On April 16, 2015, the President signed MACRA into law. This law included a number of provisions, including (1) providing for an increase of 3% of the payment amount otherwise made for home health services furnished in rural areas, and (2) payment updates for post-acute providers at 1% after other adjustments required by the ACA for 2018. In addition, it increased premiums for Part B and Part D of Medicare for beneficiaries with income above certain levels and made numerous other changes to Medicare and Medicaid.

The IMPACT Act, which was signed into law on October 6, 2014, requires the submission of standardized assessment data for quality improvement, payment and discharge planning purposes across the spectrum of PACs, including home health agencies. The IMPACT Act requires PACs to begin reporting: (1) standardized patient assessment data at admission and discharge as of October 1, 2018 for post-acute care providers, and as of January 1, 2019 for home health agencies; (2) new quality measures, including functional status, skin integrity, medication reconciliation, incidence of major falls, and patient preference regarding treatment and discharge at various intervals between October 1, 2016 and January 1, 2019; and (3) resource use measures, including Medicare spending per beneficiary, discharge to community, and hospitalization rates of potentially preventable readmissions as of October 1, 2016 for post-acute care providers, and as of January 1, 2017 for home health agencies. Failure to report such data when required would subject an agency to a 2% reduction in market basket prices then in effect.

The IMPACT Act further requires HHS and the Medicare Payment Advisory Commission, a commission chartered by Congress to advise it on Medicare payment issues, to study alternative PAC payment models, including payment based upon individual patient characteristics and not care setting, with corresponding Congressional reports required based on such analysis. The IMPACT Act also includes provisions impacting Medicare-certified hospices, including: (1) increasing survey frequency for Medicare-certified hospices to once every 36 months; (2) imposing a medical review process for hospice agencies with a high percentage of stays in excess of 180 days; and (3) updating the annual aggregate Medicare payment cap.

On April 1, 2014, the President signed into law the Protecting Access to Medicare Act of 2014, which averted a 24% cut in Medicare payments to physicians and other Part B providers until March 31, 2015. In addition, this law maintains the 0.5% update for such services through December 31, 2014 and provides no update to the 2015 Medicare Physician Fee Schedule through March 31, 2015.

On January 2, 2013, the President signed the American Taxpayer Relief Act of 2012 into law. This statute created a Commission on Long Term Care, the goal of which is to develop a plan for the establishment, implementation, and financing of a comprehensive, coordinated, and high-quality system that ensures the availability of long-term care services and support for individuals in need of such services and supports. Any implementation of recommendations from this commission may have an impact on coverage and payment for our services.

On August 2, 2011, the President signed into law the Budget Control Act of 2011 ("Budget Control Act"), which raised the debt ceiling and put into effect a series of actions for deficit reduction. The Budget Control Act created a Congressional Joint Select Committee on Deficit Reduction (the "Committee") that was tasked with

proposing additional deficit reduction of at least $1.5 trillion over ten years. As the Committee was unable to achieve its targeted savings, this regulation triggered automatic reductions in discretionary and mandatory spending, or budget sequestration, starting in 2013, including reductions of not more than 2% to payments to Medicare providers. The Budget Control Act also requires Congress to vote on an amendment to the Constitution that would require a balanced budget.

On March 23, 2010, President Obama signed the ACA into law, which contained several sweeping changes to America's health insurance system. Among other reforms contained in ACA, many Medicare providers received reductions in their market basket updates. In addition, ACA enacted several reforms with respect to hospice organizations, including payment measures to realize significant savings of federal and state funds by deterring and prosecuting fraud and abuse in both the Medicare and Medicaid programs.

Some key provisions of ACA include (i) enhanced civil monetary penalties, (ii) face-to-face encounter requirements applicable to home health agencies and hospices, (iii) expanded authority to suspend payment if a provider is investigated for allegations or issues of fraud, (iv) a requirement that overpayments for services provided to Medicare and Medicaid beneficiaries be reported to the applicable payor within sixty days of identification of the overpayment or the date of the corresponding cost report, (v) implementation of a value-based purchasing program for home health services, (vi) implementation of a voluntary bundled payments pilot program (*i.e.*, Bundled Payments for Care Improvement), and (vii) the creation of ACOs.

On June 28, 2012, the U.S. Supreme Court ruled that the enactment of ACA did not violate the Constitution of the United States. On June 25, 2015, the U.S. Supreme Court ruled that the tax credits described in Section 36B of ACA are available to individuals who purchase health insurance on an exchange created by the federal government. These rulings, taken together, permit the implementation of most of the provisions of ACA to proceed in substantially the same form contemplated after ACA's enactment. The provisions of ACA discussed above are only examples of federal health reform provisions that we believe may have a material impact on the long-term care industry and on our business. However, the foregoing discussion is not intended to constitute, nor does it constitute, an exhaustive review and discussion of ACA. It is possible that these and other provisions of ACA may be interpreted, clarified, or applied to our affiliated operations in a way that could have a material adverse impact on the results of operations.

Regulations Regarding Our Operations. Governmental agencies and other authorities periodically inspect our operations to assess our compliance with various standards, rules and regulations. The robust regulatory and enforcement environment continues to impact healthcare providers, especially in connection with responses to any alleged noncompliance identified in periodic surveys and other inspections by governmental authorities. Unannounced surveys or inspections occur periodically, and our operations may also follow a government agency's receipt of a complaint about an operation. We must pass these inspections to maintain our licensure under state law, to obtain or maintain certification under the Medicare and Medicaid programs, and to comply with our provider contracts with managed care clients at many operations. From time to time, we, like others in the healthcare industry, may receive notices from federal and state regulatory agencies alleging that we failed to substantially comply with applicable standards, rules or regulations. These notices may require us to take corrective action, may impose civil monetary penalties for noncompliance, and may threaten or impose other operating restrictions. If an operation fails to comply with these directives or otherwise fail to comply substantially with licensure and certification laws, rules and regulations, the operation could lose its certification as a Medicare or Medicaid provider, or lose its state license to operate.

Regulations Protecting Against Fraud. Various complex federal and state laws exist which govern a wide array of referrals, relationships and arrangements, and prohibit fraud by healthcare providers. Governmental agencies are devoting increasing attention and resources to such anti-fraud efforts. HIPAA, and the Balanced Budget Act of 1997 expanded the penalties for healthcare fraud. Additionally, in connection with our involvement with federal healthcare reimbursement programs, the government or those acting on its behalf may bring an action under the FCA, alleging that a healthcare provider has defrauded the government. These

claimants may seek treble damages for false claims and payment of additional civil monetary penalties. The FCA allows a private individual with knowledge of fraud to bring a claim on behalf of the federal government and earn a percentage of the federal government's recovery. Due to these "whistleblower" incentives, suits have become more frequent. Many states also have a false claim prohibition that mirrors or tracks the federal FCA.

In May 2009, Congress passed FERA which made significant changes to the federal FCA, expanding the types of activities subject to prosecution and whistleblower liability. Following changes by FERA, healthcare providers face significant penalties for the knowing retention of government overpayments, even if no false claim was involved. Healthcare providers can now be liable for knowingly and improperly avoiding or decreasing an obligation to pay money or property to the government. This includes the retention of any government overpayment. The government can argue, therefore, that a FCA violation can occur without any affirmative fraudulent action or statement, as long as it is knowingly improper. In addition, FERA extended protections against retaliation for whistleblowers, including protections not only for employees, but also contractors and agents. Thus, there is no need for an employment relationship in order to qualify for protection against retaliation for whistleblowing.

On January 2, 2013 the President signed the American Taxpayer Relief Act of 2012 into law. This statute lengthened the retrospective time period for which CMS can recover overpayments from healthcare providers, from three to five years following the year in which payment was made.

Regulations Regarding Financial Arrangements. We are also subject to federal and state laws that regulate financial arrangement by healthcare providers, such as the federal and state anti-kickback laws, the Stark laws, and various state referral laws. The federal anti-kickback laws and similar state laws make it unlawful for any person to pay, receive, offer, or solicit any benefit, directly or indirectly, for the referral or recommendation for products or services which are eligible for payment under federal healthcare programs, including Medicare and Medicaid. For the purposes of the anti-kickback law, a "federal healthcare program" includes Medicare and Medicaid programs and any other plan or program that provides health benefits which are funded directly, in whole or in part, by the United States government.

The arrangements prohibited under these anti-kickback laws can involve nursing homes, hospitals, physicians and other healthcare providers, plans, suppliers and non-healthcare providers. These laws have been interpreted very broadly to include a number of practices and relationships between healthcare providers and sources of patient referral. The scope of prohibited payments is very broad, including anything of value, whether offered directly or indirectly, in cash or in kind. Federal "safe harbor" regulations describe certain arrangements that will not be deemed to constitute violations of the anti-kickback law. Arrangements that do not comply with all of the strict requirements of a safe harbor are not necessarily illegal, but, due to the broad language of the statute, failure to comply with a safe harbor may increase the potential that a government agency or whistleblower will seek to investigate or challenge the arrangement. The safe harbors are narrow and do not cover a wide range of economic relationships.

Violations of the federal anti-kickback laws can result in criminal penalties of up to $25,000 and five years' imprisonment. Violations of the anti-kickback laws can also result in civil monetary penalties of up to $50,000 and an assessment of up to three times the total amount of remuneration offered, paid, solicited, or received. Violation of the anti-kickback laws may also result in an individual's or organization's exclusion from future participation in Medicare, Medicaid and other state and federal healthcare programs. Exclusion of us or any of our key employees from the Medicare or Medicaid program could have a material adverse impact on our operations and financial condition.

In addition to these regulations, we may face adverse consequences if we violate the federal Stark laws related to certain Medicare physician referrals. The Stark laws prohibit a physician from referring Medicare patients for certain designated health services where the physician has an ownership interest in or compensation arrangement with the provider of the services, with limited exceptions. Also, any services furnished pursuant to a

prohibited referral are not eligible for payment by the Medicare programs, and the provider is prohibited from billing any third party for such services. The Stark laws provide for the imposition of a civil monetary penalty of $15,000 per prohibited claim, and up to $100,000 for knowingly entering into certain prohibited cross-referral schemes, and potential exclusion from Medicare for any person who presents or causes to be presented a bill or claim the person knows or should know is submitted in violation of the Stark laws. Such designated health services include physical therapy services; occupational therapy services; radiology services, including CT, MRI and ultrasound; durable medical equipment and services; radiation therapy services and supplies; parenteral and enteral nutrients, equipment and supplies; prosthetics, orthotics and prosthetic devices and supplies; home health services; outpatient prescription drugs; inpatient and outpatient hospital services; clinical laboratory services; and diagnostic and therapeutic nuclear medical services.

Regulations Regarding Patient Record Confidentiality. We are also subject to laws and regulations enacted to protect the confidentiality of patient health information. For example, HHS has issued rules pursuant to HIPAA, which relate to the privacy of certain patient information. These rules govern our use and disclosure of protected health information. We have established policies and procedures to comply with HIPAA privacy and security requirements at our affiliated operations. We maintain a company-wide HIPAA compliance plan, which we believe complies with the HIPAA privacy and security regulations. The HIPAA privacy regulations and security regulations have and will continue to impose significant costs on our operations in order to comply with these standards. There are numerous other laws and legislative and regulatory initiatives at the federal and state levels addressing privacy and security concerns. Our operations are also subject to any federal or state privacy-related laws that are more restrictive than the privacy regulations issued under HIPAA. These laws vary and could impose additional penalties for privacy and security breaches.

Antitrust Laws. We are also subject to federal and state antitrust laws. Enforcement of the antitrust laws against healthcare providers is common, and antitrust liability may arise in a wide variety of circumstances, including third party contracting, physician relations, joint venture, merger, affiliation and acquisition activities. In some respects, the application of federal and state antitrust laws to healthcare is still evolving, and enforcement activity by federal and state agencies appears to be increasing. At various times, healthcare providers and insurance and managed care organizations may be subject to an investigation by a governmental agency charged with the enforcement of antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. Violators of the antitrust laws could be subject to criminal and civil enforcement by federal and state agencies, as well as by private litigants.

Environmental Matters

Our business is subject to a variety of federal, state and local environmental laws and regulations. As a healthcare provider, we face regulatory requirements in areas of air and water quality control, medical and low-level radioactive waste management and disposal, asbestos management, response to mold and lead-based paint in our senior living communities and employee safety.

As an operator of senior living communities, we also may be required to investigate and remediate hazardous substances that are located on and/or under the property, including any such substances that may have migrated off, or may have been discharged or transported from the property. Part of our operations involves the handling, use, storage, transportation, disposal and discharge of medical, biological, infectious, toxic, flammable and other hazardous materials, wastes, pollutants or contaminants. In addition, we are sometimes unable to determine with certainty whether prior uses of our senior living communities and properties or surrounding properties may have produced continuing environmental contamination or noncompliance, particularly where the timing or cost of making such determinations is not deemed cost-effective. These activities, as well as the possible presence of such materials in, on and under our properties, may result in damage to individuals, property or the environment; may interrupt operations or increase costs; may result in legal liability, damages, injunctions or fines; may result in investigations, administrative proceedings, penalties or other governmental agency actions; and may not be covered by insurance.

We believe that we are in material compliance with applicable environmental and occupational health and safety requirements. However, we cannot assure you that we will not encounter liabilities with respect to these regulations in the future, and such liabilities may result in material adverse consequences to our operations or financial condition. In addition, because environmental laws vary from state to state, expansion of our operations to states where we do not currently operate may subject us to additional restrictions on the manner in which we operate our communities.

Legal Proceedings

We are involved in various claims and lawsuits arising in the ordinary course of business, none of which, in the opinion of management, is expected to have a material adverse effect on our results of operations or financial condition. However, the results of such matters cannot be predicted with certainty and we cannot assure you that the ultimate resolution of any legal or administrative proceeding or dispute will not have a material adverse effect on our business, financial condition, results of operations and cash flows. See Note 14, *Commitments and Contingencies*, to the Audited Combined Financial Statements and the Interim Combined Financial Statements for a description of claims and legal actions arising in the ordinary course of our business.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of operations of New Ventures should be read in conjunction with "Summary—Summary Historical and Unaudited Pro Forma Combined Financial Data," "Selected Historical Combined Financial Data" and the Audited Combined Financial Statements and Interim Financial Statements and related notes that appear elsewhere in this information statement. In addition to historical combined financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. See "Special Note About Forward-Looking Statements." Factors that could cause or contribute to these differences include those discussed below and elsewhere in this information statement, particularly in "Risk Factors."

Following the consummation of the spin-off, The Pennant Group, Inc. ("Pennant" or the "Company") will hold, directly or through its subsidiaries, New Ventures and will be the financial reporting entity.

Overview

We are a leading provider of high quality healthcare services to the growing senior population in the United States. We strive to be the provider of choice in the communities we serve through our innovative operating model. We operate in multiple lines of businesses including home health, hospice and senior living services across Arizona, California, Colorado, Idaho, Iowa, Nevada, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin and Wyoming. As of June 30, 2019, our home health and hospice business provided home health, hospice and home care services from 62 agencies across twelve states, and our senior living business operated 51 senior living communities throughout six states.

The following table summarizes our affiliated home health and hospice agencies and senior living communities as of:

	December 31,								June 30,
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Cumulative number of home health and hospice agencies	7	10	16	25	32	39	46	54	62
Cumulative number of senior living communities	8	10	12	15	36	36	43	50	51
Cumulative number of senior living units	887	1,034	1,256	1,587	3,184	3,184	3,434	3,820	3,872
Total number of home health, hospice, and senior living operations	15	20	28	40	68	75	89	104	113

The Spin-Off Transactions

On May 6, 2019, The Ensign Group, Inc. ("Ensign" or the "Parent") announced its intention to implement the spin-off of Pennant from Ensign, following which Pennant will be an independent, publicly-traded company. The distribution is subject to the satisfaction or waiver of certain conditions. In addition, until the distribution has occurred, the Ensign board of directors has the right to not proceed with the distribution, even if all of the conditions are satisfied. See "The Spin-Off—Conditions to the Distribution." Immediately following the distribution, Ensign will not own any shares of our outstanding common stock, and we will have entered into a master separation agreement and several other agreements with Ensign related to the spin-off. These agreements, including an employee matters agreement, a tax matters agreement, a transition services agreement and the Ensign Leases, will govern the relationship between us and Ensign after completion of the spin-off and provide for the allocation between us and Ensign of various assets, liabilities, rights and obligations. These arrangements

include modifications to certain agreements for properties owned by subsidiaries of Ensign and leased by our operating subsidiaries that may result in, among other things, an overall increase in rent expense following the spin-off as a result of changes in leases. Additionally, general and administrative expense may increase due to the transition services agreement, share-based compensation expense, and debt related expenses. See "Certain Relationships and Related Party Transactions—Agreements with Ensign Related to the Spin-Off."

We will benefit from a continuing relationship with Ensign, which will continue to be a holding company comprised of various post-acute businesses, including its skilled nursing, senior living and other ancillary operations in Arizona, California, Colorado, Idaho, Iowa, Kansas, Nebraska, Nevada, South Carolina, Texas, Utah, Washington and Wisconsin.

In connection with the spin-off, we anticipate entering into the Ensign Leases, which are long term, "triple-net" lease agreements that will amend and restate or replace existing lease agreements between subsidiaries of Ensign and subsidiaries of Pennant for the lease of senior living buildings. We also expect to enter into new third-party master lease agreements with landlords that will replace existing lease agreements between our subsidiaries and such landlords. We anticipate that the Ensign Leases and new third-party master lease agreements will have initial terms ranging between 14 and 16 years, with extension options and annual rent escalators based on changes in the Consumer Price Index.

Recent Activities

Acquisitions—From January 1, 2018 through June 30, 2019, we expanded our operations through the acquisition of eight stand-alone senior living operations, six home health agencies, six hospice agencies, and four home care agencies. We did not assume any liabilities. The addition of these operations added a total of 438 senior living units to be operated by our operating subsidiaries. We entered into a separate operations transfer agreement with the prior operator as part of each transaction. The aggregate purchase price for these acquisitions was $20.1 million which included $0.6 million in asset acquisitions.

Subsequent to June 30, 2019, we expanded our operations with the addition of one stand-alone senior living operation and one hospice agency. We did not acquire any material assets or assume any liabilities. The addition of these operations added a total of 91 senior living units to be operated by our operating subsidiaries. We entered into a separate operations transfer agreement with the prior operator as part of each transaction. The aggregate purchase price for these acquisitions was $4.0 million.

For further discussion of our acquisitions, see Note 7, *Acquisitions*, in the Notes to Audited Combined Financial Statements and Interim Financial Statements.

Adoption of Lease Standard—On January 1, 2019 we adopted Accounting Standards Codification Topic 842, Leases, using the modified retrospective transition method. Leases for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 840. The new lease standard requires lessees to recognize leases with terms longer than 12 months on the balance sheet and disclose key information about leasing arrangements. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement.

The new accounting standard had the following effects on our presentation and disclosure:

- We made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet and recognize those lease payments in the condensed combined statement of income on a straight-line basis over the lease term. We also elected the practical expedient to not separate lease and non-lease components for all of our leases, as the non-lease components are not significant to the overall lease costs.

- Prior period results reflect historical lease classification, under which all of our leases were classified as operating leases.
- The adoption of this standard resulted in recognition of right-of-use assets and lease liabilities of $238.6 million and $241.5 million, respectively, on our condensed combined balance sheet as of January 1, 2019. See further discussion at Note 13, *Leases* of the Interim Financial Statements.

Trends

When we acquire turnaround or start-up operations, we expect that our combined metrics may be impacted. We expect these metrics to vary from period to period based upon the maturity of the operations within our portfolio. We have generally experienced lower occupancy rates and census at recently acquired operations, and we generally anticipate lower overall occupancy rates and lower consolidated and segment margins during years of growth.

Segments

We have two reportable segments: (1) home health and hospice services, which includes our home health, hospice and home care businesses; and (2) senior living services, which includes the operation of assisted living, independent living and memory care communities. Our reporting segments are business units that offer different services and that are managed separately to provide greater visibility into those operations.

Key Performance Indicators

We manage the fiscal aspects of our business by monitoring key performance indicators that affect our financial performance. These indicators and their definitions include the following:

Home Health and Hospice

- *Average Medicare revenue per completed 60-day home health episode.* The average amount of revenue for each completed 60-day home health episode generated from patients who are receiving care under Medicare reimbursement programs.
- *Average daily census.* The average number of patients who are receiving hospice care during any measurement period divided by the number of days during such measurement period.

The following table summarizes our overall home health and hospice statistics for the periods indicated:

	Six Months Ended June 30,		Year Ended December 31,		
	2019	2018	2018	2017	2016
Home health services:					
Average Medicare Revenue per 60-day Completed Episode	$3,024	$2,951	$2,982	$3,028	$2,986
Hospice services:					
Average Daily Census	1,544	1,275	1,329	1,102	905

Senior Living Services

- *Occupancy.* The ratio of actual number of days our units are occupied during any measurement period to the number of units available for occupancy during such measurement period.
- *Average monthly revenue per occupied unit.* The revenue for senior living services during any measurement period divided by actual occupied senior living units for such measurement period.

The following table summarizes our senior living statistics for the periods indicated:

	Six Months Ended June 30,		Year Ended December 31,		
	2019	2018	2018	2017	2016
Occupancy	80.1%	78.7%	79.5%	79.9%	79.2%
Average monthly revenue per occupied unit	$ 3,109	$ 3,054	$3,044	$2,979	$2,916

Revenue Sources

Home Health and Hospice Services

Home Health. As of June 30, 2019, we provided home health services in Arizona, California, Colorado, Idaho, Iowa, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin and Wyoming. We derive the majority of our revenue from our home health business from Medicare and managed care. The home health prospective payment system provides home health agencies with payments for each 60-day episode of care for each beneficiary. Episodic payments are adjusted for differences between estimated and actual payment amounts, an inability to obtain appropriate billing documentation or authorizations acceptable to the payor and other reasons unrelated to credit risk. If a beneficiary is still eligible for care after the end of the first episode, a second episode can begin. There are no limits to the number of episodes a beneficiary who remains eligible for the home health benefit can receive. While payment for each episode is adjusted to reflect the beneficiary's health condition and needs, a special outlier provision exists to ensure appropriate payment for those beneficiaries that have the most expensive care needs. Episodic payments are also adjusted for certain variables including, but not limited to: (a) an outlier payment if the patient's care was unusually costly; (b) a low utilization adjustment if the number of visits was fewer than five; (c) a partial payment if the patient transferred to another provider or transferred from another provider before completing the episode; (d) a payment adjustment based upon the level of covered therapy services; (e) the number of episodes of care provided to a patient, regardless of whether the same home health provider provided care for the entire series of episodes; (f) changes in the base episode payments established by the Medicare program; (g) adjustments to the base episode payments for case mix and geographic wages; and (h) recoveries of overpayments.

Hospice. As of June 30, 2019, we provided hospice care in Arizona, California, Colorado, Idaho, Iowa, Nevada, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin and Wyoming. We derive the majority of the revenue from our hospice business from Medicare reimbursement. The estimated payment rates are daily rates for each of the levels of care we deliver. The payment is adjusted for an inability to obtain appropriate billing documentation or authorizations acceptable to the payor and other reasons unrelated to credit risk. Additionally, as Medicare hospice revenue is subject to an inpatient cap and an overall payment cap, we monitor our provider numbers and estimate amounts due back to Medicare if we believe a cap has been exceeded.

Beginning January 1, 2016, CMS provided for two separate payment rates for routine care: payments for the first 60 days of care and care beyond 60 days. In addition to the two routine rates, Medicare is also reimbursing for a Service Intensity Add-on ("SIA"). The SIA is based on visits made in the last seven days of life by a registered nurse or medical social worker for patients in a routine level of care.

Senior Living Services

As of June 30, 2019, we provided assisted living, independent living and memory care services at 51 communities located across Arizona, California, Nevada, Texas, Washington and Wisconsin. Within our senior living operations, we generate revenue primarily from private pay sources, with a portion earned from Medicaid or other state-specific programs.

Primary Components of Expense

Cost of Services (exclusive of rent and depreciation and amortization shown separately). Our cost of services represents the costs of operating our businesses, which primarily consists of payroll and related benefits,

supplies, purchased services, and ancillary expenses such as the cost of pharmacy and therapy services provided to patients. Cost of services also includes the cost of general and professional liability insurance and other general cost of services with respect to our operations.

Rent—Cost of Services. Rent—cost of services consists of base minimum rent amounts payable under lease agreements to the Parent and third-party owners of real estate that our operating subsidiaries lease and operate but do not own and does not include taxes, insurance, impounds, capital reserves or other charges payable under the applicable lease agreements, which are recorded in *Cost of Services*.

General and Administrative Expense. General and administrative expense consists primarily of payroll and related benefits and travel expenses for our Service Center personnel, including training and other operational support. General and administrative expense also includes professional fees (including accounting and legal fees), costs relating to our information systems, stock-based compensation and rent for our Service Center offices.

Depreciation and Amortization. Property and equipment are recorded at their original historical cost. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets. The following is a summary of the depreciable lives of our depreciable assets:

Leasehold improvements	Shorter of the lease term or estimated useful life, generally 5 to 15 years
Furniture and equipment	3 to 10 years

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our Audited Combined Financial Statements and Interim Financial Statements, which have been prepared in accordance with GAAP. The preparation of these financial statements and related disclosures requires us to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis we review our judgments and estimates, including but not limited to those related to revenue, income taxes, intangible assets, goodwill, impairment of long-lived assets and cost allocations. We base our estimates and judgments upon our historical experience, knowledge of current conditions and our belief of what could occur in the future considering available information, including assumptions that we believe to be reasonable under the circumstances. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty, and actual results could differ materially from the amounts reported. The following summarizes our critical accounting policies, defined as those policies that we believe: (a) are the most important to the portrayal of our financial condition and results of operations; and (b) require management's most subjective or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain.

Cost Allocation

The Interim Financial Statements and the Audited Combined Financial Statements include allocations of costs for certain shared services provided to us by subsidiaries of Ensign, including services provided at the Service Center. Such allocations include, but are not limited to, executive management, accounting, human resources, information technology, legal, payroll, insurance, tax, treasury, and other general and administrative items. These costs were allocated based on the drivers most closely aligned to the cost, including on a basis of revenue, location, employee count, or other measures. These cost allocations are reflected within general and administrative expense in the combined statements of income, including the share-based compensation expenses disclosed in Note 12, *Options and Awards* of the Audited Combined Financial Statements and Interim Financial Statements. The amount of general and administrative costs allocated to us, including share-based compensation

expense, for the six months ended June 30, 2019 and 2018 and the years ended December 31, 2018, 2017 and 2016 were $15.1 million, $9.0 million, $18.8 million, $14.5 million, and $12.4 million, respectively. For the six months ended June 30, 2019 and the year ended December 31, 2018, approximately $4.6 million and $0.8 million, respectively, of the total general and administrative cost relates to spin-off transaction costs. Management believes the basis on which the expenses have been allocated to us to be a reasonable reflection of the services provided to us during the periods presented.

The Parent is partially self-insured for healthcare, general and professional liability, and workers' compensation, and historically has allocated premium expense to all subsidiaries of Ensign in its accounting records. To reflect all of the insurance costs, quarterly actuarially determined adjustments were allocated to us based on the proportional historical premium expense. No self-insurance reserves have been allocated to us as these reserves represent the obligations of the Parent.

The Parent's external debt and related interest expense have not been allocated to us for any of the periods presented as no portion of the borrowings is being assumed by us as part of the separation.

Certain employees of our subsidiaries participate in The Ensign Group, Inc. equity-based incentive plans (the "Ensign Plans") and the Cornerstone Subsidiary Equity plan (the "Subsidiary Equity Plan"). Share-based compensation includes the expense attributable to employees of our subsidiaries participating in the Ensign Plans, as well as the allocated cost related to Ensign subsidiaries' employees that participate in the Ensign Plans. Share-based compensation related to Ensign subsidiaries' employees that participate in the Ensign Plans were allocated on the basis of revenue. All share-based compensation related to the Subsidiary Equity Plan was recognized in the Audited Combined Financial Statements and Interim Financial Statements and, therefore, no cost allocation was necessary.

The share-based compensation costs associated with the Subsidiary Equity Plan awards is initially measured at fair value at the grant date and is expensed as non-cash compensation over the vesting term. Historically, these awards have been granted once a year and the fair value has been determined by an independent valuation of the subsidiary shares. The valuation determination incorporated a discounted cash flow analysis combined with a market-based approach to determine the fair value of the subsidiary equity.

Cash presented in the combined balance sheets represents cash held on site at our operations. We participate in the Parent's cash management program. No cash was allocated to us in the financial statements because the net activity of cash due to (from) the Parent is reflected in the net parent investment.

Revenue Recognition

Revenue from the Medicare and Medicaid programs accounted for 54.1%, 52.7%, 53.1%, 51.4%, and 49.6% of our combined total revenue for the six months ended June 30, 2019 and 2018 and the years ended December 31, 2018, 2017 and 2016, respectively. Settlement with Medicare and Medicaid payors for retroactive adjustments due to audits and reviews are considered variable consideration and are included in the determination of the estimated transaction prices. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and our historical settlement activity. Consistent with healthcare industry accounting practices, any changes to these governmental revenue estimates are recorded in the period the change or adjustment becomes known based on final settlement.

Disaggregation of Revenue

We disaggregate revenue from contracts with our patients by reportable operating segments and payors. We determine that disaggregating revenue into these categories achieves the disclosure objectives to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. A reconciliation of disaggregated revenue to segment revenue as well as revenue by payor is provided in Note 6, *Business Segments* of the Audited Combined Financial Statements and Interim Financial Statements.

Our service specific revenue recognition policies are as follows:

Home Health Revenue

Medicare Revenue

Net service revenue is recorded under the Medicare prospective payment system based on a 60-day episode payment rate that is subject to adjustment based on certain variables including, but not limited to: (a) an outlier payment if the patient's care was unusually costly; (b) a low utilization adjustment if the number of visits was fewer than five; (c) a partial payment if the patient transferred to another provider or transferred from another provider before completing the episode; (d) a payment adjustment based upon the level of covered therapy services; (e) the number of episodes of care provided to a patient, regardless of whether the same home health provider provided care for the entire series of episodes; (f) changes in the base episode payments established by the Medicare program; (g) adjustments to the base episode payments for case mix and geographic wages; and (h) recoveries of overpayments.

We make adjustments to Medicare revenue on completed episodes to reflect differences between estimated and actual payment amounts, an inability to obtain appropriate billing documentation and other reasons unrelated to credit risk. Revenue is also adjusted for estimates for variable consideration. Therefore, we believe that our reported net service revenue and patient accounts receivable will be the net amounts to be realized from Medicare for services rendered.

In addition to revenue recognized on completed episodes, we also recognize a portion of revenue associated with episodes in progress. Episodes in progress are 60-day episodes of care that begin during the reporting period, and were not completed as of the end of the period. As such, we estimate revenue and recognize it on a daily basis. The primary factors underlying this estimate are the number of episodes in progress at the end of the reporting period, expected Medicare revenue per episode and our estimate of the average percentage complete based on visits performed.

Non-Medicare Revenue

Episodic Based Revenue—We recognize revenue in a similar manner as we recognize Medicare revenue for episodic-based rates that are paid by other insurance carriers, including Medicare Advantage programs; however, these rates can vary based upon the negotiated terms.

Non-episodic Based Revenue—Revenue is recorded on an accrual basis based upon the date of service at amounts equal to its established or estimated per-visit rates, as applicable.

Hospice Revenue

Revenue is recorded on an accrual basis based upon the date of service at amounts equal to the estimated payment rates. The estimated payment rates are daily rates for each of the levels of care we deliver. We make adjustments to revenue for an inability to obtain appropriate billing documentation or authorizations acceptable to the payor and other reasons unrelated to credit risk. Additionally, as Medicare hospice revenue is subject to an inpatient cap limit and an overall payment cap, we monitor our provider numbers and estimate amounts due back to Medicare if a cap has been exceeded. We record these adjustments as a reduction to revenue and increases to other accrued liabilities.

Senior Living Revenue

Our revenue is recorded when services are rendered on the date services are provided at amounts billable to individual residents and consists of fees for basic housing and senior living care. Residency agreements are

generally for a term of 30 days, with resident fees billed monthly in advance. For residents under reimbursement arrangements with Medicaid, revenue is recorded based on contractually agreed-upon amounts or rates on a per resident, daily basis or as services are provided. Revenue for certain ancillary charges is recognized as services are provided, and such fees are billed monthly in arrears.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist primarily of amounts due from Medicare and Medicaid programs, other government programs, managed care health plans and private payor sources. Estimated provisions for doubtful accounts are recorded to the extent it is probable that a portion or all of a particular account will not be collected.

Intangible Assets and Goodwill

Definite-lived intangible assets consist primarily of patient base and customer relationships. Patient base is 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 when acquired. Customer relationships are amortized over a period of up to 20 years.

Our indefinite-lived intangible assets consist of trade names and licenses. We test indefinite-lived intangible assets for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable. Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. Given the time it takes to obtain pertinent information, the initial fair value might not be finalized at the time of the reported period. Accordingly, it is not uncommon for the initial estimates to be subsequently revised. We recorded goodwill and other intangible assets at the operation level when acquired, and as such, these assets are identifiable specifically to the operations that are allocated to New Ventures. Goodwill is subject to annual testing for impairment. In addition, goodwill is tested for impairment if events occur or circumstances change that would reduce the fair value of a reporting unit below its carrying amount.

Leases and Leasehold Improvements

We lease senior living communities and commercial office space. On January 1, 2019, we adopted ASC Topic 842, *Leases*, using the modified retrospective transition method. Leases for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 840. We determine if an arrangement is a lease at the inception of each lease. At the inception of each lease, we perform an evaluation to determine whether the lease should be classified as an operating or finance lease. Operating leases are included in right-of-use assets, current lease liabilities and long-term lease liabilities on our combined balance sheet. As our leases do not provide an implicit rate, we use its incremental borrowing rate based on the information available at lease commencement date in determining the present value of future lease payments. We estimate this rate based on prevailing financial market conditions, comparable company and credit analysis, and management judgment. We record rent expense for operating leases on a straight-line basis over the term of the lease. The lease term used for straight-line rent expense is calculated from the date we are given control of the leased premises through the end of the lease term. The lease term excludes lease renewals as the renewal rents are not at a bargain, there are no economic penalties for us to renew the lease, and it is not reasonably assured that we will exercise the extension options. The lease term used for this evaluation also provides the basis for establishing depreciable lives for buildings subject to lease and leasehold improvements.

We recognize lease expense for leases with an initial term of 12 months or less on a straight-line basis over the lease term. These leases are not recorded on the combined balance sheet. Certain of our lease agreements include rental payments that are adjusted periodically for inflation. The lease agreements do not contain any material residual value guarantees or material restrictive covenants. We do not have material subleases. See further discussion at Note 13, *Leases* in the Interim Financial Statements.

Business Combinations

Our acquisition strategy is to purchase or lease operations that are complementary to our current platform, accretive to our business or otherwise advance our strategy. The results of all of our operating subsidiaries are included in the accompanying financial statements subsequent to the date of acquisition. Acquisitions are typically paid for in cash and are accounted for using the acquisition method of accounting. We account for business combinations using the purchase method of accounting and, accordingly, the assets and liabilities of the acquired entities are recorded at their estimated fair values at the acquisition date. Goodwill represents the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets. Given the time it takes to obtain pertinent information, the initial fair value might not be finalized at the time of the reported period. Accordingly, it is not uncommon for the initial estimates to be subsequently revised.

In accounting for business combinations, we are required to record the assets and liabilities of the acquired business at fair value. In developing estimates of fair values for long-lived assets, we utilize a variety of factors including market data, cash flows, growth rates, and replacement costs. Determining the fair value for specifically identified intangible assets involves significant judgment, estimates and projections related to the valuation to be applied to intangible assets such as favorable leases, customer relationships, Medicare and Medicaid licenses, and trade names. The subjective nature of management's assumptions increases the risk associated with estimates surrounding the projected performance of the acquired entity. Additionally, as we amortize definite-lived acquired intangible assets over time, the purchase accounting allocation directly impacts the amortization expense recorded on the financial statements.

Income Taxes

Historically, our operations have been included in Ensign's U.S. federal and state income tax returns and all income taxes have been paid by Ensign. Income tax expense and other income tax related information contained in these Audited Combined Financial Statements and Interim Financial Statements are presented on a separate tax return approach. Under this approach, the provision for income taxes represents income tax paid or payable for the current year plus the change in deferred taxes during the year calculated as if we were a stand-alone taxpayer filing hypothetical income tax returns. Management believes that the assumptions and estimates used to determine these tax amounts are reasonable. However, our Audited Combined Financial Statements and Interim Financial Statements may not necessarily reflect our income tax expense or tax payments in the future, or what our tax amounts would have been if we had been a stand-alone company during the periods presented.

Deferred tax assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities at tax rates in effect when such temporary differences are expected to reverse. We generally expect to fully utilize our deferred tax assets; however, when necessary, we record a valuation allowance to reduce our net deferred tax assets to the amount that is more likely than not to be realized.

In determining the need for a valuation allowance or the need for and magnitude of liabilities for uncertain tax positions, we make certain estimates and assumptions. These estimates and assumptions are based on, among other things, knowledge of operations, markets, historical trends and likely future changes and, when appropriate, the opinions of advisors with knowledge and expertise in certain fields. Due to certain risks associated with our estimates and assumptions, actual results could differ.

Recent Accounting Pronouncements

Except for rules and interpretive releases of the SEC under authority of federal securities laws and a limited number of grandfathered standards, the Financial Accounting Standards Board (FASB) ASC is the sole source of authoritative GAAP literature recognized by the FASB and applicable to us. We have reviewed the FASB issued Accounting Standards Update (ASU) accounting pronouncements and interpretations thereof that have

effectiveness dates during the periods reported and in future periods. For any new pronouncements announced, we consider whether the new pronouncements could alter previous generally accepted accounting principles and determine whether any new or modified principles will have a material impact on our reported financial position or operations in the near term. The applicability of any standard is subject to the formal review of our financial management and certain standards are under consideration.

Recent Accounting Standards Adopted by the Company

In February 2016, the FASB established Topic 842, *Leases*, by issuing ASU No. 2016-02, which requires lessees to recognize leases with terms longer than 12 months on the balance sheet and disclose key information about leasing arrangements. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The classification criteria for distinguishing between operating and finance (previously capital) leases are substantially similar to the previous lease guidance, but with no explicit bright lines.

We adopted the standard as of January 1, 2019, using the modified retrospective transition method that allows us to apply the standard as of the adoption date and record a cumulative adjustment in equity, if applicable. We have elected the package of practical expedients permitted under the transition guidance which allows us to not reassess (1) initial direct costs, (2) lease classification for existing or expired leases, and (3) lease definition for existing or expired contracts as of the effective date of January 1, 2019. The new standard also provides practical expedients for an entity's ongoing accounting. We have made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet and recognize those lease payments in the combined statements of income on a straight-line basis over the lease term. We have also elected the practical expedient to not separate lease and non-lease components for all of our leases as the non-lease components are not significant to the overall lease costs.

The adoption of this standard resulted in recognition of right-of-use assets and lease liabilities of $238.6 million and $241.5 million, respectively, on our combined balance sheet as of January 1, 2019. Equity was not impacted as a result of the adoption of this standard. The standard did not materially affect our combined net earnings or have a notable impact on liquidity or debt covenant compliance under the Parent's current agreements. See further discussion at Note 13, *Leases* of the Interim Financial Statements.

Prior to the adoption of ASC 842, we recognized revenue related to our senior living residency agreements in accordance with the provisions of ASC 840. Subsequent to the adoption of ASU 2016-02, Leases, lessors are required to separately recognize and measure the lease component of a contract with a customer utilizing the provisions of ASC 842 and the non-lease components utilizing the provisions of ASC 606, Revenue from Contracts with Customers. To separately account for the components, the transaction price is allocated among the components based upon the estimated stand-alone selling prices of the components. Additionally, certain components of a contract which were previously included within the lease element recognized in accordance with ASC 840 prior to the adoption of ASU 2016-02 (such as common area maintenance services, other basic services, and executory costs) are recognized as non-lease components subject to the provisions of ASC 606 subsequent to the adoption of ASU 2016-02. Entities are required to recognize a cumulative effect adjustment to beginning retained earnings as of the initial application date of ASU 2016-02 for changes to amounts recognized for these certain components for the transition from ASC 840 to ASC 606. However, entities are permitted to elect the practical expedient under ASU 2018-11, Leases, allowing lessors to not separate non-lease components from the associated lease components when certain criteria are met. Entities that elect to utilize the lease/non-lease component combination practical expedient under ASU 2018-11 upon initial application of ASC 842 are required to apply the practical expedient to all new and existing transactions within a class of underlying assets that qualify for the expedient as of the initial application date with a cumulative effect adjustment to beginning retained earnings as of the initial application date for any changes recognized related to existing transactions.

Upon adoption of ASU 2016-02 and ASU 2018-11, we elected the lessor practical expedient within ASU 2018-11. We recognize revenue under these resident agreements based upon the predominant component, either the lease or non-lease component, of the contracts rather than allocating the consideration and separately accounting for it under ASC Topic 842 and ASC Topic 606. We have concluded that the non-lease components of the agreements with respect to our senior living communities are the predominant component of the contract, therefore, we recognize revenue for these residents agreements under ASC Topic 606. The timing and pattern of revenue recognition is substantially the same as that prior to the adoption of these standards.

Accounting Standards Recently Issued but Not Yet Adopted by the Company

In August 2018, the FASB issued amended guidance to simplify fair value measurement disclosure requirements. The new provisions eliminate the requirements to disclose (1) transfers between Level 1 and Level 2 of the fair value hierarchy, (2) policies related to valuation processes and the timing of transfers between levels of the fair value hierarchy, and (3) net asset value disclosure of estimates of timing of future liquidity events. The FASB also modified disclosure requirements of Level 3 fair value measurements. This guidance is effective for annual periods beginning after December 15, 2019, which will be our fiscal year 2020, with early adoption permitted. The adoption of this standard is not expected to have a material impact on our combined financial statements.

In January 2017, the FASB issued amended authoritative guidance to simplify and reduce the cost and complexity of the goodwill impairment test. The new provisions eliminate step 2 from the goodwill impairment test and shift the concept of impairment from a measure of loss when comparing the implied fair value of goodwill to its carrying amount to comparing the fair value of a reporting unit with its carrying amount. The FASB also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment or step 2 of the goodwill impairment test. The new guidance does not amend the optional qualitative assessment of goodwill impairment. This guidance is effective for annual periods beginning after December 15, 2019, which will be our fiscal year 2020, with early adoption permitted. The adoption of this standard is not expected to have a material impact on our combined financial statements.

In June 2016, the FASB issued ASU 2016-13 “Financial Instruments—Credit Losses (Topic 326): Measurement of credit Losses on Financial Instruments,” which replaces the existing incurred loss impairment model with an expected credit loss model and requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected. The guidance will be effective for fiscal years beginning after December 15, 2019, which will be our fiscal year 2020, early adoption is permitted. We have not yet determined the effect of the ASU on our results of operations, financial condition or cash flows.

Results of Operations

The following table sets forth details of our revenue, expenses and earnings as a percentage of total revenue for the periods indicated:

	Pro Forma Six Months Ended June 30,[a]	Six Months Ended June 30,		Pro Forma Year Ended December 31,[a]	Year Ended December 31,			
	2019	2019	2018	2018	2018	2018 adjusted to reflect prior revenue guidance	2017	2016
Total revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Expense:								
Cost of services	75.8	75.8	74.0	74.3	74.3	74.5	74.6	73.7
Rent—cost of services	11.6	10.5	11.1	12.2	10.9	10.8	12.5	13.3
General and administrative expense	6.5	9.4	6.5	6.3	6.6	6.5	5.8	5.7
Depreciation and amortization	1.1	1.1	1.1	1.0	1.0	1.0	1.0	1.3
Total expenses	95.0	96.8	92.7	93.8	92.8	92.8	93.9	94.0
Income from operations	5.0	3.2	7.3	6.2	7.2	7.2	6.1	6.0
Interest expense	0.7	—	—	0.7	—	—	—	—
Income before provision for income taxes	4.3	3.2	7.3	5.5	7.2	7.2	6.1	6.0
Provision for income taxes	0.2	—	1.6	1.1	1.5	1.6	2.1	2.3
Net income	4.1	3.2	5.7	4.4	5.7	5.6	4.0	3.7
Less: net income attributable to noncontrolling interest	—	0.2	0.2	—	0.2	0.2	0.1	—
Net income attributable to New Ventures	4.1%	3.0%	5.5%	4.4%	5.5%	5.4%	3.9%	3.7%

	Pro Forma Six Months Ended June 30,[a]	Six Months Ended June 30,		Pro Forma Year Ended December 31,[a]	Year Ended December 31,		
	2019	2019	2018	2018	2018	2017	2016
				(In thousands)			
Combined Non-GAAP Financial Measures:							
Performance Metrics							
EBITDA	$ 9,763	$ 6,561	$11,177	$ 20,651	$23,000	$17,786	$15,811
Adjusted EBITDA	11,757	13,203	12,403	23,192	26,297	21,480	18,345
Valuation Metric							
Adjusted EBITDAR	30,374	30,024		58,061	57,466		

(a) See the section titled “Unaudited Pro Forma Combined Financial Statements” for a reconciliation of Audited Combined Financial Statements and Interim Financial Statements to Unaudited Pro Forma Combined Financial Statements.

	Pro Forma Six Months Ended June 30,[b]	Six Months Ended June 30,		Pro Forma Year Ended December 31,[b]	Year Ended December 31,		
	2019	2019	2018	2018	2018	2017	2016
	(In thousands)						
Segment Non-GAAP Measures: (a)							
EBITDA							
Home health and hospice services	$ 13,468	$13,118	$11,243	$ 24,420	$23,825	$17,617	$14,574
Senior living services	6,780	8,576	8,925	14,318	18,018	14,632	13,685
Adjusted EBITDA							
Home health and hospice services	14,319	13,969	11,387	24,771	24,176	19,220	15,020
Senior living services	6,917	8,713	9,075	14,612	18,312	14,903	13,889

(a) General and administrative expenses are not allocated to any segment for purposes of determining segment profit or loss.
(b) See the section titled “Unaudited Pro Forma Combined Financial Statements” for a reconciliation of Audited Combined Financial Statements and Interim Financial Statements to Unaudited Pro Forma Combined Financial Statements.

The following discussion includes references to certain performance and valuation measures, including EBITDA, Adjusted EBITDA, Adjusted EBITDAR and Pro Forma Segment Income Before Provision for Income Taxes, which are non-GAAP financial measures (collectively, “Non-GAAP Financial Measures”). Regulation S-K, Item 10(e), Use of non-GAAP financial measures in Commission filings, and other provisions of the Securities Act and the Exchange Act define and prescribe the use of certain non-GAAP financial information. 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 and company 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 the presentation of Non-GAAP Financial Measures are useful to investors and other external users of our Audited Combined Financial Statements and Interim Financial Statements regarding our results of operations because:

- they are widely used by investors and analysts in our industry as a supplemental measure to evaluate the overall performance of companies in our industry without regard to items such as interest expense, rent expense and depreciation and amortization, which can vary substantially from company to company depending on the book value of assets 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 asset base from our operating results.
- in the case of Adjusted EBITDAR, the valuation metric is used by investors and analysts in our industry to value the companies in our industry without regard to capital structures.

We use Non-GAAP Financial Measures:

- 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 assess the value of a potential acquisition;
- to assess the value of a transformed operation’s performance;
- to evaluate the effectiveness of our operational strategies; and
- to compare our operating performance to that of our competitors.

We typically use Non-GAAP Financial Measures to compare the operating performance of each operation. These measures are useful in this regard because they do not include such costs as interest expense, income taxes, depreciation and amortization expense, which may vary from period-to-period depending upon various factors, including the method used to finance operations, the date of acquisition of a community or business, and the tax law of the state in which a business unit operates.

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, Non-GAAP Financial Measures have no standardized meaning defined by GAAP. Therefore, our Non-GAAP Financial 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 rent expenses, which are normal and recurring operating expenses that are necessary to operate our leased operations, in the case of Adjusted EBITDAR;
- 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 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.

Management strongly encourages investors to review our Audited Combined Financial Statements and Interim 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. These Non-GAAP Financial Measures should not be considered a substitute for, nor superior to, financial results and measures determined or calculated in accordance with GAAP. We strongly urge you to review the reconciliation of income from operations to the Non-GAAP Financial Measures in the table below, along with our Audited Combined Financial Statements and Interim Financial Statements and related notes included elsewhere in this information statement.

We use the following Non-GAAP Financial Measures that we believe are useful to investors as key valuation and operating performance measures:

PERFORMANCE MEASURES

EBITDA

We believe EBITDA is useful to investors in evaluating our operating performance because it helps investors evaluate and compare the results of our operations from period to period by removing the impact of our asset base (depreciation and amortization expense) from our operating results.

We calculate EBITDA as net income from continuing operations, adjusted for net income attributable to noncontrolling interest, before (a) interest expense (b) provision for income taxes and (c) depreciation and amortization.

Adjusted EBITDA

We adjust EBITDA when evaluating our performance because we believe that the exclusion of certain additional items described below provides useful supplemental information to investors regarding our ongoing operating performance. We believe that the presentation of Adjusted EBITDA, when combined with EBITDA and GAAP net income attributable to us is beneficial to an investor's complete understanding of our operating performance.

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

- costs at start-up operations;
- results related to closed operations;
- share-based compensation expense;
- acquisition related costs; and
- spin-off related transaction costs.

VALUATION MEASURE:

Combined Adjusted EBITDAR

Adjusted EBITDAR is a financial valuation measure that is not specified in GAAP. We use Adjusted EBITDAR as one measure in determining the value of prospective acquisitions. It is also a commonly used measure by our management, research analysts and investors, to compare the enterprise value of different companies in the healthcare industry, without regard to differences in capital structures and leasing arrangements. This measure is not displayed as a performance measure as it excludes rent expense, which is a normal and recurring operating expense. This measure does not reflect our cash requirements for leasing commitments. As such, our presentation of Adjusted EBITDAR should not be construed as a financial performance measure.

The adjustments made and previously described in the computation of Adjusted EBITDA are also made when computing Adjusted EBITDAR. We calculate Adjusted EBITDAR by excluding rent-cost of services from Adjusted EBITDA.

We believe the use of Adjusted EBITDAR allows the investor to compare operational results of companies who have operating and capital leases. A significant portion of capital lease expenditures are recorded in interest, whereas operating lease expenditures are recorded in rent expense.

Pro Forma Selected Non GAAP Metrics

We adjust selected non GAAP metrics because we believe that the exclusion and inclusion of certain items given the effect to the spin-off and the related transactions occurred on January 1, 2018 through the most recent reporting period are useful supplemental information to investors regarding our ongoing operating performance as if the spin-off transaction occurred on the first day of the fiscal year. We believe that the presentation of selected non GAAP metrics, when combined with GAAP segment income before provision for income taxes is beneficial to an investor's complete understanding of our current operating performance after giving effect to the spin-off.

The tables below reconcile net income to Adjusted EBITDA for the periods presented. In addition, we evaluate Adjusted EBITDAR, a financial valuation metric, for the six months ended June 30, 2019 and the year ended December 31, 2018 as calculated below.

	Pro Forma Six Months Ended June 30,(e)	Six Months Ended June 30,	
	2019	2019	2018
	(In thousands)		
Net income	$6,531	$5,171	$7,912
Less: Net income attributable to noncontrolling interest	—	350	370
Add: Provision for income taxes (benefit)	421	(32)	2,200
Depreciation and amortization	1,772	1,772	1,435
Interest expense	1,039	—	—
EBITDA	9,763	6,561	11,177
Adjustments to EBITDA			
Add: Costs at start-up operations (a)	317	317	36
Share-based compensation expense (b)	1,127	1,127	1,177
Acquisition related costs (c)	541	541	—
Spin-off related transaction costs (d)	—	4,648	—
Rent related to items (a) above	9	9	13
Adjusted EBITDA	11,757	13,203	12,403
Rent—cost of services	18,626	16,830	15,289
Rent related to items (a) above	(9)	(9)	(13)
Adjusted rent—cost of services	18,617	16,821	15,276
Adjusted EBITDAR	$ 30,374	$ 30,024	

(a) Represents results related to start-up operations. This amount excludes rent, depreciation and amortization expense.
(b) Share-based compensation expense incurred.
(c) Acquisition related costs that are not capitalizable.
(d) Costs incurred related to the spin-off are included in general and administrative expense. As the pro forma net income excludes this amount, no additional adjustment is required.
(e) See the section titled "Unaudited Pro Forma Combined Financial Statements" for a reconciliation of Interim Financial Statements to unaudited pro forma combined financial statements.

	Pro Forma Year Ended December 31,(e)	Year Ended December 31,		
	2018	2018	2017	2016
		(In thousands)		
Net income	$ 12,613	$16,279	$10,027	$7,917
Less: Net income attributable to noncontrolling interest	—	595	160	26
Add: Provision for income taxes	3,130	4,352	5,375	5,065
Depreciation and amortization	2,964	2,964	2,544	2,855
Interest expense	1,944	—	—	—
EBITDA	20,651	23,000	17,786	15,811
Adjustments to EBITDA				
Add: Costs at start-up operations (a)	129	129	478	157
Results related to closed operations (b)	—	—	728	—
Share-based compensation expense (c)	2,382	2,382	2,298	2,341
Spin-off related transaction costs (d)	—	756	—	—
Rent related to items (a) and (b) above	30	30	190	36
Adjusted EBITDA	23,192	26,297	21,480	18,345
Rent—cost of services	34,899	31,199	31,304	28,953
Rent related to items (a) and (b) above	(30)	(30)	(190)	(36)
Adjusted rent—cost of services	34,869	31,169	31,114	28,917
Adjusted EBITDAR	$ 58,061	$57,466		

(a) Represents results related to start-up operations. This amount excludes rent, depreciation and amortization expense.
(b) Represents results at closed operations. This amount excludes rent, depreciation and amortization expense.
(c) Share-based compensation expense incurred.
(d) Costs incurred related to the spin-off are included in general and administrative expense. As the pro forma net income excludes this amount, no additional adjustment is required.
(e) See the section titled "Unaudited Pro Forma Combined Financial Statements" for a reconciliation of Audited Combined Financial Statements to unaudited pro forma combined financial statements.

The tables below reconcile segment income before provision for income taxes to segment EBITDA and Adjusted EBITDA for the periods presented:

	Six Months Ended June 30,			
	Home Health and Hospice		Senior Living	
	2019	2018	2019	2018
	(In thousands)			
Segment income before provision for income taxes (a)	$12,888	$11,087	$ 7,434	$ 8,016
Less: Net income attributable to noncontrolling interest	350	370	—	—
Add: Depreciation and amortization	580	526	1,142	909
EBITDA	13,118	11,243	8,576	8,925
Adjustments to EBITDA				
Add: Costs at start-up operations (b)	317	36	—	—
Share-based compensation expense (c)	87	95	137	150
Acquisition related costs (d)	438	—	—	—
Rent related to item (b) above	9	13	—	—
Adjusted EBITDA	$13,969	$11,387	$ 8,713	$ 9,075
Rent—cost of services	$ 1,414	$ 1,089	$15,416	$14,200

(a) General and administrative expenses are not allocated to any segment for purposes of determining segment profit or loss.

(b) Costs incurred for start-up operations. This amount excludes rent, depreciation and amortization expense.
(c) Share-based compensation expense incurred and included in cost of services.
(d) Acquisition related costs that are not capitalizable.

	Year Ended December 31,					
	Home Health and Hospice			Senior Living		
	2018	2017	2016	2018	2017	2016
	(In thousands)					
Segment income before provision for income taxes (a)	$23,375	$16,832	$13,676	$16,099	$13,033	$11,754
Less: Net income attributable to noncontrolling interest	595	160	26	—	—	—
Add: Depreciation and amortization	1,045	945	924	1,919	1,599	1,931
EBITDA	23,825	17,617	14,574	18,018	14,632	13,685
Adjustments to EBITDA:						
Add: Costs at start-up operations (b)	129	478	157	—	—	—
Results related to closed operations (c)	—	728	—	—	—	—
Share-based compensation expense (d)	192	207	253	294	271	204
Rent related to item (b) and (c) above	30	190	36	—	—	—
Adjusted EBITDA	$24,176	$19,220	$15,020	$18,312	$14,903	$13,889
Rent—cost of services	$ 2,281	$ 1,977	$ 1,564	$28,918	$29,327	$27,389

(a) General and administrative expenses are not allocated to any segment for purposes of determining segment profit or loss.
(b) Costs incurred for start-up operations. This amount excludes rent, depreciation and amortization expense.
(c) Represent results at closed operations. This amount excludes rent, depreciation and amortization expense.
(d) Share-based compensation expense incurred and included in cost of services.

The table below reconciles segment income before provision for income taxes to pro forma segment income before provision for income taxes for the six months ended June 30, 2019 and for the year ended December 31, 2018. The pro forma financial adjustments are derived from the unaudited pro forma combined financial statements, which are included elsewhere in this information statement:

	Six Months Ended June 30, 2019		Year Ended December 31, 2018	
	Home Health and Hospice	Senior Living	Home Health and Hospice	Senior Living
	(In thousands)			
Segment income before provision for income taxes (a)	$ 12,888	$ 7,434	$ 23,375	$ 16,099
Pro forma adjustments				
Additional rent expense	—	(1,796)	—	(3,700)
Pro forma segment income before provision for income taxes	$ 12,888	$ 5,638	$ 23,375	$ 12,399

(a) General and administrative expenses are not allocated to any segment for purposes of determining segment profit or loss.

The table below reconciles pro forma segment income before provision for income taxes to pro forma segment EBITDA and Adjusted pro forma segment EBITDA for the six months ended June 30, 2019 and for the year ended December 31, 2018:

	Pro Forma Six Months Ended June 30, 2019		Pro Forma Year Ended December 31, 2018	
	Home Health and Hospice	Senior Living	Home Health and Hospice	Senior Living
	(In thousands)			
Pro forma segment income before provision for income taxes [a]	$ 12,888	$ 5,638	$ 23,375	$ 12,399
Add: Depreciation and amortization	580	1,142	1,045	1,919
Pro forma segment EBITDA	13,468	6,780	24,420	14,318
Adjustments to pro forma Segment EBITDA:				
Add: Costs at start-up operations [b]	317	—	129	—
Share-based compensation expense [c]	87	137	192	294
Acquisition related costs [d]	438	—	—	—
Rent related to item (b) above	9	—	30	—
Adjusted pro forma Segment EBITDA	$ 14,319	$ 6,917	$ 24,771	$ 14,612
Rent—cost of services	$ 1,414	$ 17,212	$ 2,281	32,618

(a) General and administrative expenses are not allocated to any segment for purposes of determining segment profit or loss.
(b) Costs incurred for start-up operations. This amount excludes rent, depreciation and amortization expense.
(c) Share-based compensation expense incurred and included in cost of services.
(d) Acquisition related costs that are not capitalizable.

Six Months Ended June 30, 2019 Compared to the Six Months Ended June 30, 2018

Revenue

	Six Months Ended June 30,			
	2019		2018	
	Revenue Dollars	Revenue Percentage	Revenue Dollars	Revenue Percentage
	(Dollars in thousands)			
Home health and hospice services				
Home health (a)	$ 40,224	25.0%	$ 34,874	25.3%
Hospice	47,678	29.7	39,502	28.7
Home care and other (a)	8,423	5.3	6,631	4.8
Total home health and hospice services	96,325	60.0	81,007	58.8
Senior living services	64,316	40.0	56,761	41.2
Total revenue	$160,641	100.0%	$137,768	100.0%

(a) Home care and other revenue is included with home health revenue in other disclosures in this information statement.

Our combined revenue increased $22.9 million, or 16.6%. Revenue from operations acquired on or subsequent to July 1, 2018 increased our combined revenue by $9.1 million during the six months ended June 30, 2019 when compared to the same period in 2018.

Home Health and Hospice Services

	Six Months Ended June 30, 2019	2018	Change	% Change
	(Dollars in thousands)			
Home health and hospice revenue				
Home health services	$ 40,224	$ 34,874	$ 5,350	15.3%
Hospice services	47,678	39,502	8,176	20.7%
Home care and other	8,423	6,631	1,792	27.0%
Total home health and hospice revenue	$ 96,325	$ 81,007	$15,318	18.9%
Home health services				
Average revenue per completed episode	$ 3,024	$ 2,951	$ 73	2.5%
Hospice services				
Average daily census	1,544	1,275	269	21.1%
Number of agencies at period end	62	46	16	34.8%

Home health and hospice revenue increased $15.3 million, or 18.9%. Medicare and managed care revenue increased $11.4 million, or 16.9%. The increase in revenue is primarily due to the increase in average revenue per completed episode by 2.5%, increase in average daily census by 21.1%, and an increase of $3.6 million from the addition of 16 home health, hospice and home care operations between July 1, 2018 and June 30, 2019.

Senior Living Services

	Six Months Ended June 30, 2019	2018	Change	% Change
	(Dollars in thousands)			
Revenue	$ 64,316	$ 56,761	$7,555	13.3%
Number of communities at period end	51	45	6	13.3%
Occupancy percentage (units)	80.1%	78.7%	1.4%	
Average monthly revenue per occupied unit	$3,109	$3,054	$55	1.8%

Senior living revenue increased $7.6 million, or 13.3% for the six months ended June 30, 2019 when compared to the same period in the prior year. We experienced an increase in occupancy of 1.4%, coupled with an increase of $5.5 million in revenue from the addition of six senior living operations acquired between July 1, 2018 and June 30, 2019.

Cost of Services

The following table sets forth total cost of services by each of our reportable segments for the periods indicated:

	Cost of Services Six Months Ended June 30, 2019	2018
	(In thousands)	
Home Health and Hospice	$ 81,442	$ 68,305
Senior Living	40,325	33,636
Total cost of services	$ 121,767	$ 101,941

Combined cost of services increased $19.8 million or 19.4%. Combined cost of services as a percentage of revenue increased by 1.8% to 75.8% compared to the six months ended June 30, 2018.

Home Health and Hospice Services

	Six Months Ended June 30, 2019	2018	Change	% Change
	(Dollars in thousands)			
Cost of service	$ 81,442	$ 68,305	$13,137	19.2%
Cost of services as a percentage of revenue	84.5%	84.3%	0.2%	

Cost of services related to our home health and hospice services segment increased $13.1 million, or 19.2%, primarily due to newly acquired operations and organic operational growth. Included in cost of services is one-time broker fee of $0.4 million related to new agencies acquired in the current period. Without this fee, cost of services would have been 84.1%, a decreased of 0.2%.

Senior Living Services

	Six Months Ended June 30, 2019	2018	Change	% Change
	(Dollars in thousands)			
Cost of service	$ 40,325	$ 33,636	$6,689	19.9%
Cost of services as a percentage of revenue	62.7%	59.3%	3.4%	

Cost of services related to our senior living services segment increased $6.7 million, or 19.9%, primarily due to recently acquired operations and organic operational growth. Cost of services as a percentage of total revenue increased by 3.4% as a result of the increase in certain costs associated with newly acquired communities and additional field-based resources to support our growing infrastructure. Our acquisition focus is to strategically acquire underperforming operations with strong opportunities for return. Historically, we generally experienced higher cost of services at newly acquired operations; and therefore, we anticipate lower margins at these operations during years of growth.

Rent—Cost of Services. While actual rent increased from $15.3 million in the six months ended June 30, 2018 to $16.8 million in the six months ended June 30, 2019, rent as a percentage of total revenue decreased by 0.6% to 10.5% in the six months ended June 30, 2019 compared to the six months ended June 30, 2018, as the growth in revenue outpaced the increase in rent expense.

General and Administrative Expense. Our general and administrative expense increased from 6.5% to 9.4%, or from $9.0 million to $15.1 million, primarily due to an increase in transaction related costs of $4.6 million. Without the transaction costs related to the spin-off, general and administrative expense as a percentage of revenue would have remained flat. The majority of general and administrative expenses relate to cost allocations for certain shared services provided to us by Ensign subsidiaries. Such allocations include, but are not limited to, executive management, accounting, human resources, information technology, compliance, legal, payroll, insurance, tax, treasury, and other general and administrative items. These costs were allocated to us on a basis of revenue, location, employee count, or other measures.

Depreciation and Amortization. Depreciation and amortization expense remained flat as a percentage of total revenue.

Provision for Income Taxes. Income tax benefit recorded for the six months ended June 30, 2019 reflects a significant tax benefit from share-based payment awards that vested, was partially offset by non-deductible items. Without the benefits from share-based payment awards, the effective tax rates would have been 25.2% for both six month periods. See *Note 11*, *Income Taxes*, to the Interim Financial Statements included elsewhere in this information statement for further discussion.

Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

Revenue

	Year Ended December 31,					
	2018		2018 adjusted to reflect prior revenue guidance		2017	
	Revenue Dollars	Revenue Percentage	Revenue Dollars	Revenue Percentage	Revenue Dollars	Revenue Percentage
	(Dollars in thousands)					
Home health and hospice services:						
Home health	$71,669	25.1%	$73,018	25.4%	$62,772	25.0%
Hospice	82,658	28.9	83,143	28.9	69,358	27.6
Home care and other	14,710	5.1	14,710	5.1	10,273	4.1
Total home health and hospice services	169,037	59.1	170,871	59.4	142,403	56.7
Senior living services	117,021	40.9	117,021	40.6	108,588	43.3
Total revenue	$286,058	100.0%	$287,892	100.0%	$250,991	100.0%

Our combined revenue increased $35.1 million, or 14.0%, in fiscal year 2018. Revenue without the adoption of ASC 606 increased $36.9 million, or 14.7%. The following analysis incorporates the adoption of ASC 606.

Revenue from operations acquired on or subsequent to January 1, 2017 increased our combined revenue by $23.3 million in 2018 when comparing to 2017.

Home Health and Hospice Services

	Year Ended December 31,			
	2018	2017	Change	% Change
	(Dollars in thousands)			
Home health and hospice revenue				
Home health services	$ 71,669	$ 62,772	$ 8,897	14.2%
Hospice services	82,658	69,358	13,300	19.2%
Home care and other	14,710	10,273	4,437	43.2%
Total home health and hospice revenue	$ 169,037	$ 142,403	$26,634	18.7%
Adjusted to reflect prior revenue guidance				
Home health and hospice revenue				
Home health services	$ 73,018	$ 62,772	$10,246	16.3%
Hospice services	83,143	69,358	13,785	19.9%
Home care and other	14,710	10,273	4,437	43.2%
Total home health and hospice revenue	$ 170,871	$ 142,403	$28,468	20.0%
Home health services				
Average Revenue per Completed Episode	$ 2,982	$ 3,028	$ (46)	(1.5)%
Hospice services				
Average Daily Census	1,329	1,102	227	20.6%
Number of agencies at period end	54	46	8	17.4%

Home health and hospice revenue increased $26.6 million, or 18.7%, or $28.5 million, or 20.0%, without the adoption of ASC 606. The increase in revenue is primarily due to the increase in volume and average daily census in existing agencies, coupled with an increase of $15.7 million in 2018 revenue when comparing to 2017 from the addition of fifteen home health, hospice and home care operations between January 1, 2017 and

December 31, 2018. Of the $26.6 million increase, Medicare and managed care revenue increased $20.6 million, or 17.2%. The decline of 1.5% in our home health average revenue per completed episode is a result of our reimbursement rates related to our growth in states with lower average episodic reimbursement rates.

Senior Living Services

	Year Ended December 31,		Change	% Change
	2018	2017		
	(Dollars in thousands)			
Revenue	$ 117,021	$ 108,588	$8,433	7.8%
Number of communities at period end	50	43	7	16.3%
Occupancy percentage (units)	79.5%	79.9%	(0.4)%	
Average monthly revenue per occupied unit	$ 3,044	$ 2,979	$ 65	2.2%

Senior living revenue increased $8.4 million, or 7.8%, on a comparable basis primarily due to an increase in average monthly revenue per occupied unit of 2.2%, coupled with an increase of $7.6 million in revenue from the addition of 14 senior living operations between January 1, 2017 and December 31, 2018, partially offset by a decrease in occupancy of 0.4%. The decline in occupancy percentage is related to lower occupancy in some of the newly acquired communities.

Cost of Services

The following table sets forth total cost of services by each of our reportable segments for the periods indicated:

	Cost of Services		
	2018	2018 adjusted to reflect prior revenue guidance	2017
		(In thousands)	
Home Health and Hospice	$142,336	$ 144,170	$122,650
Senior Living	70,085	70,085	64,628
Total cost of services	$212,421	$ 214,255	$187,278

Combined cost of services increased $25.1 million, or 13.4%. Combined cost of services as a percentage of revenue decreased by 0.3% to 74.3% compared to fiscal 2017.

Home Health and Hospice Services

	Year Ended December 31,		Change	% Change
	2018	2017		
	(Dollars in thousands)			
Cost of services	$ 142,336	$ 122,650	$19,686	16.1%
Cost of services (adjusted to reflect prior revenue guidance)	144,170	122,650	21,520	17.5%
Cost of services as a percentage of revenue	84.2%	86.1%	(1.9)%	
Cost of services as a percentage of revenue (adjusted to reflect prior revenue guidance)	84.4%	86.1%	(1.7)%	

Cost of services related to our home health and hospice services segment increased $19.7 million, or 16.1%, due to newly acquired operations and organic operational growth. Cost of services from operations acquired on or subsequent to January 1, 2017 increased cost of services by $13.2 million in 2018 when comparing to 2017. Without the adoption of ASC 606, cost of services as a percentage of total revenue decreased by 1.7% primarily due to stronger collections and operational improvements.

Senior Living Services

	Year Ended December 31, 2018	2017	Change	% Change
	(Dollars in thousands)			
Cost of services	$ 70,085	$ 64,628	$5,457	8.4%
Cost of services as a percentage of revenue	59.9%	59.5%	0.4%	

Cost of services related to our senior living services segment increased $5.5 million, or 8.4%, primarily due to recently acquired operations and organic operational growth. Cost of services from operations acquired on or subsequent to January 1, 2017 increased cost of services by $4.8 million in 2018 when comparing to 2017. Cost of services as a percentage of total revenue increased by 0.4% as a result of the increase in certain costs associated with newly acquired communities.

Rent—Cost of Services. Our rent—cost of services as a percentage of total revenue decreased by 1.6% to 10.9% in fiscal 2018 primarily due to a lower lease rate on most of our Wisconsin communities, partially offset by an increase in rent for newly acquired operations.

General and Administrative Expense. Our general and administrative expense as a percentage of total revenue increased by 0.8% to 6.6% in fiscal 2018 primarily due to an increase in incentive expense driven by enhanced performance and spin-off transaction related costs. The majority of general and administrative expenses relate to cost allocations for certain shared services provided to us by Ensign subsidiaries. Such allocations include, but are not limited to, executive management, accounting, human resources, information technology, compliance, legal, payroll, insurance, tax, treasury, and other general and administrative items. These costs were allocated to us on a basis of revenue, location, employee count, or other measures.

Depreciation and Amortization. Depreciation and amortization expense remained flat at 1.0% of total revenue.

Provision for Income Taxes. Our effective tax rate was 21.1% for the year ended December 31, 2018 compared to 34.9% in fiscal 2017. The lower effective tax rate reflects the lower corporate tax rate of the Tax Act and an additional tax benefit from share-based payment awards. The lower effective tax rate was partially offset by non-deductible items. See Note 11, *Income Taxes*, to the Audited Combined Financial Statements included elsewhere in this information statement for further discussion.

Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

Revenue

	Year Ended December 31, 2017		2016	
	Revenue Dollars	Revenue Percentage	Revenue Dollars	Revenue Percentage
	(In thousands)			
Home health and hospice services:				
Home health	$62,772	25.0%	$54,378	25.0%
Hospice	69,358	27.6	55,487	25.6
Home care and other	10,273	4.1	5,948	2.7
Total home health and hospice services	142,403	56.7	115,813	53.3
Senior living services	108,588	43.3	101,412	46.7
Total revenue	$250,991	100.0%	$217,225	100.0%

Our combined revenue increased $33.8 million, or 15.5%, in fiscal year 2017. Revenue from operations acquired on or subsequent to January 1, 2016 increased our combined revenue by $17.7 million in 2017 when comparing to 2016.

Home Health and Hospice Services

	Year Ended December 31, 2017	2016	Change	% Change
	(Dollars in thousands)			
Home health and hospice revenue				
Home health services	$ 62,772	$ 54,378	$ 8,394	15.4%
Hospice services	69,358	55,487	13,871	25.0
Home care and other	10,273	5,948	4,325	72.7
Total home health and hospice revenue	$ 142,403	$ 115,813	$26,590	23.0%
Home health services				
Average Revenue per Completed Episode	$ 3,028	$ 2,986	$ 42	1.4%
Hospice services				
Average Daily Census	1,102	905	197	21.8%
Number of agencies at period end	46	39	7	17.9%

Home health and hospice revenue increased $26.6 million, or 23.0%. Of the $26.6 million increase, Medicare and managed care revenue increased $21.7 million, or 22.1%. The increase in revenue is primarily due to the increase in census in existing agencies, coupled with an increase of $13.2 million in 2017 revenue when comparing to 2016 from the addition of fourteen home health, hospice and home care operations in nine states between January 1, 2016 and December 31, 2017.

Senior Living Services

	Year Ended December 31, 2017	2016	Change	% Change
	(Dollars in thousands)			
Revenue	$108,588	$101,412	$7,176	7.1%
Number of communities at period end	43	36	7	19.4%
Occupancy percentage (units)	79.9%	79.2%	0.7%	
Average monthly revenue per occupied unit	$ 2,979	$ 2,916	$ 63	2.2%

Senior living revenue of $108.6 million increased $7.2 million, or 7.1%, on a comparable basis primarily due to an increase in occupancy of 0.7% and average monthly revenue per occupied unit of 2.2%, coupled with an increase of $4.5 million in revenue from the addition of seven senior living operations in three states between January 1, 2016 and December 31, 2017.

Cost of Services

The following table sets forth total cost of services by each of our reportable segments for the periods indicated:

	Cost of Services	
	2017	2016
	(In thousands)	
Home Health and Hospice	$122,650	$ 99,649
Senior Living	64,628	60,338
Total cost of services	$187,278	$159,987

Combined cost of services increased $27.3 million, or 17.1%, compared to fiscal year 2016.

Home Health and Hospice Services

	Year Ended December 31,			
	2017	2016	Change	% Change
	(Dollars in thousands)			
Cost of services	$ 122,650	$ 99,649	$23,001	23.1%
Cost of services as a percentage of revenue	86.1%	86.0%	0.1%	

Cost of services related to our home health and hospice services segment increased $23.0 million, or 23.1%, due to newly acquired operations and organic operational growth. Cost of services from operations acquired on or subsequent to January 1, 2016 increased cost of services by $11.2 million in 2017 when comparing to 2016. Cost of services as a percentage of total revenue remained flat with revenue growth.

Senior Living Services

	Year Ended December 31,			
	2017	2016	Change	% Change
	(Dollars in thousands)			
Cost of services	$ 64,628	$ 60,338	$4,290	7.1%
Cost of services as a percentage of revenue	59.5%	59.5%	— %	

Cost of services related to our senior living services segment increased $4.3 million, or 7.1%, primarily due to recently acquired operations and organic operational growth. Cost of services from operations acquired on or subsequent to January 1, 2016 increased cost of services by $3.0 million in 2017 when comparing to 2016. Cost of services as a percentage of total revenue remained flat with revenue growth.

Rent—Cost of Services. While actual rent increased from $29.0 million in 2016 to $31.3 million in 2017, rent as a percentage of total revenue decreased by 0.8% to 12.5% in fiscal 2017, as the increase in revenue surpassed the increase in rent expense.

General and Administrative Expense. Our general and administrative expense as a percentage of total revenue increased slightly to 5.8%. The majority of general and administrative expenses relate to cost allocations for certain shared services provided to us by Ensign subsidiaries. Such allocations include, but are not limited to, executive management, accounting, human resources, information technology, compliance, legal, payroll, insurance, tax, treasury, and other general and administrative items. These costs were allocated to us on a basis of revenue, location, employee count, or other measures.

Depreciation and Amortization. Depreciation and amortization expense decreased $0.3 million, or 10.9%, to $2.5 million. This decrease was primarily related to amortization expense on an intangible asset of $0.6 million

in 2016 that did not recur in 2017, partially offset by the additional depreciation incurred as a result of our newly acquired operations. Depreciation and amortization expense as a percentage of total revenue decreased by 0.3% to 1.0%.

Provision for Income Taxes. Our effective tax rate was 34.9% for the year ended December 31, 2017 compared to 39.0% for the same period in 2016. The lower effective tax rate for fiscal year 2017 reflects the favorable impact of the Tax Act from our revaluation of our net deferred tax liabilities of $0.3 million, decreases in certain non-deductible items, and decreases from a tax benefit from share-based payment awards recorded in income tax expense resulting from our adoption of ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting: Topic 710*, effective January 1, 2017. See Note 2, *Basis of Presentation and Summary of Significant Accounting Policies*, and Note 11, *Income Taxes*, to the Audited Combined Financial Statements included elsewhere in this information statement for further discussion.

Liquidity and Capital Resources

The cash presented in the combined balance sheets represents cash located at our operations. No cash was allocated to us in the Audited Combined Financial Statements and Interim Financial Statements because the net activity of cash due to (from) the Parent is reflected in the net parent investment. Following the spin-off, we will no longer participate in a cash management arrangement with Ensign. Our principal sources of liquidity following the spin-off will be our cash on hand, our ability to generate cash through operations, as well as any available funding arrangements and financing facilities we enter into.

We expect to put in place a capital structure that provides us with the flexibility to grow and a cost of debt capital that allows us to compete for investment opportunities. Subject to market conditions, we expect to enter into the Revolving Credit Facility with a syndicate of banks with a borrowing capacity of $75.0 million. We anticipate the interest rates applicable to loans under the Revolving Credit Facility to be, at the Company's election, either LIBOR plus a margin ranging from 2.5% to 3.5% per annum or Base Rate plus a margin ranging from 1.5% to 2.5% per annum, in each case based on the ratio of Consolidated Total Net Debt to Consolidated EBITDA (as defined in the Credit Agreement). In addition, we expect that we will pay a commitment fee on the undrawn portion of the commitments under the Revolving Credit Facility that is estimated to be 0.6% per annum.

We anticipate that the Revolving Credit Facility will not be subject to interim amortization. We expect that the Company will not be required to repay any loans under the Revolving Credit Facility prior to maturity. We expect that the Company will be permitted to prepay all or any portion of the loans under the Revolving Credit Facility prior to maturity without premium or penalty, subject to reimbursement of any LIBOR breakage costs of the lenders. This information is based on our current negotiations with the lead banks in an anticipated syndicate.

As a result of the financing transaction, we expect to have outstanding indebtedness of approximately $30.0 million. The amount reflects proceeds from issuance of indebtedness under the Revolving Credit Facility, including approximately $1.2 million in estimated financing cost. The foregoing summarizes some of the currently expected terms of the Revolving Credit Facility. However, the foregoing summary does not purport to be complete, and the terms of the Revolving Credit Facility have not yet been finalized. There may be changes to the expected size and other terms of the Revolving Credit Facility, some of which may be material.

We may, in the future, seek to raise additional capital to fund growth, capital renovations, operations and other business activities, but such additional capital may not be available on acceptable terms, on a timely basis, or at all.

We believe that our existing cash, cash equivalents, cash generated through operations and our expected access to financing facilities, together with funding through third-party sources such as commercial banks, will be sufficient to fund our operating activities, anticipated capital expenditures and growth needs.

The following table presents selected data from our combined statement of cash flows for the periods presented:

	Six Months Ended June 30,		Year Ended December 31,		
	2019	2018	2018	2017	2016
			(In thousands)		
Net cash provided by operating activities	$ 4,003	$9,251	$23,275	$17,250	$16,407
Net cash used in investing activities	(18,567)	(2,559)	(9,477)	(16,083)	(5,189)
Net cash provided by/(used in) financing activities	14,566	(6,689)	(13,793)	(1,161)	(11,215)
Net increase in cash	2	3	5	6	3
Cash at beginning of year	41	36	36	30	27
Cash at end of year	$ 43	$ 39	$ 41	$ 36	$ 30

Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

Our net cash provided by operating activities for the six months ended June 30, 2019 decreased by $5.2 million. The decrease was primarily due to a decrease in net income as a result of spin-off related transaction costs and the timing of collections of accounts receivable.

Our net cash used in investing activities for the six months ended June 30, 2019 increased by $16.0 million. Our spending on business and asset acquisitions increased by $14.7 million, coupled with an increase in capital expenditure spending by $1.6 million.

Our net cash provided by/(used in) financing activities in all periods presented reflect net transactions with Parent resulting from operating and investing activities discussed above.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Our net cash provided by operating activities for the year ended December 31, 2018 increased by $6.0 million. The increase was primarily due to the increase in net income as a result of operational improvements, acquisition activity, combined with the timing of payments and changes in operating assets and liabilities.

Our net cash used in investing activities for the year ended December 31, 2018 decreased by $6.6 million. Our spending on business and asset acquisitions decreased by $6.7 million; this was partially offset by an increase in capital expenditure spending by $0.5 million.

Our net cash provided by/(used in) financing activities in all periods presented reflect net transactions with Parent resulting from operating and investing activities discussed above.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Our net cash provided by operating activities for the year ended December 31, 2017 increased by $0.8 million. The increase was primarily due to the increase in net income as a result of operational improvements, combined with the timing of payments and changes in operating assets and liabilities.

Our net cash used in investing activities for the year ended December 31, 2017 increased by $10.9 million. Our spending in capital expenditures remained relatively flat; however, our business acquisitions increased by $8.7 million.

Our net cash used in financing activities in all periods presented reflect net transactions with Parent resulting from operating and investing activities discussed above.

Contractual Obligations, Commitments and Contingencies

The following table sets forth our lease obligations as of December 31, 2018, including the future periods in which payments are expected:

	2019	2020	2021	2022	2023	Thereafter	Total
				(In thousands)			
Operating lease obligations	$33,055	$32,181	$31,625	$31,241	$30,896	$ 243,333	$ 402,331

Inflation

We have historically derived a portion of our revenue from the Medicare program. We also derive revenue from state Medicaid and similar reimbursement programs. Payments under these programs generally provide for reimbursement levels that are adjusted for inflation annually based upon the state's fiscal year for the Medicaid programs and in October for the Medicare program. These adjustments may not continue in the future, and even if received, such adjustments may not reflect the actual increase in our costs for providing healthcare services.

Labor and supply expenses make up a substantial portion of our cost of services. Those expenses can be subject to increase in periods of rising inflation and when labor shortages occur in the marketplace. To date, we have generally been able to implement cost control measures or obtain increases in reimbursement sufficient to offset increases in these expenses. We may not be successful in offsetting future cost increases.

Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements.

Quantitative and Qualitative Disclosures About Market Risk

In connection with the transaction, we expect to enter into a debt agreement which will expose us to market risk. We manage our exposure to these risks by monitoring available financing alternatives, through pricing policies and potentially entering into derivative arrangements. We will evaluate our exposure to fluctuations in interest rates and how to manage such exposure in the future following the spin-off from Ensign.

The above only incorporates those exposures that exist as of June 30, 2019, and does not consider those exposures or positions which could arise after that date. We may face increased risk and exposures as a result of interest risk and the securities markets in general.

MANAGEMENT

Directors and Executive Officers

Directors

The following table sets forth biographical information and ages, as of August 19, 2019, regarding individuals who are expected to serve as our directors following the spin-off.

Name	Age	Position
Daniel H Walker	42	Chairman, Chief Executive Officer and President
Christopher R. Christensen	51	Director
John G. Nackel, Ph.D	67	Director
Stephen M. R. Covey	57	Director
JoAnne Stringfield	60	Director
Scott E. Lamb	57	Director
Roderic W. Lewis	64	Director

Daniel H Walker was appointed Chairman, Chief Executive Officer and President of The Pennant Group, Inc. upon its formation. Prior to joining Pennant, Mr. Walker served as the President and Chief Executive Officer at Cornerstone Healthcare, Inc. ("Cornerstone") since May 2010. As the leader of Cornerstone and the first participant in Ensign's new business venture program, Mr. Walker led the acquisition and operational efforts of all home health and hospice operations at Ensign, which under his leadership grew from one operation in Boise, Idaho in 2010 to 54 operations across 12 states in 2018. In addition to his role as President of Cornerstone, since 2013, Mr. Walker played key leadership and advisory roles within Ensign, including within its new business ventures group. In this role, Mr. Walker supported the development and maturation of other new business ventures including senior living, mobile diagnostic, clinical laboratory and urgent care. In addition, between 2007 and 2010, Mr. Walker also played a critical role in Ensign's IPO as well as its skilled nursing and senior housing acquisitions, real estate strategy and financing, corporate governance and related initiatives. Prior to joining Ensign, Mr. Walker was with the law firm of Lewis and Roca, LLP in Phoenix, Arizona, where he advised public and private companies on securities issues, mergers and acquisitions, and real estate and corporate transactions. Mr. Walker is a graduate of the J. Rueben Clark Law School at Brigham Young University. Mr. Walker was selected to serve on our board of directors because of his extensive knowledge of our operations and industry and his leadership skills. Mr. Walker's service as Chairman, Chief Executive Officer and President creates a critical link between management and the board. Mr. Walker is the brother-in-law of Mr. Gochnour, who serves as our Chief Operating Officer.

Christopher R. Christensen currently serves as Ensign's Executive Chairman. Mr. Christensen served as Ensign's President from 1999 and its Chief Executive Officer from April 2006, both until May 2019. Mr. Christensen has served as a member of Ensign's Board of Directors since forming Ensign in 1999. Prior to forming Ensign, Mr. Christensen served as acting Chief Operating Officer of Covenant Care, Inc., a California-based provider of long-term care. Mr. Christensen has overseen Ensign and its growth since its inception in 1999. Mr. Christensen served on the Board of Directors of CareTrust REIT from June 2014 to April 2015. We believe that Mr. Christensen's important role in the history and management of Ensign and our company and his leadership and business skills support the conclusion that he should serve as one of our directors.

John G. Nackel, Ph.D. has served as a member of Ensign's Board of Directors since his election to its Board in June 2008. He is currently the Chairman and Chief Executive Officer of Three-Sixty Advisory Group, LLC ("Three-Sixty") and Founder and General Partner of Wavemaker Three-Sixty Health, LP ("Wavemaker 360") venture fund. Founded in 2007 by Dr. Nackel, Three-Sixty consults with leading health systems, payers, physicians, medical technology companies, and other providers. Founded in 2018, Wavemaker 360 invests in early-stage health care companies in the value-based payment space. Dr. Nackel is a 25-year veteran of Ernst &

Young where he advised health care companies in his role as a Global Managing Director of Health Care. Dr. Nackel also served as CEO of Ingenix Consulting (now Optum), a division of United Healthcare. Dr. Nackel served as a director of Mercury General Corporation (NYSE:MCY) from 2016 until 2018. During his career, Dr. Nackel has also served as a board member or chairman of several privately held start-ups and emerging companies, including Visual Health Solutions, Vitalacy, HealthTask, ConnectedHealth, NetStrike, and Sertan, Inc. He earned his bachelor's degree at Tufts University, master's degrees in public health and industrial engineering at the University of Missouri, and a Ph.D. in industrial engineering (health systems design) at the University of Missouri. He is a fellow of the American College of Healthcare Executives and the Healthcare Information and Management Systems Society. He is a senior member of the Institute of Industrial Engineers. We believe that Dr. Nackel's extensive experience as a consultant and an advisor to healthcare companies, his extensive board and management experience and his valuable leadership and management insights support the conclusion that he should serve as one of our directors.

Stephen M. R. Covey has been Chief Executive Officer of CoveyLink since 2004, and is co-founder of FranklinCovey's Speed of Trust Practice, where he has taught trust and leadership in 52 countries to business, government, and nonprofit organizations. Mr. Covey is the former President and Chief Executive Officer of the Covey Leadership Center, where he grew the company to become one of the largest leadership development firms in the world. He is the former Executive Vice President of the Franklin Covey Co., where he also served as President of the Education & Training business unit. Mr. Covey is *The New York Times* and #1 *Wall Street Journal* bestselling author of *The Speed of Trust* and is co-author of the #1 Amazon bestseller *Smart Trust.* Mr. Covey received his MBA from Harvard Business School. Mr. Covey serves on the *Government Leadership Advisory Council*, and he has been recognized with the lifetime Achievement Award for "Top Thought Leaders in Trust" from the advocacy group, *Trust Across America/Trust Around the World*. We believe that Mr. Covey's extensive expertise in leadership development and proven track record of educating and helping business leaders achieve their organizational goals supports the conclusion he should serve as one of our directors.

JoAnne Stringfield previously served as Chair of the Board of Directors for Blue Cross of Idaho, a not-for-profit mutual heath insurance company and Idaho's largest private heath insurer with over 500,000 members. Ms. Stringfield served on the Blue Cross of Idaho board from 2002 to 2019. From 2008 until 2016, Ms. Stringfield was an operations executive with Marlin Equity Partners, a global investment firm. From 2001 until 2007, Ms. Stringfield was Vice President of Human Resources of Micron Technology, Inc. a global leader in memory and storage solutions. From 1996 until 2001, Ms. Stringfield served as Vice President of Administration and Corporate Secretary of Micron Electronics, Inc. ("MicronPC"), a publicly traded subsidiary of Micron Technology. Ms. Stringfield joined Micron in 1984 and held various finance and administrative positions. Ms. Stringfield worked for Boise Cascade as an internal auditor prior to joining Micron. Ms. Stringfield received a Bachelor of Science degree in Accounting from the University of Idaho.

Ms. Stringfield serves on the Board of the University of Idaho Foundation and has served on the University of Idaho College of Business and Economics Advisory Board, the Board of Directors of the North Nampa Urban Renewal Agency and the Idaho Association of Commerce and Industry. We believe that Ms. Stringfield's broad experience in human resources, risk management, insurance, accounting and finance, as well as her experience in healthcare and serving on various boards, support the conclusion that she should serve as one of our directors.

Scott E. Lamb has served as the Treasurer and Chief Financial Officer of ICU Medical, Inc.-a company that develops, manufactures, and sells medical technologies used in vascular therapy, oncology, and critical care applications-since February 2008. From 2003 to February 2008, Mr. Lamb served as ICU Medical's Controller. From 2000 to 2003, Mr. Lamb served as Senior Director of Finance for Vitalcom, Inc. Prior to that, Mr. Lamb held various finance and accounting roles at other start-up and manufacturing companies. Mr. Lamb's experience as a Chief Financial Officer of a public company for over a decade supports the conclusion that he should serve as one of our directors.

Roderic W. Lewis served as Vice President of Legal Affairs, General Counsel and Corporate Secretary of Micron Technology, Inc., a semiconductor memory manufacturer, from July 1996 to December 2013. Prior to

joining Micron, Mr. Lewis was an attorney with the New York law firm of LeBoeuf, Lamb, Leiby and MacRae. Mr. Lewis has previously served as the Chairman of the Business Law Section of the Utah State Bar from 1988 until 1989 and the Vice-Chair of the Utah Bar Corporation Act Revision Committee from 1990 until 1991. Mr. Lewis has also served as a member of the Idaho State Board of Education in various leadership capacities, including as its chairman from 2004 until 2006, governing Idaho's colleges, universities and K-12 education. Mr. Lewis holds B.A. degrees in Economics and Asian Studies from Brigham Young University and a J.D. degree from Columbia University School of Law. Mr. Lewis will bring extensive experience in the legal sector, broad insight into corporate governance and risk management, and valuable expertise with respect to investor relations and board matters.

Executive Officers

Unless otherwise indicated, the following table shows the names and ages as of August 19, 2019 for executive officers who are not expected to serve as directors and the positions they will hold following the completion of the spin-off. A description of the business experience of each for at least the past five years follows the table.

Name	Age	Position
Jennifer L. Freeman	50	Chief Financial Officer
John J. Gochnour	36	Chief Operating Officer
Derek J. Bunker	31	Chief Investment Officer, Executive Vice President & Secretary

Jennifer L. Freeman joins The Pennant Group, Inc., as our Chief Financial Officer with more than 15 years in the healthcare industry and more than 25 years of experience leading financial teams and departments. From 2017 until she joined Pennant, Ms. Freeman was Chief Financial Officer of Northpoint Recovery Holdings, LLC, a regional provider of drug and alcohol addiction treatment services, overseeing all accounting, finance, payor contracting, compliance and revenue cycle management functions. From 2014 to 2017, Ms. Freeman was the Vice President of Finance of MCG Health, LLC, part of the Hearst Health Network, a developer of evidence-based healthcare guidelines and related tools. Prior to 2014, Ms. Freeman held various leadership roles within the healthcare industry, including the Chief Financial Officer of Molina Healthcare of Washington, a large regional payor in the Pacific Northwest, the Vice President of Finance of Coordinated Care Corporation, a subsidiary of Centene Corporation, and the Chief Financial Officer of Qualis Health, a healthcare consulting organization that assists providers and payors in improved care delivery and patient outcomes. A Certified Public Accountant, Ms. Freeman began her career with PricewaterhouseCoopers in 1990 and has extensive public accounting experience. Ms. Freeman received her B.A. degree from the University of Texas and her Master of Business Administration from the University of Washington.

John J. Gochnour was appointed Chief Operating Officer of The Pennant Group, Inc. upon its formation. Prior to joining Pennant, Mr. Gochnour served as Executive Vice President and General Counsel of Cornerstone since January 2013. Mr. Gochnour has played a critical role in the acquisition and integration efforts for Cornerstone and Ensign's other new business ventures, sourcing, negotiating and helping to integrate acquisitions across 12 states and multiple industries. Mr. Gochnour also led the recruiting and development of Cornerstone's professional resource team and founded the Cornerstone Service Center, which provides consulting and management services in the areas of finance, legal, human resources, and information technology to operations across the platform. Prior to joining Cornerstone, Mr. Gochnour was an attorney at the law firm Paul Hastings LLP in Costa Mesa, California, where he litigated complex civil disputes and advised clients related to risk management, general liability, and employment issues. Mr. Gochnour received his law degree from the Duke University School of Law. Mr. Gochnour is the brother-in-law of Mr. Walker, who serves as our Chairman of the Board, Chief Executive Officer and President.

Derek J. Bunker was appointed Chief Investment Officer, Executive Vice President and Secretary of The Pennant Group, Inc. upon its formation. Mr. Bunker is responsible for overseeing strategic growth, investments,

real estate matters, investor relations and various public company matters, as well as assisting the Board in corporate governance matters in his role as corporate secretary. Prior to joining Pennant, Mr. Bunker served as Vice President, Acquisitions and Business Legal Affairs of Ensign Services, Inc. since 2015, playing a critical role in Ensign's skilled nursing and senior housing acquisitions, real estate strategy and financing, corporate governance and related initiatives. Mr. Bunker received his law degree from the University of Virginia and worked was an attorney at Latham & Watkins LLP since 2014, focusing on various corporate governance, finance, securities and transactional matters.

Our Corporate Governance

Our corporate governance will be structured in a manner that we believe will align our interests with those of our stockholders. Following the spin-off, we anticipate that our corporate governance will include the following notable features:

- our board of directors will be classified; and
- our independent directors will meet regularly in executive sessions.

Composition of the Board of Directors Following the Spin-Off

Upon completion of the spin-off, our amended and restated certificate of incorporation and amended and restated bylaws will provide that our board of directors may consist of no less than four and no more than seven directors. The number of directors on our board of directors will be fixed exclusively by our board of directors, subject to the minimum and maximum number permitted by our amended and restated certificate of incorporation and bylaws. We expect our board of directors to have seven members, five of whom we expect will qualify as "independent" under the Nasdaq Stock Market Rules (the "Marketplace Rules"). We anticipate that, at the completion of the spin-off, two of our directors, Christopher R. Christensen and John G. Nackel, will continue to serve as directors on the Ensign board of directors.

Upon the completion of the spin-off, we expect that our board of directors will be divided into three classes, with the classes as nearly equal in number as possible. The directors designated as Class I directors will have terms expiring at the first annual meeting of stockholders following the completion of the spin-off, which we expect to hold in 2020. The directors designated as Class II directors will have terms expiring at the following year's annual meeting of stockholders, which we expect to hold in 2021, and the directors designated as Class III directors will have terms expiring at the following year's annual meeting of stockholders, which we expect to hold in 2022. Commencing with the first annual meeting of stockholders following the distribution, directors elected to succeed those directors whose terms then expire shall be elected for a term of office to expire at the third annual meeting of stockholders following their election. There will be no cumulative voting in the election of directors, and a director will be elected by a plurality of the votes cast in the election of directors.

Furthermore, for so long as the board of directors is classified, our amended and restated certificate of incorporation will provide that our stockholders may remove its directors only for cause, by an affirmative vote of holders of at least a majority of its outstanding common stock. Accordingly, while the classified board of directors is in effect, these provisions could discourage a third party from initiating a proxy contest, making a tender offer or otherwise attempting to gain control of Pennant.

Committees of the Board of Directors

Following the spin-off, our board of directors will have an audit committee, a compensation committee, a nominating and corporate governance committee and a quality assurance and compliance committee, each of which will have the composition and responsibilities described below and whose members will satisfy the applicable independence standards of the SEC and the transition periods provided under the rules and regulations of the Marketplace Rules. The charter of each such standing committee will be posted on our website in

connection with the spin-off. Our board of directors may also establish from time to time any other committees that it deems necessary or desirable. The members of our committees may change subject to the discretion of our board of directors.

Audit Committee

Upon completion of the spin-off, we expect our audit committee will consist of Scott E. Lamb, JoAnne Stringfield and John G. Nackel, with Scott E. Lamb serving as chair, and will function pursuant to a written charter adopted by the board of directors. The audit committee's responsibilities will include, among other things:

- overseeing our financial reporting process and the integrity of our financial statements and other financial information provided by us to the public or any governmental or regulatory body;
- overseeing the functioning of our internal controls;
- maintaining the procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- approving of our transactions with related persons;
- pre-approving audit and permissible non-audit services to be performed by our independent accountants, if any, and the fees to be paid in connection therewith;
- engaging, replacing and compensating our independent auditors and overseeing our independent auditors' qualifications, independence and performance of the annual independent audit of our financial statements;
- maintaining legal compliance programs and addressing any legal or regulatory matters that may have a material impact on our financial statements; and
- overseeing, updating and implementing the portions of our code of ethics and business conduct that relate to the integrity of our financial reports.

The responsibilities of our audit committee will be more fully described in our audit committee charter. Our board of directors is expected to determine that Scott E. Lamb, JoAnne Stringfield and John G. Nackel satisfy the applicable independence and other requirements of the Marketplace Rules and the SEC for audit committees and that Scott E. Lamb qualifies as an "audit committee financial expert" as defined under applicable SEC rules and regulations.

Compensation Committee

Upon completion of the spin-off, we expect our compensation committee will consist of John G. Nackel, Roderic W. Lewis and Stephen M. R. Covey, with John G. Nackel serving as chair, and will function pursuant to a written charter adopted by the board of directors. The compensation committee's responsibilities will include, among other things:

- developing and reviewing policies relating to compensation and benefits;
- determining or recommending to our board of directors the cash and non-cash compensation of our executive officers;
- evaluating the performance of our executive officers and overseeing management succession planning; and
- administering or making recommendations to our board of directors with respect to the administration of our equity-based and other incentive compensation plans.

The responsibilities of our compensation committee, which are anticipated to be substantially the same as the responsibilities of Ensign's compensation committee, and its procedures for the consideration and determination of executive and director compensation will be more fully described in our compensation committee charter. Our board of directors is expected to determine that John G. Nackel, Roderic W. Lewis and Stephen M. R. Covey satisfy the applicable independence and other requirements of the Marketplace Rules, the SEC and the IRS for compensation committee members.

Nominating and Corporate Governance Committee

Upon completion of the spin-off, we expect our nominating and corporate governance committee will consist of Roderic W. Lewis, Scott E. Lamb and Stephen M. R. Covey, with Roderic W. Lewis serving as chair, and will function pursuant to a written charter adopted by the board of directors. The nominating and corporate governance committee's responsibilities will include, among other things:

- assisting the board of directors in establishing the minimum qualifications for a director nominee, including the qualities and skills that members of our board are expected to possess;
- management succession planning;
- selecting, or recommending that our board of directors selects, the director nominees for election at the next annual meeting of stockholders, or to fill vacancies on our board of directors occurring between annual meetings of stockholders;
- identifying and evaluating individuals qualified to become members of our board of directors, consistent with criteria approved by our board of directors and our nominating and corporate governance committee; and
- developing, recommending to our board of directors, and assessing corporate governance policies for us.

The responsibilities of our nominating and corporate governance committee and the process for identifying and evaluating director nominees (including nominees recommended by stockholders) will be more fully described in our nominating and corporate governance committee charter. Our board of directors is expected to determine that Roderic W. Lewis, Scott E. Lamb and Stephen M. R. Covey satisfy the applicable independence and other requirements of the Marketplace Rules and the SEC for nominating and corporate governance committee members.

Quality Assurance and Compliance Committee

Upon completion of the spin-off, we expect our quality assurance and compliance committee will consist of Christopher R. Christensen, Daniel H Walker, JoAnne Stringfield and John G. Nackel, with Christopher R. Christensen serving as chair, and will function pursuant to a written charter adopted by the board of directors. The quality assurance and compliance committee's responsibilities will include, among other things:

- overseeing the promulgation, and the updating from time to time as appropriate, of a written corporate compliance program that includes written policies, procedures and standards of conduct, as well as disciplinary guidelines to assist officers and employees charged with direct enforcement responsibility;
- designating a corporate compliance officer, and functioning as the compliance committee to which such compliance officer reports;
- ensuring that means exist for the delivery of appropriate compliance training and education to the officers and employees of our several subsidiaries;
- establishing lines of communication for escalating compliance and quality control issues to our quality assurance and compliance committee and our Board;

- establishing a system for internal monitoring and auditing of compliance and quality control issues; and
- causing our officers to respond, as appropriate, to compliance and quality control issues and to take effective corrective action.

The responsibilities of our quality assurance and compliance committee will be more fully described in our quality assurance and compliance committee charter.

Director Independence

We expect that our board of directors, upon recommendation of our nominating and corporate governance committee, will formally determine the independence of our directors following the spin-off and we expect that a majority of the members of our board of directors will be independent. We expect that our board of directors will determine that the following directors, who are anticipated to be elected to our board of directors, are independent: JoAnne Stringfield, Roderic W. Lewis, Scott E. Lamb, John G. Nackel and Stephen M. R. Covey. We expect that our board of directors will determine the independence of directors annually based on a review by the directors and the nominating and corporate governance committee. In determining whether a director is independent, we expect that our board of directors will determine whether each director meets the objective standards for independence set forth in the Marketplace Rules.

Meetings of Independent Directors

We expect that our independent directors will meet frequently in executive session.

Attendance at Annual Meeting of Stockholders

Although we do not expect to have a formal policy regarding attendance by members of our board of directors at our annual meeting of stockholders, we intend to encourage our directors to attend and expect that at least a majority of our board of directors will attend the annual meeting.

Stockholder Communication

We expect that our board of directors will adopt a policy that will permit stockholders to communicate directly with the board of directors, any committee of our board of directors or any individual director.

Risk Oversight

We expect that our board of directors will rely on each of its committees to help oversee the risk management responsibilities relating to the functions performed by such committees. Our audit committee will periodically discuss with management our major financial risk exposures and the steps management has taken to monitor and control such exposures, including our risk assessment and risk management policies. Our compensation committee will help the board of directors to identify our exposure to any risks potentially created by our compensation programs and practices. Our nominating and corporate governance and quality assurance and compliance committees will oversee risks relating to our policies and assist the board of directors and management in promoting an organizational culture that encourages commitment to ethical conduct and a commitment to compliance with the law. Each of these committees will be required to make regular reports of its actions and any recommendations to the board of directors, including recommendations to assist the board of directors with its overall risk oversight function.

Compensation Committee Interlocks and Insider Participation

We expect that none of the members of our compensation committee will have at any time been one of our officers or employees or have any relationships with us of the type that is required to be disclosed under Item 404

of Regulation S-K. We expect that none of our executive officers will have served at any time as a member of the board of directors, compensation committee or other board committee performing equivalent functions of any entity that has one or more executive officers serving as one of our directors or on our compensation committee.

Code of Conduct and Ethics

Prior to the completion of the spin-off, our board of directors will adopt a code of conduct and ethics (the "Code of Ethics"), that will apply to all of our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions. The Code of Ethics will be available upon written request to our corporate secretary or on our website, which we currently intend to make available on our website following the completion of spin-off. If we amend or grant any waiver from a provision of our Code of Ethics that applies to our executive officers, we will publicly disclose such amendment or waiver on our website and as required by applicable law. The information contained on, or accessible from, our website is not part of this prospectus by reference or otherwise.

EXECUTIVE AND DIRECTOR COMPENSATION

The following section provides compensation information pursuant to the scaled disclosure rules applicable to "emerging growth companies" under the rules of the SEC, including reduced narrative and tabular disclosure obligations regarding executive compensation.

Furthermore, Pennant comprises the home health and hospice agencies and substantially all of the senior living businesses of Ensign, which have not operated as a single line of business or division of Ensign. In connection with the spin-off, these business units will be reorganized as a newly formed subsidiary of Ensign, known as Pennant. As a result, Pennant has not historically had executive officers. While the individuals we expect will be our executive officers going forward were employed by Ensign, they did not serve in an executive officer capacity with respect to the multiple business units of Ensign that will be combined to form Pennant. Accordingly, we believe the compensation of these individuals is not indicative of the compensation they will receive as executive officers of Pennant and we have not included information regarding compensation and other benefits paid to these executives by Ensign during fiscal year 2018 or prior years.

Executive compensation decisions following the spin-off will be made by our compensation committee, consistent with the compensation and benefit plans, programs and policies that will be adopted by Pennant. With respect to base salaries, annual incentive compensation and any long-term incentive awards, it is expected that our compensation committee will develop programs reflecting appropriate measures, goals, targets and business objectives based on Pennant's competitive marketplace. The amount and timing of any equity-based compensation to be paid to Pennant's named executive officers ("Named Executive Officers") at or following the spin-off will be determined by our compensation committee and will generally be granted pursuant to a new equity incentive plan to be adopted by Pennant in connection with becoming an independent, publicly-traded company. A description of any known incentive equity to be granted in connection with the spin-off has been included herein based on the latest information known to date.

2019 Omnibus Incentive Plan

In connection with the spin-off, we expect that the board of directors will adopt The Pennant Group, Inc. 2019 Omnibus Incentive Plan (the "Incentive Plan") for the grant of awards to employees of Pennant affiliates following the consummation of the spin-off. We expect the material terms of the Incentive Plan to include the following:

Share Reserve

We expect that the maximum number of shares of Pennant common stock for issuance under the Incentive Plan will be approximately 5.0 million. In addition, we expect the following shares of Pennant common stock will again be available for grant or issuance under the Incentive Plan:

- shares subject to awards granted under the Incentive Plan that expire unexercised, are cancelled, forfeited, terminated or are not distributed; and
- shares subject to awards granted under the Incentive Plan that otherwise terminate without shares being issued.

Eligibility

Our employees, officers, consultants, independent contractors, or directors providing services to Pennant or our affiliates, who the committee determines is an eligible person, will be eligible to receive awards under the Incentive Plan. In determining which eligible person will receive an award, the committee may take into account the nature of the services rendered the respective eligible persons, their present and potential contributions to the success of Pennant or such other factors as the committee, in its discretion deem relevant.

Term

The Incentive Plan will terminate ten years from the date our board of directors approves the plan, unless it is terminated earlier by our board of directors.

Award Forms and Limitations

The Incentive Plan authorizes the award of stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalents, other stock grants and other stock-based awards. For stock options that are intended to qualify as incentive stock options ("ISOs"), under Section 422 of the Code, the maximum number of shares subject to ISO awards shall be .

Administration

The Incentive Plan will be administered by our compensation committee. The compensation committee will have the authority to construe and interpret the Incentive Plan, grant awards and make all other determinations necessary or advisable for the administration of the plan. Awards under the Incentive Plan may be made subject to "performance conditions" and other terms.

Stock Options

The Incentive Plan provides for the grant of stock options to officers and other employees intended to qualify as incentive stock options, as defined in Section 422 of the Code, as well as the grant of options to employees, consultants, independent contractors and directors that do not qualify as incentive stock options (that is, nonqualified stock options). The holder of an option will be entitled to purchase a number of shares of Pennant common stock at a specified exercise price during a specified time period, all as determined by the compensation committee. The exercise price of an option generally will not be less than 100.0% of the fair market value of Pennant common stock on the date of grant, or in the case of incentive stock options, 110.0% of the fair market value of Pennant common stock with respect to holders of more than 10% of Pennant common stock. The compensation committee may, however, set the exercise price of non-qualified stock options at less than 100% of the fair market value on the date of grant if the committee acknowledges in its granting resolutions that such option has been structured to be exempt from or compliant with the requirements of Section 409A. The fair market value of Pennant common stock will be the closing sale price as quoted on NASDAQ on the date of grant. The Incentive Plan is expected to permit payment of the exercise price to be made by cash, shares of Pennant common stock, other securities, other awards or other property. The shares subject to each option will generally vest in one or more installments over a specified period of service measured from the grant date. The term of an option and incentive stock option will be fixed by the committee at the time of grant, not to exceed 10 years from the date of grant, or in the case of a grant of an incentive stock option to a participant who, at the time such incentive stock option is granted, owns (within the meaning of Section 422 of the Code) stock possessing more than 10.0% of the total combined voting power of all classes of stock of Pennant or its affiliates, then such incentive stock options will expire and no longer be exercisable no later than 5 years from the date of grant.

Stock Appreciation Rights

Stock appreciation rights provide for a payment, or payments, in cash or shares of Pennant common stock, to the holder based upon the difference between the fair market value of Pennant common stock on the date of exercise and the stated exercise price of the stock appreciation right. The exercise price must be at least equal to the fair market value of Pennant common stock on the date the stock appreciation right is granted. Stock appreciation rights may vest based on time or achievement of performance conditions, as determined by the compensation committee in its discretion.

Restricted Stock and RSUs

The compensation committee will be able to grant awards consisting of shares of Pennant common stock subject to restrictions on sale and transfer. The price (if any) paid by a participant for a restricted stock award

will be determined by the compensation committee. Unless otherwise determined by the compensation committee at the time of award, vesting will cease on the date the participant no longer provides services to us and unvested shares will be forfeited to or repurchased by us. The compensation committee may condition the grant or vesting of shares of restricted stock on the achievement of performance conditions and/or the satisfaction of a time-based vesting schedule. The holder of restricted stock units will have the right, subject to any restrictions imposed by the committee, to receive shares of Pennant common stock at some future date determined by the committee. Dividends (that are paid by us to holders of shares of Pennant common stock) may be paid with respect to unvested restricted stock awards issued under the Incentive Plan that are subject to time vesting requirements only.

Performance Awards

A performance award is an award that becomes payable upon the attainment of specific performance goals. A performance award may become payable in cash or in shares of Pennant common stock. These awards are subject to forfeiture prior to settlement due to termination of a participant's employment or failure to achieve the performance conditions. The performance goals to be achieved, the length of the performance period, the amount of the award, the amount of payment or transfer to be made pursuant to the performance award, and any other terms and conditions of any performance award shall be determined by the committee.

Dividend Equivalents

The compensation committee will be able to grant dividend equivalents under which the participant is entitled to receive payments (in cash, shares of common stock, other securities, other awards or other property as determined in the discretion of the committee) equivalent to the amount of cash dividends paid by Pennant to holders of shares of Pennant common stock with respect to a number of shares of Pennant common stock determined by the committee. Dividend equivalents have terms and conditions as the committee shall determine except that all dividend equivalents are subject to the same vesting conditions as to the underlying award to which they are attached.

Automatic Stock Grant Program

Under the terms of the Incentive Plan, each non-employee director will receive a quarterly restricted stock grant of 750 shares on the 15th day of the month subsequent to quarter end and such shares shall vest over a three-year period, beginning with the first anniversary of the grant date (the Automatic Stock Grant Program). All unvested restricted stock grants will become fully vested on the date any such non-employee director ceases serving on the Board unless such director is removed for cause. Pursuant to the Automatic Stock Grant Program, Board members receiving stock grants must maintain ownership of a minimum of thirty-three percent (33.0%) of the cumulative shares granted to him or her.

Other Stock Grants

The committee may to grant awards of shares without restriction as deemed by the committee to be consistent with the purpose of the Incentive Plan.

Other Stock-Based Awards

The compensation committee may grant awards that are denominated or payable in, valued in whole or in party by reference to, or otherwise based on or related to, shares, as are deemed by the compensation committee to be consistent with the purpose of the Incentive Plan. Pennant common stock or other securities delivered pursuant to a purchase right may be paid by such method or methods as the committee determines. The value of such consideration, as established by the committee, must not be less than 100% of the fair market value of such Pennant common stock or other securities as of the date such purchase right is granted unless the committee expressly provides otherwise.

Additional Provisions

Awards granted under the Incentive Plan may not be transferred in any manner other than by will or by the laws of descent and distribution, or as determined by our compensation committee. Unless otherwise restricted by our compensation committee, awards that are non-ISOs or SARs may be exercised during the lifetime of the optionee only by the optionee, the optionee's guardian or legal representative or a family member of the optionee who has acquired the non-ISOs or SARs by a permitted transfer. Awards that are ISOs may be exercised during the lifetime of the optionee only by the optionee or the optionee's guardian or legal representative.

In the event of a change of control (as defined in the plan), the compensation committee may, in its discretion, provide for any or all of the following actions: (i) awards may be continued, assumed, or substituted with new rights, (ii) awards may be purchased for cash equal to the excess (if any) of the highest price per share of common stock paid in the change in control transaction over the aggregate exercise price of such awards, (iii) outstanding and unexercised stock options and stock appreciation rights may be terminated, prior to the change in control (in which case holders of such unvested awards would be given notice and the opportunity to exercise such awards), or (iv) vesting or lapse of restrictions may be accelerated. All awards will be equitably adjusted in the case of stock splits, recapitalizations and similar transactions.

2019 Long Term Incentive Plan

In connection with the spin-off, we expect that the board of directors will adopt The Pennant Group, Inc. 2019 Long Term Incentive Plan (the "LTIP") for the grant of awards to employees and directors of Ensign immediately prior to the consummation of the spin-off in recognition of their performance in assisting with the spin-off transaction. Following the spin-off, no additional awards will be issued. Awards to be issued under the new plan are approximately 250,000 shares. We expect the material terms of the LTIP to include the following:

Share Reserve

We expect that the maximum number of shares of Pennant common stock for issuance under the LTIP will be approximately 250,000.

Eligibility

It is currently expected that approximately 60 employees and directors will be eligible to receive an award of restricted stock under the LTIP.

Term

The LTIP will terminate ten years from the date our board of directors approves the plan, unless it is terminated earlier by our board of directors, provided that no additional grants will be made beyond the date of the spin-off.

Award Forms and Limitations

The LTIP authorizes the award of restricted stock.

Restricted Stock Awards

The compensation committee will be able to grant awards consisting of shares of Pennant common stock subject to restrictions on sale and transfer. The price (if any) paid by a participant for a restricted stock award will be determined by the compensation committee. Unless otherwise determined by the compensation committee at the time of award, vesting will cease on the date the participant no longer provides services to his or her employer and unvested shares will be forfeited to or repurchased by us.

Additional Provisions

Awards granted under the LTIP may not be transferred in any manner other than by will or by the laws of descent and distribution, or as determined by our compensation committee.

In the event of a change of control (as defined in the plan), the compensation committee may, in its discretion, provide for any or all of the following actions: (i) awards may be continued, assumed, or substituted with new rights, (ii) awards may be purchased for cash equal to the excess (if any) of the highest price per share of common stock paid in the change in control transaction over the aggregate exercise price of such awards, or (iii) vesting or lapse of restrictions may be accelerated. All awards will be equitably adjusted in the case of stock splits, recapitalizations and similar transactions.

Certain U.S. Federal Income Tax Consequences

The following is a brief discussion of certain U.S. federal income tax consequences for awards granted under the Incentive Plan. The Incentive Plan is not subject to the requirements of the Employee Retirement Income Security Act of 1974, as amended, and it is not, nor is it intended to be, qualified under Section 401(a) of the Code. This discussion is based on current law, is not intended to constitute tax advice, and does not address all aspects of U.S. federal income taxation that may be relevant to a particular participant in light of his or her personal circumstances and does not describe foreign, state, or local tax consequences, which may be substantially different. Holders of awards under the Incentive Plan are encouraged to consult with their own tax advisors.

Non-Qualified Stock Options and Stock Appreciation Rights. With respect to non-qualified stock options and stock appreciation rights, (i) no income is realized by a participant at the time the award is granted; (ii) generally, at exercise, ordinary income is realized by the participant in an amount equal to the difference between the exercise or base price paid for the shares and the fair market value of the shares on the date of exercise (or, in the case of a cash-settled stock appreciation right, the cash received), and the participant's employer is generally entitled to a tax deduction in the same amount subject to applicable tax withholding requirements; and (iii) upon a subsequent sale of the stock received on exercise, appreciation (or depreciation) after the date of exercise is treated as either short-term or long-term capital gain (or loss) depending on how long the shares have been held, and no deduction will be allowed to such participant's employer.

Incentive Stock Options. No income is realized by a participant upon the grant or exercise of an incentive stock option, however, such participant will generally be required to include the excess of the fair market value of the shares at exercise over the exercise price in his or her alternative minimum taxable income. If shares are issued to a participant pursuant to the exercise of an incentive stock option, and if no disqualifying disposition of such shares is made by such participant within two years after the date of grant or within one year after the transfer of such shares to such participant, then (i) upon sale of such shares, any amount realized in excess of the exercise price will be taxed to such participant as a long-term capital gain, and any loss sustained will be a long-term capital loss, and (ii) no deduction will be allowed to the participant's employer for federal income tax purposes. If shares acquired upon the exercise of an incentive stock option are disposed of prior to the expiration of either holding period described above, generally (i) the participant will realize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of such shares at exercise (or, if less, the amount realized on the disposition of such shares) over the exercise price paid for such shares and (ii) the participant's employer will generally be entitled to deduct such amount for federal income tax purposes. Any further gain (or loss) realized by the participant will be taxed as short-term or long-term capital gain (or loss), as the case may be, and will not result in any deduction by the employer. Subject to certain exceptions for disability or death, if an incentive stock option is exercised more than three months following termination of employment, the exercise of the stock option will generally be taxed as the exercise of a non-qualified stock option.

Other Stock-Based Awards. The tax effects related to other stock-based awards under the Incentive Plan are dependent upon the structure of the particular award.

Withholding. At the time a participant is required to recognize ordinary compensation income resulting from an award, such income will be subject to federal (including, except as described below, Social Security and Medicare tax) and applicable state and local income tax and applicable tax withholding requirements. If such participant's year-to-date compensation on the date of exercise exceeds the Social Security wage base limit for such year ($132,900 in 2019), such participant will not have to pay Social Security taxes on such amounts. Pennant is required to report to the appropriate taxing authorities the ordinary income received by the participant, together with the amount of taxes withheld to the Internal Revenue Service and the appropriate state and local taxing authorities.

Section 409A. Certain awards under the Incentive Plan or the LTIP may be subject to Section 409A of the Code, which regulates "nonqualified deferred compensation" (as defined in Section 409A of the Code). If an award under the Incentive Plan or the LTIP (or any other Pennant plan) that is subject to Section 409A of the Code is not administered in compliance with Section 409A of the Code, then all compensation under the Incentive Plan or the LTIP that is considered "nonqualified deferred compensation" (and awards under any other Pennant plan that are required pursuant to Section 409A of the Code to be aggregated with the award under the Incentive Plan or the LTIP) will be taxable to the participant as ordinary income in the year of the violation, or if later, the year in which the compensation subject to the award is no longer subject to a substantial risk of forfeiture. In addition, the participant will be subject to an additional tax equal to 20% of the compensation that is required to be included in income as a result of the violation, plus interest from the date that the compensation subject to the award was required to be included in taxable income.

Certain Rules Applicable to "Insiders." As a result of the rules under Section 16(b) of the Exchange Act, depending upon the particular exemption from the provisions of Section 16(b) utilized, "insiders" (as defined in Section 16(b)) may not receive the same tax treatment as set forth above with respect to the grant and/or exercise or settlement of awards. Generally, insiders will not be subject to taxation until the expiration of any period during which they are subject to the liability provisions of Section 16(b) with respect to any particular award. Insiders should check with their own tax advisors to ascertain the appropriate tax treatment for any particular award.

Awards to be Issued Under the Incentive Plan

In connection with the spin-off, we anticipate that approximately 70 employees and directors of Pennant, including its executive officers and directors, will receive awards of either restricted stock units (the "RSUs") or stock options (the "Options") of Pennant, based on form award agreements attached hereto as exhibits. It is anticipated that approximately 1.0 million RSUs and 0.5 million Options be granted at the time of the spin-off. In addition to the RSUs and Options, we may grant awards of restricted stock ("RS") to certain employees of Pennant in the future, though it is not currently expected that any awards of RS will be granted in connection with the spin-off. The RS will only be subject to time-based vesting conditions (i.e., no performance-based vesting conditions will apply).

Awards to be Issued Under the LTIP

In connection with the spin-off, we anticipate that approximately 60 employees and directors of Ensign will receive awards of restricted stock ("LTIP RS") based on the form award agreement attached hereto as an exhibit. It is anticipated that approximately 250,000 shares of LTIP RS will be granted at the time of the spin-off.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Existing Arrangements with Ensign

We have a number of existing arrangements whereby affiliates of Ensign and affiliates of Pennant have provided various services to each other. See Note 3, *Related Party Transactions and Net Parent Investment*, to the Audited Combined Financial Statements included herein for a discussion of such existing arrangements. In connection with the spin-off, Pennant will enter into agreements with Ensign that have either not existed historically or that may be on different terms than the terms of the existing arrangement or agreements.

Ensign Pennant Care Continuum

Subsidiaries of Ensign and Pennant may opt in to a voluntary joint post-acute care preferred provider network called the Ensign Pennant Care Continuum (the "EPCC"). The EPCC will allow participants to collaborate together to enhance voluntary transitions between clinical care settings, establish methodologies and protections for operational data sharing and formalize guiding principles for the mutually beneficial collaboration on acquisitions and ancillary business opportunities.

Agreements with Ensign Related to the Spin-Off

This section of the information statement summarizes material agreements between us and Ensign that will govern the ongoing relationships between the two companies after the spin-off and are intended to provide for an orderly transition to our status as an independent, publicly-traded company. Additional or modified agreements, arrangements and transactions, each of which would be negotiated at arm's length, may be entered into between us and Ensign after the spin-off.

Following the spin-off, we and Ensign will operate independently, and neither company will have any ownership interest in the other. Before the spin-off, we will enter into a master separation agreement and several other agreements with Ensign related to the spin-off. These agreements will govern the relationship between us and Ensign after completion of the spin-off and provide for the allocation between us and Ensign of various assets, liabilities, rights and obligations. The following is a summary of the terms of the material agreements we expect to enter into with Ensign. These summaries are qualified in their entirety by reference to the full text of the applicable agreements, which will be filed as exhibits to the registration statement which this information statement forms a part.

Master Separation Agreement

We intend to enter into a master separation agreement with Ensign prior to the distribution of shares of our common stock to Ensign stockholders. The master separation agreement will provide for the allocation of assets and liabilities between us and Ensign and will establish certain rights and obligations between the parties following the distribution as further described below.

Transfer of Assets and Assumption of Liabilities. The master separation agreement will provide for certain transfers of assets and assumptions of liabilities that are necessary in connection with our spin-off from Ensign so that each of Ensign and Pennant is allocated the assets necessary to operate its respective businesses and retains or assumes the liabilities allocated to it in accordance with the separation plan. The master separation agreement will also provide for the settlement or extinguishment of certain liabilities and other obligations among Ensign and Pennant. See "Unaudited Pro Forma Combined Financial Statements."

Further Assurances. To the extent that any transfers of assets or assumptions of liabilities contemplated by the master separation agreement have not been consummated on or prior to the date of the distribution, the parties will agree to reasonably cooperate with each other and use commercially reasonable efforts to effect such

transfers or assumptions as promptly as reasonably practicable following the date of the distribution. In addition, each of the parties will agree to reasonably cooperate with the other and use commercially reasonable efforts to take or to cause to be taken all actions, and to do, or to cause to be done, all things reasonably necessary under applicable law or contractual obligations to consummate and make effective the transactions contemplated by the master separation agreement and the ancillary agreements.

Representations and Warranties. In general, neither we nor Ensign will make any representations or warranties regarding any assets or liabilities transferred or assumed, any consents or approvals that may be required in connection with such transfers or assumptions, the value or freedom from any lien or other security interest of any assets transferred, the absence of any defenses relating to any claim of either party or the legal sufficiency of any conveyance documents, or any other matters.

Except as expressly set forth in the master separation agreement or in any ancillary agreement, all assets will be transferred on an "as is, where is" basis.

The Distribution. The master separation agreement will govern certain rights and obligations of the parties regarding the proposed distribution and certain actions that must occur prior to the proposed distribution, such as the election of officers and directors and the adoption of our amended and restated certificate of incorporation and amended and restated bylaws. Prior to the distribution, we will deliver all the issued and outstanding shares of our common stock to the distribution agent. Following the distribution date, the distribution agent will electronically deliver the shares of our common stock to Ensign stockholders based on each holder of Ensign common stock receiving one share of Pennant common stock for every two shares of Ensign common stock held by such stockholder. The Ensign board of directors will have the sole and absolute discretion to determine (and change) the terms of, and whether to proceed with, the distribution and, to the extent it determines to so proceed, to determine the date of the distribution.

Conditions. The master separation agreement will provide that the distribution is subject to the satisfaction or waiver of certain conditions. For further information regarding these conditions, see "The Spin-Off—Conditions to the Distribution." The Ensign board of directors may, in its sole discretion, determine the distribution date and the terms of the distribution and, until the distribution has occurred, the Ensign board of directors has the right to elect not to proceed with the distribution in its sole discretion, even if all of the conditions are satisfied.

Termination. The master separation agreement will provide that it may be terminated by Ensign at any time in its sole discretion prior to the distribution.

Intercompany Accounts and Agreements. The master separation agreement will provide that, subject to certain exceptions described in provisions in the master separation agreement or any ancillary agreement to the contrary, prior to the distribution, intercompany accounts will be settled and intercompany agreements will be terminated, in each case as will be set forth in the master separation agreement.

Release of Claims and Indemnification. We and Ensign will agree to broad mutual general releases pursuant to which we will each release the other and certain related persons specified in the master separation agreement from any claims against any of them that arise out of or relate to events, circumstances or actions occurring or failing to occur or alleged to occur or to have failed to occur or any conditions existing or alleged to exist at or prior to the time of the distribution. These mutual general releases will be subject to certain exceptions set forth in the master separation agreement and the ancillary agreements.

The master separation agreement will provide for cross-indemnities that, except as otherwise provided in the master separation agreement, are principally designed to place financial responsibility for the obligations and liabilities of our business with us, and financial responsibility for the obligations and liabilities of Ensign's business with Ensign.

The amount of each party's indemnification obligations will be subject to reduction by any insurance proceeds actually received by the party being indemnified. The master separation agreement will also specify procedures with respect to claims subject to indemnification and related matters. Indemnification with respect to taxes will be governed solely by the tax matters agreement.

Insurance. The master separation agreement will provide for the allocation among the parties of benefits under existing insurance policies for occurrences prior to the distribution and sets forth procedures for the administration of insured claims. The master separation agreement will allocate among the parties the right to proceeds and the obligation to incur deductibles under certain insurance policies.

Other Matters Governed by the Master Separation Agreement. Other matters governed by the master separation agreement will include access to financial and other information, confidentiality, access to and provision of records and treatment of outstanding guarantees, similar credit support and procedures for resolution of any dispute that may arise thereunder.

Transition Services Agreement

We intend to enter into a transition services agreement with Ensign under which Ensign will provide us with certain services, and we will provide Ensign with certain services, for a prescribed period of time, subject to extension upon the agreement of the parties, following the distribution to help ensure an orderly transition following the distribution.

We anticipate that the services that Ensign will agree to provide us under the transition services agreement and that we will agree to provide Ensign may include certain finance, information technology, human resources, employee benefits and other services. The recipient of any such services used will pay the provider for such services at agreed amounts as set forth in the transition services agreement. In addition, from time to time during the term of the agreement, we and Ensign may mutually agree on additional services to be provided pursuant to the transition services agreement or to cease provision of any services that are no longer required. We and Ensign will agree to use commercially reasonable efforts to provide each other such services in a manner, scope, nature, timeliness and quality consistent with the manner, scope, nature, timeliness and quality consistent with such services as was provided prior to the spin-off. No member of the service-providing party's group, any director, officer, manager, employee or agent will be liable to the service-receiving party and the service-providing party's total liability to the service-receiving party for any claim will not exceed, in the aggregate, an amount equal to the total amount paid by the service-receiving party for such service.

Tax Matters Agreement

We intend to enter into a tax matters agreement with Ensign that will govern the respective rights, responsibilities and obligations of Ensign and us after the spin-off with respect to tax liabilities and benefits, tax attributes, tax returns, tax contests and other tax sharing regarding U.S. federal, state, local and foreign income taxes, other tax matters and related tax returns. As a subsidiary of Ensign, we have (and will continue to have following the spin-off) joint and several liability with Ensign to the IRS for the combined U.S. federal income taxes of the Ensign consolidated group relating to the taxable periods in which we were part of that group. However, the tax matters agreement will specify the portion of this tax liability for which we will bear responsibility, and we and Ensign will each agree to indemnify each other against any amounts for which such indemnified party is not responsible. The tax matters agreement will also provide special rules for allocating tax liabilities in the event that the spin-off or any other related transaction is not completely tax-free. The tax matters agreement will provide for certain covenants that may restrict our ability to pursue strategic or other transactions that otherwise could optimize or maximize the value of our business. Although valid as between the parties, the tax matters agreement will not be binding on the IRS.

Employee Matters Agreement

We intend to enter into an employee matters agreement with Ensign that will govern the respective rights, responsibilities and obligations of Ensign and us after the spin-off. The employee matters agreement will address the allocation of employees between Ensign and us, qualified defined contribution plans, employee health and welfare benefit plans, incentive plans, equity-based awards and other employment, compensation and benefits-related matters. The employee matters agreement will provide for, among other things, the allocation and treatment of assets and liabilities related to incentive plans, retirement plans and employee health and welfare benefit plans in which transferred employees participated prior to the spin-off. The employee matters agreement will also provide for the treatment of outstanding Ensign equity awards in connection with the spin-off. After the spin-off, employees of our subsidiaries will continue to participate in Ensign's health and welfare benefit plans through the end of 2019, and we will establish plans or programs for our employees as described in the employee matters agreement.

Real Estate Agreements

Owned real property and leased space will be allocated to Ensign or us, as the case may be, in a manner that is consistent with the different business uses and needs of Ensign and us. To the extent that (a) the desired allocation is not legally possible, (b) owned property or leased space needs to be shared by Ensign and us or (c) services will be provided by one of the companies to the other in respect of any owned property or leased space, we will enter into agreements with Ensign governing the respective parties' rights and obligations with respect to any such shared space or services provided.

Compensatory Arrangements for Certain Executive Officers

With respect to base salaries, annual incentive compensation and any long-term incentive awards, it is expected that our compensation committee will develop programs reflecting appropriate measures, goals, targets and business objectives based on Pennant's competitive marketplace. The amount and timing of any equity-based compensation to be paid to Pennant's executive officers at or following the distribution will be determined by our compensation committee and will generally be granted pursuant to a new equity incentive plan to be adopted by Pennant in connection with becoming an independent, publicly-traded company. See "Executive and Director Compensation—2019 Omnibus Incentive Plan."

For each holder of outstanding Ensign equity awards as of immediately prior to the spin-off, Ensign's intent is that the economic value and substantive terms and conditions associated with such awards shall effectively be maintained and continued as of immediately following the spin-off. Employees holding stock options who will remain employees of subsidiaries of Ensign following the distribution date will continue to hold Ensign stock options, but the number of shares covered by such award and exercise prices associated with such awards will be adjusted to maintain economic value. Employees holding stock options who will become employees of subsidiaries of Pennant following the distribution date will have their Ensign stock options converted into an adjusted option to purchase Pennant common stock pursuant to the Incentive Plan, and the number of shares covered by such award and exercise prices will be adjusted to maintain economic value. Employees of subsidiaries of Ensign and Pennant who hold Ensign restricted stock will continue to hold Ensign restricted stock and will also receive the right to receive one share of Pennant restricted stock for every two shares of Ensign restricted stock held. The Pennant restricted stock will be subject to the same terms and conditions as the Ensign restricted stock to which it relates. Cornerstone restricted stock will be converted into restricted stock of Pennant pursuant to the Subsidiary Equity Plan, with the number of shares covered by such awards adjusted to maintain economic value. Cornerstone stock options will be converted into Pennant stock options pursuant to the Subsidiary Equity Plan, with the number of shares covered by such awards and exercise prices associated with such awards adjusted to maintain economic value.

Indemnification Agreements

We intend to enter into customary indemnification agreements with our directors and executive officers that will be effective upon completion of the spin-off. These agreements will require us to indemnify these individuals to the fullest extent permitted by Delaware law against liabilities that may arise by reason of their service to us, and to advance expenses incurred as a result of any proceeding against them as to which they could be indemnified.

There is currently no pending material litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought.

The Pennant Group, Inc. 2019 Omnibus Incentive Plan

We intend to adopt the Incentive Plan effective prior to and in connection with the spin-off. The Incentive Plan will provide for grants of incentive equity. The purpose of the Incentive Plan is to provide certain individuals with incentives to maximize stockholder value and otherwise contribute to our success and to enable us to attract, retain and reward the best available persons for positions of responsibility. We expect approximately 5.0 million shares of our common stock will be authorized for issuance under the Incentive Plan, subject to adjustment in the event of a reorganization, stock split, merger or similar change in our corporate structure or the outstanding shares of common stock. Approximately 1.5 million of the estimated 5.0 million relate to awards granted in connection with the spin-off. The number of shares that will remain available for issuance or use is expected to be reduced by the number of incentive equity grants to be made in connection with the spin-off. Our compensation committee will administer the Incentive Plan. Our board of directors also has the authority to administer the Incentive Plan and to take all actions that our compensation committee is otherwise authorized to take under the Incentive Plan. The terms and conditions of each award made under the Incentive Plan, including vesting requirements, will be set forth consistent with the Incentive Plan in a written agreement with the grantee.

The Pennant Group, Inc. 2019 Long Term Incentive Plan

We intend to adopt the LTIP effective prior to and in connection with the spin-off. The LTIP will provide for grants of incentive equity. The purpose of the LTIP is to provide recognition to certain employees and directors of Ensign of their performance in assisting with the spin-off. We expect approximately 250,000 shares of our common stock will be authorized for issuance under the LTIP, subject to adjustment in the event of a reorganization, stock split, merger or similar change in our corporate structure or the outstanding shares of common stock. The terms and conditions of each award made under the LTIP, including vesting requirements, will be set forth consistent with the LTIP in a written agreement with the grantee. We do not expect to make any additional grants beyond the date of the spin-off.

Issuance and Grant of Pennant Common Stock to Certain Related Persons

With respect to any long-term incentive equity awards, it is expected that our compensation committee will develop programs reflecting appropriate measures, goals, targets and business objectives based on Pennant’s competitive marketplace. The amount and timing of any equity-based compensation to be paid to certain related persons at or following the distribution will be determined by our compensation committee and will generally be granted pursuant to a new equity incentive plan to be adopted by Pennant in connection with becoming an independent, publicly-traded company.

In connection with the internal reorganization, we expect our Named Executive Officers and certain other individuals will receive equity awards of The Pennant Group, Inc., in exchange for Cornerstone.

Policies and Procedures Regarding Related Party Transactions

In connection with the spin-off, we expect that our board will adopt a written policy and procedures with respect to related person transactions, which will include specific provisions for the approval of related person

transactions. Pursuant to this policy, related person transactions would include a transaction, arrangement or relationship or series of similar transactions, arrangements or relationships, in which we and certain enumerated related persons participate, the amount involved exceeds $120,000 and the related person has a direct or indirect material interest. We expect our audit committee will review: (i) potential conflict of interest situations on an ongoing basis, (ii) any future proposed transaction, or series of transactions, with related persons, and (iii) either approve or disapprove each reviewed transaction or series of related transactions with related persons.

In the event that a related person transaction is identified, such transaction will be reviewed and approved or ratified by our audit committee. If it is impracticable for our audit committee to review such transaction, pursuant to the policy, the transaction will be reviewed by the chair of our audit committee, whereupon the chair of our audit committee will report to the audit committee the approval or disapproval of such transaction.

In reviewing and approving related person transactions, pursuant to the policy, the audit committee, or its chair, shall consider all information that the audit committee, or its chair, believes to be relevant and important to a review of the transaction and shall approve only those related person transactions that are determined to be in, or not inconsistent with, our best interests and that of our stockholders, taking into account all available relevant facts and circumstances available to the audit committee or its chair. Pursuant to the policy, these facts and circumstances will typically include, but not be limited to, the benefits of the transaction to us; the impact on a director's independence in the event the related person is a director, an immediate family member of a director or an entity in which a director is a partner, stockholder or executive officer; the availability of other sources for comparable products or services; the terms of the transaction; and the terms of comparable transactions that would be available to unrelated third parties or to employees generally. Pursuant to the policy, we expect that no member of the audit committee shall participate in any review, consideration or approval of any related person transaction with respect to which the member or any of his or her immediate family members is the related person.

DESCRIPTION OF CERTAIN INDEBTEDNESS

From and after the spin-off, Ensign and Pennant will, in general, each be responsible for the debts, liabilities, rights and obligations related to the business or businesses that it owns and operates following consummation of the spin-off. See “Certain Relationships and Related Party Transactions—Agreements with Ensign Related to the Spin-Off.”

Financing Transactions in Connection with the Spin-Off

We expect to put in place a capital structure that provides us with the flexibility to grow and a cost of debt capital that allows us to compete for investment opportunities. Subject to market conditions, we expect to enter into the Revolving Credit Facility with a syndicate of banks with a borrowing capacity of $75.0 million. We anticipate the interest rates applicable to loans under the Revolving Credit Facility to be, at the Company’s election, either LIBOR plus a margin ranging from 2.5% to 3.5% per annum or Base Rate plus a margin ranging from 1.5% to 2.5% per annum, in each case based on the ratio of Consolidated Total Net Debt to Consolidated EBITDA (as defined in the Credit Agreement). In addition, we expect that we will pay a commitment fee on the undrawn portion of the commitments under the Revolving Credit Facility that is estimated to be 0.6% per annum.

We anticipate that the Revolving Credit Facility will not be subject to interim amortization. We expect that the Company will not be required to repay any loans under the Revolving Credit Facility prior to maturity. We expect that the Company will be permitted to prepay all or any portion of the loans under the Revolving Credit Facility prior to maturity without premium or penalty, subject to reimbursement of any LIBOR breakage costs of the lenders. This information is based on our current negotiations with the lead banks in an anticipated syndicate.

As a result of the financing transaction, we expect to have outstanding indebtedness of approximately $30.0 million. The amount reflects proceeds from issuance of indebtedness under the Revolving Credit Facility, including approximately $1.2 million in estimated financing cost. The foregoing summarizes some of the currently expected terms of the Revolving Credit Facility. However, the foregoing summary does not purport to be complete, and the terms of the Revolving Credit Facility have not yet been finalized. There may be changes to the expected size and other terms of the Revolving Credit Facility, some of which may be material.

We expect that we will use approximately $25.0 million of the proceeds from the financing transaction to pay transaction fees and to pay a dividend to Ensign in connection with the contribution of assets to us by Ensign prior to the spin-off. We expect to retain approximately $5.0 million in cash for working capital, acquisitions and other general purposes. We expect that Ensign would use the funds received from us to repay certain outstanding third-party bank debt and other indebtedness and/or pay dividends to Ensign’s stockholders. After the spin-off, we expect that we will use borrowings under the Revolving Credit Facility for working capital purposes, to fund acquisitions and for other general purposes. See “The Spin-Off—Financing Transactions” and “Description of Certain Indebtedness.”

We describe the material terms of the Revolving Credit Facility below. These summaries are qualified in their entirety by the finalization of specific terms and provisions of the applicable documentation evidencing these arrangements.

Revolving Credit Facility

After the spin-off, the Revolving Credit Facility will provide support for working capital purposes, to fund acquisitions and for other general purposes. We anticipate that the Revolving Credit Facility will be secured by certain of our assets and will have a multi-year term.

We expect the Credit Agreement will contain covenants that restrict our operations, including our ability to incur additional indebtedness for borrowed money and guarantees of indebtedness or allow other liens securing indebtedness for borrowed money to be placed on our assets. We expect that any indebtedness outstanding under the Revolving Credit Facility will become due and payable, and any remaining commitment under the Revolving Credit Facility will be canceled, if an event of default occurs, including a failure to pay interest and principal or commitment fees when due; an insolvency event, including a filing for protection under bankruptcy laws; a failure to comply with the covenants noted above or the occurrence of an event of default under other loan agreements to which we may be a party. We also expect that the lenders may require us to repay any indebtedness under the Revolving Credit Facility upon a change in control of our company.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of the date of this information statement, all of the outstanding shares of our common stock are beneficially owned by Ensign. After the spin-off, Ensign will not own any shares of our common stock. The percentage values outlined in the table below are based on approximately 28.0 million shares of common stock that we estimate will be outstanding immediately after the spin-off, based on the number of stockholders and shares of Ensign common stock that we expect will be outstanding on the record date, the distribution ratio and the anticipated exchange of Cornerstone equity awards for Pennant equity awards in connection with the distribution.

The following tables provide information with respect to the anticipated beneficial ownership of our common stock by:

- each of our stockholders who we believe (based on the assumptions described below) will beneficially own more than 5% of our outstanding common stock;
- each of our directors and nominees;
- each of the individuals we expect to be our named executive officers; and
- all of our directors and executive officers following the spin-off as a group.

To the extent our directors and executive officers own Ensign common stock at the record date of the spin-off, they will participate in the distribution on the same terms as other holders of Ensign common stock.

Except as otherwise noted in the footnotes below, each person or entity identified in the tables below has sole voting and investment power with respect to the securities owned by such person or entity. Beneficial ownership is determined in accordance with the rules of the SEC. Unless otherwise indicated, the address of each director and executive officer is c/o The Pennant Group, Inc., 1675 East Riverside Drive, Suite 150, Eagle, Idaho 83616.

Directors and Named Executive Officers	**Number of Shares Beneficially Owned** [1]	**Percentage of Class**
Daniel H. Walker [2]	737,239	2.6%
John J. Gochnour [3]	105,662	*
Derek J. Bunker [4]	48,929	*
Jennifer L. Freeman	7,326	*
Christopher R. Christensen [5]	740,160	2.7%
John G. Nackel [6]	98,985	*
Stephen M.R. Covey	—	*
Joanne Stringfield	—	*
Scott E. Lamb	—	*
Roderic W. Lewis	—	*
All Executives Officers and Directors as a Group (10 persons) [7]	1,738,301	6.2%
Five Percent Stockholders:		
T. Rowe Price Associates, Inc. [8]	1,389,862	5.0%
Wasatch Advisors, Inc. [9]	1,933,277	6.9%
The Vanguard Group [10]	2,908,847	10.4%
BlackRock, Inc. [11]	3,813,375	13.7%

* Means less than 1%

(1) Unless otherwise indicated, the address of each person named in the table is care of The Pennant Group, Inc., 1675 East Riverside Drive, Suite 150, Eagle, ID 83616.

(2) Represents 711,508 shares of common stock held by Amoeba Investments, LLC, of which Mr. Walker is the sole member, 298 shares of common stock held by Mr. Walker directly and stock options to purchase 24,713 shares of common stock that are currently exercisable or exercisable within 60 days of June 30, 2019. Included in the number of shares beneficially owned, there are 720 unvested restricted

stock awards. It is anticipated that Mr. Walker will receive a grant of approximately 1,000,000 restricted stock units in connection with the spin-off that will fully vest on the third anniversary of the grant.

(3) Represents 32,775 shares of common stock and options to purchase 72,127 shares of common stock that are currently exercisable or exercisable within 60 days of June 30, 2019. Included in the shares beneficially owned, there are 760 unvested restricted stock awards.

(4) Represents 31,546 shares of common stock and options to purchase 16,063 shares of common stock that are currently exercisable or exercisable within 60 days of June 30, 2019. Included in the shares beneficially owned, there are 1,320 unvested restricted stock awards.

(5) Represents 618,162 shares of common stock held by Hobble Creek Investments, LLC, of which Mr. Christensen is the sole member, 92,991 shares of common stock held by Mr. Christensen directly. Included in the number of shares beneficially owned there are 24,836 unvested restricted stocks awards, 2,171 shares held by Mr. Christensen's spouse, and 2,000 shares held by Mr. Christensen's former spouse as custodian for their minor children under the California Uniform Transfers to Minors Act. Mr. Christensen's former spouse holds voting and investment power over the shares held for their children.

(6) Includes 2,700 shares held by the Nackel Family Trust dated June 30, 1997. Dr. Nackel and his spouse share voting and investment power over the trust, 34,660 shares of common stock held by Mr. Nackel directly. Also includes options to purchase 56,625 shares of common stock that are currently exercisable or exercisable within 60 days of June 30, 2019. Included in the shares beneficially owned, there are 5,000 unvested restricted stock awards.

(7) Includes stock options to purchase an aggregate of 169,527 shares of common stock that are currently exercisable or exercisable within 60 days after June 30, 2019. In addition, there are an aggregate of 32,636 unvested restricted stock awards included in the number of shares beneficially owned.

(8) Information regarding T. Rowe Price Associates, Inc. ("T. Rowe") is based solely on a Schedule 13G filed with the SEC on February 14, 2019 by T. Rowe. T. Rowe reported that it has sole voting power with respect to 453,509 shares of common stock and sole dispositive power with respect to 1,389,862 shares of common stock. The address of the principal business office of T. Rowe is 100 E. Pratt Street, Baltimore, MD 21202.

(9) Information regarding Wasatch Advisors, Inc. ("Wasatch") is based solely on a Schedule 13G/A filed with the SEC on February 14, 2019 by Wasatch. Wasatch reported that it has sole voting power and sole dispositive power with respect to 1,933,277 shares of common stock. The address of the principal business office of Wasatch is 505 Wakara Way, Salt Lake City, UT 84108.

(10) Information regarding The Vanguard Group, Inc. ("Vanguard") is based solely on a Schedule 13G/A filed with the SEC on February 11, 2019 by Vanguard. Vanguard reported that it has sole voting power with respect to 51,058 shares of common stock, shared voting power with respect to 3,727 shares of common stock, sole dispositive power with respect to 2,856,193 shares of common stock and shared dispositive power with respect to 52,654 shares of common stock. The address of the principal business office of Vanguard is 100 Vanguard Blvd. Malvern, PA 19355.

(11) Information regarding Blackrock Inc. ("Blackrock") is based solely on a Schedule 13G/A filed with the SEC on January 28, 2019 by Blackrock. Blackrock reported that it has sole voting power with respect to 3,723,644 shares of common stock and sole dispositive power with respect to 3,813,375 shares of common stock. The address of the principal business office of Blackrock is 40 East 52nd Street, New York, NY 10022.

DESCRIPTION OF CAPITAL STOCK

Our certificate of incorporation and bylaws will be amended and restated prior to the consummation of the spin-off. The following description of certain terms of our common stock as it will be in effect upon completion of the spin-off is a summary and is qualified in its entirety by reference to our amended and restated certificate of incorporation and our amended and restated bylaws. The certificate of incorporation and bylaws, each in a form expected to be in effect at the time of the distribution, will be included as exhibits to the registration statement on Form 10, of which this information statement forms a part. See "Where You Can Find More Information."

Under "Description of Capital Stock," "we," "us," "our" and "our company" refer to The Pennant Group, Inc. and not to any of its subsidiaries.

Authorized Capital Stock

Prior to the distribution date, our board of directors and Ensign, as our sole stockholder, will approve and adopt amended and restated versions of our certificate of incorporation and bylaws. Under our amended and restated certificate of incorporation, authorized capital stock will consist of 100.0 million shares of our common stock, par value $0.001 per share, and 1.0 million shares of our preferred stock, par value $0.001 per share.

Common Stock

Based on information available as of the date of this information statement, we estimate that approximately 28.0 million shares of our common stock will be outstanding immediately after the spin-off, based on the number of shares of Ensign common stock that we expect will be outstanding as of the record date, the distribution ratio and the anticipated exchange of Cornerstone equity awards for Pennant equity awards in connection with the distribution.

Dividends. Subject to prior dividend rights of the holders of any preferred shares, holders of shares of our common stock are entitled to receive dividends when, as and if declared by our board of directors out of funds legally available for that purpose. We are incorporated in Delaware and are governed by Delaware law. Delaware law allows a corporation to pay dividends only out of surplus, as determined under Delaware law, or, if no such surplus exists, out of the corporation's net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year (provided that such payment will not reduce capital below the amount of capital represented by all classes of shares having a preference upon the distribution of assets).

Voting Rights. Each share of common stock is entitled to one vote on all matters submitted to a vote of stockholders. Holders of shares of our common stock do not have cumulative voting rights. In other words, a holder of a single share of common stock cannot cast more than one vote for each position to be filled on our board of directors. A consequence of not having cumulative voting rights is that the holders of a majority of the shares of common stock entitled to vote in the election of directors can elect all directors standing for election, which means that the holders of the remaining shares will not be able to elect any directors.

Liquidation Rights. In the event of any liquidation, dissolution or winding up of our company, after the satisfaction in full of the liquidation preferences of holders of any preferred shares, holders of shares of our common stock are entitled to ratable distribution of the remaining assets available for distribution to stockholders. The shares of our common stock are not subject to redemption by operation of a sinking fund or otherwise. Holders of shares of our common stock are not currently entitled to pre-emptive rights.

Fully Paid. All of our outstanding shares of common stock are fully paid and nonassessable, and the shares of common stock we will issue in connection with the spin-off will also be fully paid and nonassessable. The holders of our common stock have no preemptive rights and no rights to convert their common stock into any other securities, and our common stock will not be subject to any redemption or sinking fund provisions.

Preferred Stock

We are authorized to issue up to 1.0 million shares of preferred stock, par value $0.001 per share. No shares of our preferred stock were issued and outstanding as of the date of this information statement, and we expect that no shares of preferred stock will be issued or outstanding at the time of the completion of the spin-off.

Our board of directors, without further action by the holders of our common stock, may issue shares of our preferred stock. Our board of directors is vested with the authority to fix by resolution the designations, preferences and relative, participating, optional or other special rights, and such qualifications, limitations or restrictions thereof, including, without limitation, redemption rights, dividend rights, liquidation preference and conversion or exchange rights of any class or series of preferred stock, and to fix the number of classes or series of preferred stock, the number of shares constituting any such class or series and the voting powers for each class or series.

The authority possessed by our board of directors to issue preferred stock could potentially be used to discourage attempts by third-parties to obtain control of our company through a merger, tender offer, proxy contest or otherwise by making such attempts more difficult or more costly. Our board of directors may issue preferred stock with voting rights or conversion rights that, if exercised, could adversely affect the voting power of the holders of common stock. There are no current agreements or understandings with respect to the issuance of preferred stock and our board of directors has no present intention to issue any shares of preferred stock.

Anti-Takeover Effects of Our Amended and Restated Certificate of Incorporation, Amended and Restated Bylaws and Delaware Law

Our amended and restated certificate of incorporation, our amended and restated bylaws and Delaware statutory law contain provisions that may impact the prospect of an acquisition of our company by means of a tender offer or a proxy contest. These provisions may discourage coercive takeover practices and inadequate takeover bids. Although we have not yet finalized such terms in our amended and restated certificate of incorporation and amended and restated bylaws, we believe that the benefits of such increased protection would give us the potential ability to negotiate with the proponent of an unsolicited proposal to acquire or restructure us and outweigh the disadvantages of discouraging those proposals because negotiation of the proposals could result in an improvement of their terms.

Election and Removal of Directors

Upon completion of the spin-off, our board of directors will initially be divided into three classes, with the classes as nearly equal in number as possible. The directors designated as Class I directors will have terms expiring at the first annual meeting of stockholders following the distribution, which we expect to hold in 2020. The directors designated as Class II directors will have terms expiring at the following year’s annual meeting of stockholders, which we expect to hold in 2021, and the directors designated as Class III directors will have terms expiring at the following year’s annual meeting of stockholders, which we expect to hold in 2022. Commencing with the first annual meeting of stockholders following the distribution, directors elected to succeed those directors whose terms then expire shall be elected for a term of office to expire at the third annual meeting of stockholders. As a result, approximately one-third of our board of directors will be elected each year. Additionally, directors will be elected by a plurality of the votes cast in the election of directors. The classification of directors and the plurality voting standard will have the effect of making it more difficult for stockholders to change the composition of our board of directors.

Any director or the entire board of directors may be removed at any time by the affirmative vote of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the shares then entitled to vote at an election of directors, but only for cause.

Size of Board and Vacancies

Our amended and restated certificate of incorporation and amended and restated bylaws will provide that our board of directors may consist of no less than four and no more than seven directors. The number of directors on our board of directors will be fixed exclusively by our board of directors, subject to the minimum and maximum number permitted by certificate of incorporation and bylaws. Newly created directorships resulting from any increase in our authorized number of directors and any vacancies in our board of directors resulting from death, resignation, retirement, disqualification, removal from office or other cause will be filled generally by the majority vote of our remaining directors in office, even if less than a quorum is present.

Stockholder Action by Written Consent

Our amended and restated certificate of incorporation and amended and restated bylaws prohibit stockholder action by written consent except when approved by our board of directors.

Stockholder Meetings

Under our amended and restated certificate of incorporation and amended and restated bylaws, only the chairman of our board of directors, our chief executive officer or our board of directors acting pursuant to a resolution adopted by a majority of the board of directors will be able to call special meetings of our stockholders.

Requirements for Advance Notification of Stockholder Nominations and Proposals

Our amended and restated bylaws will establish advance notice procedures with respect to stockholder proposals and nomination of candidates for election as directors other than nominations made by or at the direction of our board of directors or a committee of our board of directors.

Delaware Anti-Takeover Law

We are subject to Section 203 of the DGCL, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years following the date such person becomes an interested stockholder, unless the business combination or the transaction in which such person becomes an interested stockholder is approved in a prescribed manner. Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an "interested stockholder" is a person that, together with affiliates and associates, owns, or within three years prior to the determination of interested stockholder status did own, 15.0% or more of a corporation's voting stock. The existence of this provision may have an anti-takeover effect with respect to transactions not approved in advance by our board of directors and the anti-takeover effect includes discouraging attempts that might result in a premium over the market price for the shares of our common stock.

No Cumulative Voting

Our amended and restated certificate of incorporation and amended and restated bylaws do not provide for cumulative voting in the election of directors.

Undesignated Preferred Stock

The authorization in our amended and restated certificate of incorporation of undesignated preferred stock will make it possible for our board of directors to issue our preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of us. The provision in our amended and restated certificate of incorporation authorizing such preferred stock may have the effect of deferring hostile takeovers or delaying changes of control of our management.

Exclusive Jurisdiction of Certain Actions

Our amended and restated certificate of incorporation will provide that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall, to the fullest extent permitted by law, be the sole and exclusive forum for any (1) derivative action or proceeding brought on behalf of our company, (2) action asserting a claim of breach of a fiduciary duty owed by any director, officer, employee or agent of our company to our company or our stockholders, or any claim for aiding and abetting any such alleged breach, (3) action asserting a claim against our company or any director or officer of our company arising pursuant to any provision of the DGCL or our amended and restated certificate of incorporation or our amended and restated bylaws, or (4) action asserting a claim against us or any director or officer of our company governed by the internal affairs doctrine except for, as to each of (1) through (4) above, any claim (A) as to which the Court of Chancery determines that there is an indispensable party not subject to the jurisdiction of the Court of Chancery (and the indispensable party does not consent to the personal jurisdiction of the Court of Chancery within ten days following such determination), (B) which is vested in the exclusive jurisdiction of a court or forum other than the Court of Chancery, or (C) arising under the federal securities laws, including the Securities Act as to which the Court of Chancery and the federal district court for the District of Delaware shall concurrently be the sole and exclusive forums. Notwithstanding the foregoing, the provisions of this paragraph will not apply to suits brought to enforce any liability or duty created by the Exchange Act or any other claim for which the federal district courts of the United States of America shall be the sole and exclusive forum. Although we believe this provision benefits Pennant by providing increased consistency in the application of Delaware law in the types of lawsuits to which it applies, the provision may have the effect of discouraging lawsuits against our directors and officers. Furthermore, the enforceability of choice of forum provisions in other companies' certificates of incorporation has been challenged in legal proceedings, and it is possible that a court could find these types of provisions to be inapplicable or unenforceable.

Limitations on Liability of Directors and Indemnification of Directors and Officers

Section 145 of the DGCL provides that a corporation may indemnify directors and officers as well as other employees and individuals against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement in connection with any threatened, pending or completed actions, suit or proceeding, whether civil, criminal, administrative or investigative, in which such person is made a party by reason of the fact that the person is or was a director, officer, employee or agent of the corporation (other than an action by or in the right of the corporation—a "derivative action"), if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. A similar standard is applicable in the case of derivative actions, except that indemnification extends only to expenses (including attorneys' fees) incurred in connection with the defense or settlement of such action, and the statute requires court approval before there can be any indemnification where the person seeking indemnification has been found liable to the corporation. The statute provides that it is not exclusive of other indemnification that may be granted by a corporation's bylaws, disinterested director vote, stockholder vote, agreement or otherwise.

Our amended and restated certificate of incorporation will provide that no director shall be liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation on liability is not permitted under the DGCL, as now in effect or as amended. Currently, Section 102(b)(7) of the DGCL requires that liability be imposed for the following:

- any breach of the director's duty of loyalty to our company or our stockholders;
- any act or omission not in good faith or which involved intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the DGCL; and
- any transaction from which the director derived an improper personal benefit.

Our amended and restated certificate of incorporation and amended and restated bylaws will provide that, to the fullest extent authorized or permitted by the DGCL, as now in effect or as amended, we will indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by reason of the fact that such person is or was our director or officer, or by reason of the fact that our director or officer is or was serving, at our request, as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans maintained or sponsored by us. We will indemnify such persons against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with such action, suit or proceeding if such person acted in good faith and in a manner reasonably believed to be in or not opposed to our best interests and, with respect to any criminal proceeding, had no reason to believe such person's conduct was unlawful. A similar standard is applicable in the case of derivative actions, except that indemnification extends only to expenses (including attorneys' fees) incurred in connection with the defense or settlement of such actions, and court approval is required before there can be any indemnification where the person seeking indemnification has been found liable to us. Any amendment of this provision will not reduce our indemnification obligations relating to actions taken before an amendment.

We are in the process of drafting policies meant to insure our directors and officers and those of our subsidiaries against certain liabilities they may incur in their capacities as directors and officers. Under these policies, the insurer, on our behalf, may also pay amounts for which we have granted indemnification to the directors or officers.

Listing and Trading

We intend to have our shares of common stock listed on NASDAQ. We expect our shares to trade under the ticker symbol "PNTG."

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Broadridge.

WHERE YOU CAN FIND MORE INFORMATION

We have filed a Registration Statement on Form 10 with the SEC with respect to the shares of common stock that Ensign stockholders will receive in the distribution. This information statement does not contain all of the information contained in the Registration Statement on Form 10 and the exhibits and schedules to the Registration Statement on Form 10. Some items are omitted in accordance with the rules and regulations of the SEC. For additional information relating to us and the spin-off, reference is made to the Registration Statement on Form 10 and the exhibits to the Registration Statement on Form 10, which are on file at the offices of the SEC. Statements contained in this information statement as to the contents of any contract or other document referred to are not necessarily complete and in each instance, if the contract or document is filed as an exhibit, reference is made to the copy of the contract or other documents filed as an exhibit to the Registration Statement on Form 10. Each statement is qualified in all respects by the relevant reference.

The SEC maintains an Internet site at *www.sec.gov*, from which you can electronically access the Registration Statement on Form 10, including the exhibits and schedules to the Registration Statement on Form 10.

We maintain an Internet site at www.pennantgroup.com. Our Internet site and the information contained on that site, or connected to that site, are not incorporated into the information statement or the Registration Statement on Form 10.

As a result of the distribution, we will be required to comply with the full informational requirements of the Exchange Act. We will fulfill our obligations with respect to these requirements by filing periodic reports and other information with the SEC. We plan to make available, free of charge, on our Internet site our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, reports filed pursuant to Section 16 of the Exchange Act and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the SEC.

You should rely only on the information contained in this information statement or to which we have referred you. We have not authorized any person to provide you with different information or to make any representation not contained in this information statement.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
The Ensign Group, Inc.

Opinion on the Financial Statements

We have audited the accompanying combined balance sheets of New Ventures business of The Ensign Group, Inc. (the "Company") as of December 31, 2018 and 2017, the related combined statements of income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2018, the related notes and the financial schedule listed in the Index (collectively referred to as the "combined financial statements"). In our opinion, the combined financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's combined financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the combined financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that our audits provide a reasonable basis for our opinion.

Emphasis of Matter

As discussed in Note 2, the accompanying combined financial statements have been prepared on a stand-alone basis and are derived from the consolidated financial statements and accounting records of The Ensign Group, Inc. The combined financial statements include allocations from The Ensign Group, Inc. The allocations may not be reflective of the actual level of assets, liabilities, or costs which would have been incurred had the Company operated as a separate, stand-alone entity apart from The Ensign Group, Inc.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California
July 3, 2019

We have served as the Company's auditor since 2019.

NEW VENTURES
COMBINED BALANCE SHEETS

	December 31, 2018	December 31, 2017
	(In thousands)	
Assets		
Current assets:		
Cash	$ 41	$ 36
Accounts receivable—less allowance for doubtful accounts of $616 and $5,058, respectively (Note 4)	24,469	22,245
Prepaid expenses and other current assets	4,613	4,416
Total current assets	29,123	26,697
Property and equipment, net	10,458	8,793
Restricted and other assets	2,464	1,951
Intangible assets, net	78	101
Goodwill	30,892	27,964
Other indefinite-lived intangibles	25,136	22,783
Total assets	$98,151	$88,289
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 4,390	$ 3,077
Accrued wages and related liabilities	12,786	11,203
Other accrued liabilities	12,371	11,973
Total current liabilities	29,547	26,253
Other long-term liabilities	3,316	2,120
Total liabilities	32,863	28,373
Commitments and contingencies		
Equity:		
Net parent investment	55,856	54,996
Non-controlling interest	9,432	4,920
Total equity	65,288	59,916
Total liabilities and equity	$98,151	$88,289

The accompanying notes are an integral part of these combined financial statements.

NEW VENTURES
COMBINED STATEMENTS OF INCOME

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Revenue			
Service revenue	$ 169,037	$ 142,403	$ 115,813
Senior living revenue	117,021	108,588	101,412
Total revenue	286,058	250,991	217,225
Expense			
Cost of services	212,421	187,278	159,987
Rent—cost of services	31,199	31,304	28,953
General and administrative expense	18,843	14,463	12,448
Depreciation and amortization	2,964	2,544	2,855
Total expenses	265,427	235,589	204,243
Income from operations	20,631	15,402	12,982
Provision for income taxes	4,352	5,375	5,065
Net income	16,279	10,027	7,917
Less: net income attributable to noncontrolling interest	595	160	26
Net income attributable to New Ventures	$ 15,684	$ 9,867	$ 7,891

The accompanying notes are an integral part of these combined financial statements.

NEW VENTURES
COMBINED STATEMENTS OF CHANGES IN EQUITY

	Net Parent Investment	Non-Controlling Interest	Total
	(In thousands)		
Total equity as of January 1, 2016	$ 56,525	$ —	$ 56,525
Noncontrolling interest attributable to subsidiary equity plan	(107)	1,432	1,325
Net income attributable to noncontrolling interest	—	26	26
Net transfer to parent	(17,407)	—	(17,407)
Net income attributable to New Ventures	7,891	—	7,891
Total equity as of December 31, 2016	46,902	1,458	48,360
Noncontrolling interest attributable to subsidiary equity plan	(1,938)	3,302	1,364
Net income attributable to noncontrolling interest	—	160	160
Net transfer from parent	165	—	165
Net income attributable to New Ventures	9,867	—	9,867
Total equity as of December 31, 2017	54,996	4,920	59,916
Noncontrolling interest attributable to subsidiary equity plan	(2,539)	3,917	1,378
Net income attributable to noncontrolling interest	—	595	595
Net transfer to parent	(12,285)	—	(12,285)
Net income attributable to New Ventures	15,684	—	15,684
Total equity as of December 31, 2018	$ 55,856	$ 9,432	$ 65,288

The accompanying notes are an integral part of these combined financial statements.

NEW VENTURES
COMBINED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Cash flows from operating activities:			
Net income	$ 16,279	$ 10,027	$ 7,917
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,964	2,544	2,855
Provision for doubtful accounts (Note 4)	346	3,374	2,435
Share-based compensation	2,382	2,298	2,341
Change in operating assets and liabilities			
Accounts receivable	(2,569)	(5,707)	(897)
Prepaid expenses and other assets	(210)	113	(370)
Accounts payable	1,373	432	(431)
Accrued wages and related liabilities	1,583	2,708	479
Other accrued liabilities	398	199	1,740
Other long-term liabilities	729	1,262	338
Net cash provided by operating activities	23,275	17,250	16,407
Cash flows from investing activities:			
Purchase of property and equipment	(3,603)	(3,133)	(3,473)
Cash payments for business acquisitions, net of cash received	(4,725)	(12,059)	(3,320)
Cash payments for asset acquisitions	(593)	—	—
Cash proceeds received on sale of intangibles	—	500	—
Cash proceeds from the sale of assets	—	121	—
Restricted and other assets	(556)	(1,512)	1,604
Net cash used in investing activities	(9,477)	(16,083)	(5,189)
Cash flows from financing activities:			
Proceeds from sale of subsidiary shares	1,972	—	—
Repurchase of subsidiary shares	(1,972)	—	—
Net investment to parent	(13,793)	(1,161)	(11,215)
Net cash used in financing activities	(13,793)	(1,161)	(11,215)
Net increase in cash	5	6	3
Cash beginning of year	36	30	27
Cash end of year	$ 41	$ 36	$ 30
Supplemental disclosures of cash flow information:			
Non-cash financing and investing activity:			
Capital expenditures	717	309	294

The accompanying notes are an integral part of these combined financial statements.

NEW VENTURES
NOTES TO COMBINED FINANCIAL STATEMENTS
(Dollars and shares in thousands, except per share data)

1. DESCRIPTION OF BUSINESS

New Ventures (the "Company," "it," or "its") is comprised of the home health and hospice agencies and substantially all of the senior living businesses of The Ensign Group, Inc. (NASDAQ: ENSG) ("Ensign" or the "Parent"), which was formed in 1999 with the goal of establishing a new level of quality care within the skilled nursing industry. As of December 31, 2018, the Company's subsidiaries operated 54 home health, hospice and home care agencies, and 50 senior living communities located in Arizona, California, Colorado, Idaho, Iowa, Nevada, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin, and Wyoming.

Certain of the Company's subsidiaries, collectively referred to as the Service Center, provide certain accounting, payroll, human resources, information technology, legal, risk management, and other services to the operations through contractual relationships.

Each of the Company's affiliated operations are operated by separate, independent subsidiaries that have their own management, employees and assets. Each of the Parent's affiliated operations are operated by separate, independent subsidiaries that have their own management, employees, and assets. References herein to the consolidated "Company," "Parent" and "its" assets and activities is not meant to imply, nor should it be construed as meaning, that New Ventures or The Ensign Group, Inc. has direct operating assets, employees or revenue, or that any of the subsidiaries, are operated by New Ventures or The Ensign Group, Inc.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—On May 6, 2019, Ensign announced a proposed plan to separate its home health and hospice operations and substantially all of its senior living businesses into a publicly traded company, The Pennant Group, Inc. ("Pennant"). To accomplish the separation, Ensign will contribute the Company's assets and liabilities into Pennant and distribute to Ensign's stockholders substantially all of the outstanding shares of Pennant common stock. The distribution is expected to qualify as a tax-free transaction, except to the extent of cash received in lieu of fractional shares, after which Ensign stockholders will own shares in both Ensign and Pennant.

The accompanying combined financial statements of the Company (the "Combined Financial Statements") have been prepared on a stand-alone basis and are derived from the consolidated financial statements and accounting records of Ensign. The Combined Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and pursuant to the regulations of the U.S. Securities and Exchange Commission (the "SEC"). All intercompany transactions and balances between the various legal entities comprising the Company have been eliminated in the Combined Financial Statements. The combined statements of income reflect income that is attributable to the Company and the noncontrolling interest.

The Company consists of various limited liability companies and corporations established to operate home health, hospice, home care, and senior living operations. The combined balance sheets of the Company includes assets and liabilities of the Parent that are specifically identifiable or otherwise attributable to the Company. Revenue was derived from transactional information specific to the Company's services provided. The costs in the combined statements of income reflect direct and allocated costs.

The financial information included herein may not reflect the combined financial position, results of operations, changes in equity, and cash flows of the Company in the future, and does not reflect what they would have been had the Company been operated as a separate, stand-alone entity during the years presented.

NEW VENTURES
NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

The Company engages in various transactions with subsidiaries of Ensign, including a cash management process and other shared services. Intercompany transactions with Ensign's businesses are not settled on a routine basis, all amounts due to (from) subsidiaries of Ensign, are classified as Net Parent Investment in the combined balance sheets. Changes in the Parent's equity investment arising from cash transactions are presented as financing activities in the accompanying combined statements of cash flows.

Cost Allocation—The Combined Financial Statements include allocations of costs for certain shared services provided to the Company by Ensign subsidiaries. Such allocations include, but are not limited to, executive management, accounting, human resources, information technology, compliance, legal, payroll, insurance, tax, treasury, and other general and administrative items. These costs were allocated to the Company on a basis of revenue, location, employee count, or other measures. These cost allocations are reflected within general and administrative expense in the combined statements of income, including for share-based compensation expenses disclosed in *Note 12, Options and Awards*. The amount of general and administrative costs allocated for the years ended December 31, 2018, 2017 and 2016, inclusive of share-based compensation expense were $18,843, $14,463 and $12,448, respectively. Management believes the basis on which the expenses have been allocated to be a reasonable reflection of the services provided to us during the years presented.

The Parent is partially self-insured for healthcare, general and professional liability, and workers' compensation, and historically allocate premium expense to all subsidiaries of Ensign in its accounting records. To reflect all of the insurance costs, quarterly actuary determined adjustments were allocated to the Company based on the proportional historical premium expense. No self-insurance accruals have been allocated to the Company as these accruals represent the obligations of the Parent.

The Parent's external debt and related interest expense have not been allocated to the Company for any of the years presented as no portion of the borrowings is being assumed by the Company as part of the separation.

Employees of the Company's subsidiaries participate in Ensign's equity-based incentive plans (the "Ensign Plans") and the Cornerstone Subsidiary Equity plan (the "Subsidiary Equity Plan"). Share-based compensation includes the expense attributable to employees of the Company's subsidiaries participating in the Ensign Plans, as well as the allocated cost related to Ensign subsidiaries' employees that participate in the Ensign Plans. Share-based compensation related to Ensign subsidiaries' employees that participate in the Ensign Plans were allocated on the basis of revenue. All share-based compensation related to the Subsidiary Equity Plan was recognized in the Combined Financial Statements and, therefore, no cost allocation was necessary.

The share-based compensation costs associated with the Subsidiary Equity Plan awards is initially measured at fair value at the grant date and is expensed as non-cash compensation over the vesting term. Historically, these awards have been granted once a year and the fair value has been determined by an independent valuation of the subsidiary shares. The valuation determination incorporated a discounted cash flow analysis combined with a market-based approach to determine the fair value of the subsidiary equity.

Cash presented in the combined balance sheets represents cash located at our operations. The Company participates in the Parent's cash management program. Accordingly, no cash for this business was allocated to the Company in the Combined Financial Statements. The net activity of cash due to (from) the Parent is reflected in the net investment from the Parent.

Estimates and Assumptions—The preparation of the Combined Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the Combined Financial Statements and the reported amounts of revenue and expenses during the reporting periods. The most significant estimates in the

NEW VENTURES
NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

Combined Financial Statements relate to revenue, cost allocations, allowance for doubtful accounts, intangible assets and goodwill, impairment of long-lived assets and income taxes. Actual results could differ from those estimates.

Fair Value of Financial Instruments—The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities. The Company believes all of the financial instruments' recorded values approximate fair values because of their nature or respective short durations. Fair value measurements are based on a three-tier hierarchy that prioritizes the inputs used to measure fair value. These tiers include: Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Revenue Recognition—On January 1, 2018, the Company adopted Accounting Standards Codification Topic 606, Revenue from Contracts with Customers (ASC 606) applying the modified retrospective method. Results for reporting periods beginning January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. The adoption of ASC 606 did not have a material impact on the measurement nor on the recognition of revenue of contracts, for which all revenue had not been recognized, as of January 1, 2018, therefore no cumulative adjustment has been made to the opening balance of equity at the beginning of 2018. See *Note 4, Revenue and Accounts Receivable.*

Accounts Receivable and Allowance for Doubtful Accounts—Accounts receivable consist primarily of amounts due from Medicare and Medicaid programs, other government programs, managed care health plans and private payor sources, net of estimates for variable consideration. The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in the accounts receivable balance.

Property and Equipment—Property and equipment are initially recorded at their historical cost. Repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets (ranging from three to 15 years). Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the remaining lease term.

Impairment of Long-Lived Assets—The Company reviews the carrying value of long-lived assets that are held and used in the operating subsidiaries for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of these assets is determined based upon expected undiscounted future net cash flows from the operating subsidiary to which the assets relate, utilizing management's best estimate, appropriate assumptions, and projections at the time. If the carrying value is determined to be unrecoverable from future operating cash flows, the asset is deemed impaired and an impairment loss would be recognized to the extent the carrying value exceeded the estimated fair value of the asset. The Company estimates the fair value of assets based on the estimated future discounted cash flows of the asset. Management has evaluated its long-lived assets and the Company did not identify any asset impairment during the years ended December 31, 2018, 2017 and 2016.

Leases and Leasehold Improvements—At the inception of each lease, the Company performs an evaluation to determine whether the lease should be classified as an operating or capital lease. The Company records rent expense for operating leases that contain scheduled rent increases on a straight-line basis over the term of the lease. The lease term used for straight-line rent expense is calculated from the date the Company is given control of the leased premises through the end of the lease term. The lease term excludes lease renewals as the renewal rents are not at a bargain, there are no economic penalties for the Company not to renew the lease, and it is not

reasonably assured that the Company will exercise the extension options. The lease term used for this evaluation also provides the basis for establishing depreciable lives for buildings subject to lease and leasehold improvements, as well as the period over which the Company records straight-line rent expense.

Intangible Assets and Goodwill—Definite-lived intangible assets consist primarily of patient base and customer relationships. Patient base is 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 when acquired. Customer relationships are amortized over a period of up to 20 years.

The Company's indefinite-lived intangible assets consist of trade names and Medicare and Medicaid licenses. The Company tests indefinite-lived intangible assets for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable. The Company did not identify any asset impairment during the years ended December 31, 2018, 2017 and 2016.

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. Given the time it takes to obtain pertinent information, the initial fair value might not be finalized at the time of the reported period. Accordingly, it is not uncommon for the initial estimates to be subsequently revised. The Company recorded goodwill and other intangible assets at the operation level when acquired, and as such, these assets are identifiable specifically to the operations of New Ventures. Goodwill is subject to annual testing for impairment. In addition, goodwill is tested for impairment if events occur or circumstances change that would reduce the fair value of a reporting unit below its carrying amount. The Company performs its annual test for impairment during the fourth quarter of each year and did not identify any impairment charge during the years ended December 31, 2018, 2017 and 2016. See further discussion at Note 9, *Goodwill and Intangible Assets, Net*.

Income Taxes—Historically, the Company's operations have been included in the Parent's U.S. federal and state income tax returns and all income taxes have been paid by subsidiaries of Ensign. Income tax expense and other income tax related information contained in these combined financial statements are presented on a separate tax return approach. Under this approach, the provision for income taxes represents income tax paid or payable for the current year plus the change in deferred taxes during the year calculated as if the Company was a stand-alone taxpayer filing hypothetical income tax returns. Management believes that the assumptions and estimates used to determine these tax amounts are reasonable. However, the Company's combined financial statements may not necessarily reflect its income tax expense or tax payments in the future, or what tax amounts would have been if the Company had been a stand-alone company during the years presented.

Deferred tax assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at tax rates in effect when such temporary differences are expected to reverse. The Company generally expects to fully utilize its deferred tax assets; however, when necessary, the Company records a valuation allowance to reduce its net deferred tax assets to the amount that is more likely than not to be realized.

In determining the need for a valuation allowance or the need for and magnitude of liabilities for uncertain tax positions, the Company makes certain estimates and assumptions. These estimates and assumptions are based on, among other things, knowledge of operations, markets, historical trends and likely future changes and, when appropriate, the opinions of advisors with knowledge and expertise in certain fields. Due to certain risks associated with the Company's estimates and assumptions, actual results could differ.

The Tax Cuts and Jobs Act (the Tax Act), which was enacted in December 2017 decreased the corporate income tax rate from 35.0% to 21.0% beginning on January 1, 2018. The Company's actual effective tax rate for

fiscal 2018 may differ from management's estimate due to changes in interpretations and assumptions and the excess tax benefits impact of share-based payment awards. See Note 11, *Income Taxes* for further detail.

Noncontrolling Interest—As grants related to the Subsidiary Equity Plan are vested and exercised, the Company's membership interest in its home health and hospice subsidiary is reduced based on the number of shares vested and exercised. The Company presents the noncontrolling interest and the amount of combined net income attributable to the Company in its combined statements of income. The carrying amount of the noncontrolling interest is adjusted based on an allocation of subsidiary earnings based on ownership interest.

Share-Based Compensation—The Company measures and recognizes compensation expense for all share-based payment awards, including employee stock options, made to employees and Parent's directors based on estimated fair values, ratably over the requisite service period of the award. Net income has been reduced as a result of the recognition of the fair value of all stock options and restricted stock awards issued, the amount of which is contingent upon the number of future grants and other variables. The total amount of share-based compensation was $2,382, $2,298 and $2,341 for the years ended December 31, 2018, 2017 and 2016, respectively, of which $1,900, $1,823 and $1,884 was recorded in general and administrative expense for the years ended December 31, 2018, 2017 and 2016, respectively.

Invested Capital—The net parent investment on the combined balance sheets represents Ensign's historical investment in the Company, the net effect of transactions with, and allocations from, the Parent and the Company's accumulated earnings.

Recent Accounting Pronouncements—Except for rules and interpretive releases of the SEC under authority of federal securities laws and a limited number of grandfathered standards, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) is the sole source of authoritative GAAP literature recognized by the FASB and applicable to the Company. For any new pronouncements announced, the Company considers whether the new pronouncements could alter previous generally accepted accounting principles and determines whether any new or modified principles will have a material impact on the Company's reported financial position or operations in the near term. The applicability of any standard is subject to the formal review of the Company's financial management and certain standards are under consideration.

Recent Accounting Standards Adopted by the Company

In 2014, the FASB and International Accounting Standards Board issued their final standard on revenue from contracts with customers that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under this new standard and subsequently issued amendments, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received. Entities may apply the new standard either retrospectively to each period presented (full retrospective method) or retrospectively with the cumulative effect recognized in beginning retained earnings as of the date of adoption (modified retrospective method). The Company adopted the new revenue standard as of January 1, 2018 using the modified retrospective transition method. The adoption of ASC 606 did not have a material impact on the measurement, nor on the recognition of revenue of contracts, for which all revenue had not been recognized as of January 1, 2018. Therefore, no cumulative adjustment has been made to the opening balance of equity at the beginning of 2018. The comparative information has not been adjusted and continues to be reported under the accounting standards in effect for the period presented. See further discussion at Note 4, *Revenue and Accounts Receivable*.

In May 2017, the FASB issued amended authoritative guidance to provide guidance on types of changes to the terms or conditions of share-based payments awards to which an entity would be required to apply

modification accounting under ASC 718. The new guidance was effective for the Company in the first quarter of fiscal year 2018. The adoption of this standard did not have a material impact on the Combined Financial Statements.

In January 2017, the FASB issued amended authoritative guidance to clarify the definition of a business and reduce diversity in practice related to the evaluation of whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The new provisions provide the requirements needed for an integrated set of assets and activities (the set) to be a business and also establish a practical way to determine when a set is not a business. The Accounting Standards Update (ASU) provides a screen to determine when an integrated set of assets and activities is not a business. The more robust framework helps entities to narrow the definition of outputs created by the set and align it with how outputs are described in the new revenue standard. The new guidance was effective for the Company in the first quarter of fiscal year 2018. The fair value of assets for nine of the Company's acquisitions during the year ended December 31, 2018 was concentrated in property and equipment and as such, these transactions were classified as asset acquisitions in accordance with ASC 805. The fair value of assets for the remaining six acquisitions during the year ended December 31, 2018 was concentrated in goodwill and as such, these transactions were classified as business acquisitions in accordance with ASC 805. The majority of these acquisitions would have been classified as business combinations prior to the adoption of the ASU. The Company anticipates that future acquisitions will be classified as a mixture of business and asset acquisitions under the new guidance.

In March 2018, the Company adopted ASU 2018-05, Income Taxes (Topic 740): *Amendments to the SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*, which updates the income tax accounting in U.S. GAAP to reflect the SEC interpretive guidance released in December 2017, when the Tax Act was signed into law. Additional information regarding the adoption of this standard is contained in Note 11, *Income Taxes*.

In October 2016, the FASB issued amended authoritative guidance to require companies to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The new guidance is required to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The new guidance was effective for the Company in the first quarter of fiscal year 2018. The adoption of this standard did not have a material impact on the Combined Financial Statements.

Accounting Standards Recently Issued but Not Yet Adopted by the Company

In August 2018, the FASB issued amended guidance to simplify fair value measurement disclosure requirements. The new provisions eliminate the requirements to disclose (1) transfers between Level 1 and Level 2 of the fair value hierarchy, (2) policies related to valuation processes and the timing of transfers between levels of the fair value hierarchy, and (3) net asset value disclosure of estimates of timing of future liquidity events. The FASB also modified disclosure requirements of Level 3 fair value measurements. This guidance is effective for annual periods beginning after December 15, 2019, which will be the Company's fiscal year 2020, with early adoption permitted. The adoption of this standard is not expected to have a material impact on the Combined Financial Statements.

In January 2017, the FASB issued amended authoritative guidance to simplify and reduce the cost and complexity of the goodwill impairment test. The new provisions eliminate step 2 from the goodwill impairment test and shift the concept of impairment from a measure of loss when comparing the implied fair value of goodwill to its carrying amount to comparing the fair value of a reporting unit with its carrying amount. The FASB also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment or step 2 of the goodwill impairment test. The new guidance does not amend the

optional qualitative assessment of goodwill impairment. This guidance is effective for annual periods beginning after December 15, 2019, which will be the Company's fiscal year 2020, with early adoption permitted. The adoption of this standard is not expected to have a material impact on the Combined Financial Statements.

In February 2016, the FASB established Topic 842, Leases, by issuing ASU No. 2016-02, which requires lessees to recognize leases with terms longer than 12 months on the balance sheets and disclose key information about leasing arrangements. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The classification criteria for distinguishing between operating and finance (previously capital) leases are substantially similar to the previous lease guidance, but with no explicit bright lines.

The Company adopted the standard as of January 1, 2019, using the modified retrospective transition method that allows it to apply the standard as of the adoption date and record a cumulative adjustment in equity, if applicable. The Company has elected the package of practical expedients permitted under the transition guidance which allows it to not reassess (1) initial direct costs, (2) lease classification for existing or expired leases, and (3) lease definition for existing or expired contracts as of the effective date of January 1, 2019. The new standard also provides practical expedients for an entity's ongoing accounting. The Company has made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheets and recognize those lease payments in the combined statements of income on a straight-line basis over the lease term. The Company has also elected the practical expedient to not separate lease and non-lease components for all of its leases as the non-lease components are not significant to the overall lease costs.

The adoption of this standard resulted in recognition of right-of-use assets and lease liabilities of $238,573 and $241,453, respectively, on its combined balance sheet as of January 1, 2019. Equity will not be impacted as a result of the adoption of this standard. The Company does not believe the standard will materially affect its combined net earnings or have a notable impact on liquidity or debt covenant compliance under the Parent's current agreements.

3. RELATED PARTY TRANSACTIONS AND NET PARENT INVESTMENT

The Combined Financial Statements include a combination of stand-alone and combined business functions between Ensign and the Company's subsidiaries. The Company leases 27 of its senior living communities from subsidiaries of the Parent. These leases are all based on a term of 15 years from the lease commencement date. The total amount of rent expense included in rent—cost of services paid to related parties was $10,363, $11,364 and $10,506 for the years ended December 31, 2018, 2017 and 2016, respectively. These leases will be modified in connection with the spin-off resulting in an overall increase in rent expense. See Note 13, *Leases* for further discussion.

Certain related party activity occurs as the Company's subsidiaries receive services from the Parent's subsidiaries. Services included in cost of services were $2,996, $3,023 and $2,929 for the years ended December 31, 2018, 2017 and 2016, respectively.

In June 2017, a subsidiary of the Company entered into an agreement to provide a loan to a member of its management for $750 at a 6.0% interest rate. The outstanding balance was included as a current receivable on the December 31, 2017 combined balance sheet. This loan amount was paid off in September 2018.

The combined balance sheets of the Company includes Parent assets and liabilities that are specifically identifiable or otherwise attributable to the Company and will be transferred to the Company in connection with the spin-off. Transactions that have occurred between subsidiaries of the Company and subsidiaries of the Parent

are considered to be effectively settled at the time the transaction is recorded. The net effect of these transactions, including the cash management, is included in the combined statements of cash flows as *Net Investment to Parent*.

4. REVENUE AND ACCOUNTS RECEIVABLE

Revenues are recognized when services are provided to the patients at the amount that reflects the consideration to which the Company expects to be entitled from patients and third-party payors, including Medicaid, Medicare and insurers (private and Medicare replacement plans), in exchange for providing patient care. The healthcare services in home health and hospice patient contracts include routine services in exchange for a contractual agreed-upon amount or rate. Routine services are treated as a single performance obligation satisfied over time as services are rendered. As such, patient care services represent a bundle of services that are not capable of being distinct. Additionally, there may be ancillary services which are not included in the rates for routine services, but instead are treated as separate performance obligations satisfied at a point in time, if and when those services are rendered.

Revenue recognized from healthcare services are adjusted for estimates of variable consideration to arrive at the transaction price. The Company determines the transaction price based on contractually agreed-upon amounts or rate, adjusted for estimates of variable consideration. The Company uses the expected value method in determining the variable component that should be used to arrive at the transaction price, using contractual agreements and historical reimbursement experience within each payor type. The amount of variable consideration which is included in the transaction price may be constrained, and is included in the net revenue only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur in a future period. If actual amounts of consideration ultimately received differ from the Company's estimates, the Company adjusts these estimates, which would affect net service revenue in the period such variances become known.

Revenue from the Medicare and Medicaid programs accounted for 53.1%, 51.4% and 49.6% of the Company's revenue for the years ended December 31, 2018, 2017 and 2016, respectively. The Company records revenue from these governmental and managed care programs as services are performed at their expected net realizable amounts under these programs. The Company's revenue from governmental and managed care programs is subject to audit and retroactive adjustment by governmental and third-party agencies. Consistent with healthcare industry accounting practices, any changes to these governmental revenue estimates are recorded in the period the change or adjustment becomes known based on final settlement.

Disaggregation of Revenue

The Company disaggregates revenue from contracts with its patients by reportable operating segments and payors. The Company determines that disaggregating revenue into these categories achieves the disclosure objectives to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. A reconciliation of disaggregated revenue to segment revenue as well as revenue by payor is provided in Note 6, *Business Segments*.

The Company's service specific revenue recognition policies are as follows:

Home Health Revenue

Medicare Revenue

Net service revenue is recorded under the Medicare prospective payment system based on a 60-day episode payment rate that is subject to adjustment based on certain variables including, but not limited to: (a) an outlier

payment if the patient's care was unusually costly; (b) a low utilization adjustment if the number of visits was fewer than five; (c) a partial payment if the patient transferred to another provider or transferred from another provider before completing the episode; (d) a payment adjustment based upon the level of therapy services; (e) the number of episodes of care provided to a patient, regardless of whether the same home health provider provided care for the entire series of episodes; (f) changes in the base episode payments established by the Medicare program; (g) adjustments to the base episode payments for case mix and geographic wages; and (h) recoveries of overpayments.

The Company makes adjustments to Medicare revenue on completed episodes to reflect differences between estimated and actual payment amounts, an inability to obtain appropriate billing documentation and other reasons unrelated to credit risk. Therefore, the Company believes that its reported net service revenue and patient accounts receivable will be the net amounts to be realized from Medicare for services rendered.

In addition to revenue recognized on completed episodes, the Company also recognizes a portion of revenue associated with episodes in progress. Episodes in progress are 60-day episodes of care that begin during the reporting period, but were not completed as of the end of the period. As such, the Company estimates revenue and recognizes it on a daily basis. The primary factors underlying this estimate are the number of episodes in progress at the end of the reporting period, expected Medicare revenue per episode and the Company's estimate of the average percentage complete based on visits performed.

Non-Medicare Revenue

Episodic Based Revenue—The Company recognizes revenue in a similar manner as it recognizes Medicare revenue for episodic-based rates that are paid by other insurance carriers, including Medicare Advantage programs; however, these rates can vary based upon the negotiated terms.

Non-episodic Based Revenue—Revenue is recorded on an accrual basis based upon the date of service at amounts equal to its established or estimated per visit rates, as applicable.

Hospice Revenue

Revenue is recorded on an accrual basis based upon the date of service at amounts equal to the estimated payment rates. The estimated payment rates are daily rates for each of the levels of care the Company delivers. Revenue is adjusted for an inability to obtain appropriate billing documentation or authorizations acceptable to the payor and other reasons unrelated to credit risk. Additionally, as Medicare hospice revenue is subject to an inpatient cap and an overall payment cap, the Company monitors its provider numbers and estimates amounts due back to Medicare if a cap has been exceeded. The Company records these adjustments as a reduction to revenue and increases to other accrued liabilities.

Senior Living Revenue

The Company's revenue is recognized when services are rendered on the date services are provided at amounts billable to individual residents and consists of fees for basic housing and senior living care. Residency agreements are generally for a term of 30 days, with resident fees billed monthly in advance. For residents under reimbursement arrangements with Medicaid, revenue is recorded based on contractually agreed-upon amounts or rates on a per resident, daily basis or as services rendered. Revenue for certain ancillary charges is recognized as services are provided, and such fees are billed monthly in arrears.

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NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

Impact of New Revenue Guidance on Financial Statement Line Items

The following tables summarize the impact of adopting ASC 606 on the Company's combined statements of income for the years ended December 31, 2018, 2017 and 2016. Because there was no impact to the combined balance sheet as of December 31, 2018 or combined statement of cash flows for the year ended December 31, 2018, no impact information was provided.

	Year Ended December 31,		
	2018	2017	2016
Total Revenue:			
As Reported	$ 286,058	$ 250,991	$ 217,225
Impact of ASC 606	1,834	—	—
Balances as if the previous accounting guidance was in effect	$ 287,892	$ 250,991	$ 217,225
Cost of Services:			
As Reported	$ 212,421	$ 187,278	$ 159,987
Impact of ASC 606	1,834	—	—
Balances as if the previous accounting guidance was in effect	$ 214,255	$ 187,278	$ 159,987
Total Expense:			
As Reported	$ 265,427	$ 235,589	$ 204,243
Impact of ASC 606	1,834	—	—
Balances as if the previous accounting guidance was in effect	$ 267,261	$ 235,589	$ 204,243

The majority of what was previously presented as bad debt expense under operating expenses has been incorporated as an implicit price concession factored into the calculation of net revenues, as shown in the "Impact of ASC 606" line in the table above. Subsequent material events that alter the payor's ability to pay are recorded as bad debt expense. The Company's bad debt expense and bad debt as a percent of total revenue was $346 and 0.1%, $3,374 and 1.3%, and $2,435 and 1.1% for the years ended December 31, 2018, 2017 and 2016, respectively.

Prior period results reflect reclassifications, for comparative purposes, related to the adoption of ASC 606, for the presentation of the Company's senior living revenue. Historically, the Company only presented total revenue for all revenue services. This reclassification had no effect on the reported results of operations.

Revenue for the years ended December 31, 2018, 2017 and 2016, is summarized in the following tables:

	Year Ended December 31,							
	2018		2018 adjusted to reflect prior revenue guidance		2017		2016	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
Medicare	$ 115,997	40.5%	$ 116,726	40.5%	$ 98,014	39.0%	$ 80,500	37.1%
Medicaid	36,033	12.6	36,426	12.7	31,043	12.4	27,206	12.5
Total Medicaid and Medicare	152,030	53.1	153,152	53.2	129,057	51.4	107,706	49.6
Managed care	24,459	8.6	25,049	8.7	21,823	8.7	17,664	8.1
Private and other (1)	109,569	38.3	109,691	38.1	100,111	39.9	91,855	42.3
Total revenue	$286,058	100.0%	$287,892	100.0%	$250,991	100.0%	$217,225	100.0%

(1) Private and other payors also includes revenue from all payors generated in home care operations for the years ended December 31, 2018, 2017 and 2016.

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NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

Balance Sheet Impact

Included in the Company's combined balance sheets are contract assets, comprised of billed accounts receivable and unbilled receivables, which are the result of the timing of revenue recognition, billings and cash collections, as well as, contract liabilities, which primarily represent payments the Company receives in advance of services provided. The Company had no material contract liabilities, or activity as of and for the year ended December 31, 2018, related to its home health and hospice services segment.

Accounts receivable is summarized in the following table:

	December 31,		
	2018	2018 adjusted to reflect prior revenue guidance	2017
Medicare	$11,457	$ 13,324	$13,243
Medicaid	6,692	7,452	5,629
Managed care	3,079	4,540	4,387
Private and other	3,857	4,115	4,044
Accounts receivable, gross	25,085	29,431	27,303
Less: allowance for doubtful accounts	(616)	(4,962)	(5,058)
Accounts receivable, net	$24,469	$ 24,469	$22,245

Practical Expedients and Exemptions

As the Company's contracts with its patients have an original duration of one year or less, the Company uses the practical expedient applicable to its contracts and does not consider the time value of money. Further, because of the short duration of these contracts, the Company has not disclosed the transaction price for the remaining performance obligations as of the end of each reporting period or when the Company expects to recognize this revenue. In addition, the Company has applied the practical expedient provided by ASC 340, *Other Assets and Deferred Costs*, and all incremental customer contract acquisition costs are expensed as they are incurred because the amortization period would have been one year or less.

5. FAIR VALUE MEASUREMENTS

Our non-financial assets, which include long-lived assets, including goodwill, intangible assets and property and equipment, are not required to be measured at fair value on a recurring basis. However, on a periodic basis, or whenever events or changes in circumstances indicate that their carrying value may not be recoverable, the Company assesses its long-lived assets for impairment. When impairment has occurred, such long-lived assets are written down to fair value. See Note 2, *Summary of Significant Accounting Policies* for further discussion of the Company's significant accounting policies.

6. BUSINESS SEGMENTS

The Company classifies its operations into the following reportable operating segments: (1) home health and hospice services, which includes the Company's home health, hospice and home care businesses; and (2) senior

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NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

living services, which includes the operation of assisted living, independent living and memory care communities. The reporting segments are business units that offer different services and are managed separately to provide greater visibility into those operations.

As of December 31, 2018, the Company provided services through 54 affiliated home health, hospice and home care agencies, and 50 wholly-owned affiliated senior living operations.

The Company evaluates performance and allocates capital resources to each segment based on an operating model that is designed to maximize the quality of care provided and profitability. General and administrative expenses are not allocated to any segment for purposes of determining segment profit or loss, and are included in the "all other" category in the selected segment financial data that follows. The Company's Service Center provides various services to all lines of business. The accounting policies of the reporting segments are the same as those described in Note 2, *Summary of Significant Accounting Policies.* The Company does not review assets by segment and therefore assets by segment are not disclosed below.

Segment revenues by major payor source were as follows:

	Year Ended December 31, 2018			
	Home Health and Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 115,997	$ —	$ 115,997	40.5%
Medicaid	12,409	23,624	36,033	12.6
Subtotal	128,406	23,624	152,030	53.1
Managed care	24,459	—	24,459	8.6
Private and other	16,172 (1)	93,397	109,569	38.3
Total revenue	$ 169,037	$ 117,021	$ 286,058	100.0%

(1) Private and other payors in our home health and hospice services segment includes revenue from all payors generated in home care operations.

The following table demonstrates the impact of adopting ASC 606 on the Company's segment revenues by major payor source for the year ended December 31, 2018, by showing revenue amounts as if the previous accounting guidance was still in effect.

	Year Ended December 31, 2018 (Adjusted to reflect prior revenue guidance)			
	Home Health and Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 116,726	$ —	$ 116,726	40.5%
Medicaid	12,802	23,624	36,426	12.7
Subtotal	129,528	23,624	153,152	53.2
Managed care	25,049	—	25,049	8.7
Private and other	16,294 (1)	93,397	109,691	38.1
Total revenue	$ 170,871	$ 117,021	$ 287,892	100.0%

(1) Private and other payors in our home health and hospice services segment includes revenue from all payors generated in home care operations.

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NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

	Year Ended December 31, 2017			
	Home Health and Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 98,014	$ —	$ 98,014	39.0%
Medicaid	11,230	19,813	31,043	12.4
Subtotal	109,244	19,813	129,057	51.4
Managed care	21,823	—	21,823	8.7
Private and other	11,336 (1)	88,775	100,111	39.9
Total revenue	$ 142,403	$ 108,588	$ 250,991	100.0%

(1) Private and other payors in our home health and hospice services segment includes revenue from all payors generated in home care operations.

	Year Ended December 31, 2016			
	Home Health and Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 80,500	$ —	$ 80,500	37.1%
Medicaid	10,498	16,708	27,206	12.5
Subtotal	90,998	16,708	107,706	49.6
Managed care	17,664	—	17,664	8.1
Private and other	7,151 (1)	84,704	91,855	42.3
Total revenue	$ 115,813	$ 101,412	$ 217,225	100.0%

(1) Private and other payors in our home health and hospice services segment includes revenue from all payors generated in home care operations.

The following table sets forth selected financial data combined by business segment:

	Year Ended December 31, 2018			
	Home Health and Hospice Services	Senior Living Services	All Other	Total
Revenue	$ 169,037	$ 117,021	$ —	$286,058
Segment income (loss) before provision for income taxes (1)	$ 23,375	$ 16,099	$(18,843)	$ 20,631
Depreciation and amortization	$ 1,045	$ 1,919	$ —	$ 2,964

(1) Segment income (loss) before provision for income taxes includes depreciation and amortization expense and excludes general and administrative expense for home health and hospice and senior living services businesses. General and administrative expense is included in the “All Other” category.

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NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

The following table demonstrates the impact of adopting ASC 606 on the Company's selected financial data, consolidated by business segment for the year ended December 31, 2018, by showing revenue amounts as if the previous accounting guidance was still in effect.

	Year Ended December 31, 2018 (Adjusted to reflect prior revenue guidance)			
	Home Health and Hospice Services	Senior Living Services	All Other	Total
Revenue	$ 170,871	$ 117,021	$ —	$287,892
Segment income (loss) before provision for income taxes (1)	$ 23,375	$ 16,099	$(18,843)	$ 20,631
Depreciation and amortization	$ 1,045	$ 1,919	$ —	$ 2,964

(1) Segment income (loss) before provision for income taxes includes depreciation and amortization expense and excludes general and administrative expense for home health and hospice and senior living services businesses. General and administrative expense is included in the "All Other" category.

	Year Ended December 31, 2017			
	Home Health and Hospice Services	Senior Living Services	All Other	Total
Revenue	$ 142,403	$ 108,588	$ —	$250,991
Segment income (loss) before provision for income taxes (1)	$ 16,832	$ 13,033	$(14,463)	$ 15,402
Depreciation and amortization	$ 945	$ 1,599	$ —	$ 2,544

(1) Segment income (loss) before provision for income taxes includes depreciation and amortization expense and excludes general and administrative expense for home health and hospice and senior living services businesses. General and administrative expense is included in the "All Other" category.

	Year Ended December 31, 2016			
	Home Health and Hospice Services	Senior Living Services	All Other	Total
Revenue	$ 115,813	$ 101,412	$ —	$217,225
Segment income (loss) before provision for income taxes (1)	$ 13,676	$ 11,754	$(12,448)	$ 12,982
Depreciation and amortization	$ 924	$ 1,931	$ —	$ 2,855

(1) Segment income (loss) before provision for income taxes includes depreciation and amortization expense and excludes general and administrative expense for home health and hospice and senior living services businesses. General and administrative expense is included in the "All Other" category.

7. ACQUISITIONS

The Company's acquisition focus is to purchase or lease operations that are complementary to the Company's current businesses, accretive to the Company's business or otherwise advance the Company's strategy. The results of all the Company's operating subsidiaries are included in the Combined Financial Statements subsequent to the date of acquisition. Acquisitions are accounted for using the acquisition method of accounting.

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NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

2018 Acquisitions

During the year ended December 31, 2018, the Company expanded its operations with the addition of seven stand-alone senior living operations, four home health agencies, two hospice agencies and two home care agencies. The Company did not acquire any material assets or assume any liabilities other than the tenant's post-assumption rights and obligations under the senior living long-term leases. The aggregate purchase price for these acquisitions during the year ended December 31, 2018 was $5,318. The addition of these operations added a total of 386 senior living units to be operated by the Company's operating subsidiaries. Typically, subsidiaries of the Company entered into a separate operations transfer agreement with the prior operator as part of each transaction.

The fair value of assets for nine of the acquisitions was concentrated in property and equipment and as such, these transactions were classified as asset acquisitions in accordance with ASC 805. The purchase price for the nine asset acquisitions was $593, mainly consisting of indefinite-lived intangible assets of $515. The fair value of assets for the remaining six acquisitions was concentrated in goodwill and as such, these transactions were classified as business combinations in accordance with ASC 805. The purchase price for the six business combinations was $4,725, mainly consisted of goodwill and indefinite-lived intangible assets of $4,710.

Subsequent Events

Subsequent to December 31, 2018, the Company acquired two home health agencies, four hospice agencies, and two home care agencies. The aggregate purchase price for these acquisitions was $14,760, the majority of which relates to goodwill and other indefinite-lived intangible assets. The allocation of purchase price for these acquisitions was completed as of the date of this report and these acquisitions are classified as business combinations under ASC 805.

Additionally, subsequent to December 31, 2018, the Company acquired the operations of one 52 unit senior living community. In connection with the acquisition of the senior living community, the Company entered into a new long-term "triple-net" lease with a subsidiary of the Parent. The aggregate purchase price for this acquisition was approximately $19. The allocation of purchase price for this acquisition was completed as of the date of this report and this acquisition is classified as an asset acquisitions under ASC 805.

2017 Acquisitions

The information for prior periods presented below reflects the previous accounting policy prior to the adoption of *ASU 2017-01—Business Combinations (ASC 805): Clarifying the Definition of a Business*. As such, the majority of the acquisitions acquired during the years ended December 31, 2017 and 2016 were classified as business combinations.

During the year ended December 31, 2017, the Company expanded its operations with the addition of seven stand-alone senior living operations, three home health agencies, three hospice agencies and one home care agency. The Company did not acquire any material assets or assume any liabilities, other than the tenant's post-assumption rights and obligations under the senior living long-term leases. The aggregate purchase price for these acquisitions for the year ended December 31, 2017 was $12,059. The addition of these operations added 250 senior living units operated by the Company's operating subsidiaries. Typically, subsidiaries of the Company entered into a separate operations transfer agreement with the prior operator as part of each transaction.

2016 Acquisitions

During the year ended December 31, 2016, the Company expanded its operations with the addition of three home health agencies and four hospice agencies. The aggregate purchase price for these acquisitions for the year

ended December 31, 2016 was $3,320. A subsidiary of the Company entered into a separate operations transfer agreement with the prior operator as part of each transaction.

The table below presents the allocation of the purchase price for the operations acquired in business combinations during the years ended December 31, 2018, 2017 and 2016:

	December 31,		
	2018	2017	2016
Equipment, furniture, and fixtures	$ 15	$ 169	$ 31
Assembled occupancy	—	113	—
Definite-lived intangible assets	—	—	100
Goodwill	2,872	6,841	1,799
Other indefinite-lived intangible assets	1,838	4,936	1,390
Total acquisitions	$4,725	$12,059	$3,320

The Company's acquisition strategy has been focused on identifying both opportunistic and strategic acquisitions within its target markets that offer strong opportunities for return. The operating subsidiaries acquired by the Company are frequently underperforming financially and can have regulatory and clinical challenges to overcome. Financial information, especially with underperforming operating subsidiaries, is often inadequate, inaccurate or unavailable. Consequently, the Company believes that prior operating results are not a meaningful representation of the Company's current operating results or indicative of the integration potential of its newly acquired operating subsidiaries. The businesses acquired during the years ended December 31, 2018, 2017 and 2016 were not material acquisitions to the Company individually or in the aggregate. Accordingly, no pro forma financial information has been presented. The financial activity for each acquisition has been included in the combined financial statements of the Company since the date the Company gained effective control.

8. PROPERTY AND EQUIPMENT—NET

Property and equipment, net consist of the following:

	December 31,	
	2018	2017
Leasehold improvements	$ 4,299	$ 2,938
Equipment	14,436	12,083
Furniture and fixtures	583	437
	19,318	15,458
Less: accumulated depreciation	(8,860)	(6,665)
Property and equipment, net	$10,458	$ 8,793

9. GOODWILL AND INTANGIBLE ASSETS—NET

The Company tests goodwill during the fourth quarter of each year or more often if events or circumstances indicate there may be impairment. The Company performs its analysis for each reporting unit that constitutes a business for which discrete financial information is produced and reviewed by operating segment management and provides services that are distinct from the other components of the operating segment, in accordance with the provisions of ASC Topic 350, Intangibles-Goodwill and Other (ASC 350). This guidance provides the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting

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unit is less than its carrying value, a "Step 0" analysis. If, based on a review of qualitative factors, it is more likely than not that the fair value of a reporting unit is less than its carrying value, the Company performs "Step 1" of the traditional two-step goodwill impairment test by comparing the net assets of each reporting unit to their respective fair values. The Company determines the estimated fair value of each reporting unit using a discounted cash flow analysis. In the event a unit's net assets exceed its fair value, an implied fair value of goodwill must be determined by assigning the unit's fair value to each asset and liability of the unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. An impairment loss is measured by the difference between the goodwill carrying value and the implied fair value.

The Company performs the annual impairment testing of goodwill using October 1 as the measurement date. The Company completed its annual goodwill impairment test and no impairments were identified for the years ended December 31, 2018, 2017 and 2016.

The following table represents activity in goodwill by segment as of and for the years ended December 31, 2018 and 2017:

	Home Health and Hospice Services	Senior Living Services	Total
January 1, 2017	$ 17,901	$ 3,222	$21,123
Additions	6,421	420	6,841
December 31, 2017	24,322	3,642	27,964
Additions	2,872	—	2,872
Purchase price adjustment	56	—	56
December 31, 2018	$ 27,250	$ 3,642	$30,892

The Company anticipates that the majority of total goodwill recognized will be fully deductible for tax purposes as of December 31, 2018. See further discussion of goodwill acquired at Note 7, *Acquisitions*.

During the year ended December 31, 2018, the Company recorded $2,317 in Medicare and Medicaid licenses and $36 in trade name indefinite-lived intangible assets as part of its acquisitions. During the year ended December 31, 2017, the Company recorded $4,901 in Medicare and Medicaid licenses and $35 in trade name indefinite-lived intangible assets as part of its acquisitions. In addition, the Company disposed of $500 in a Medicare license in fiscal year 2017.

Other indefinite-lived intangible assets consists of the following as of December 31, 2018 and 2017:

	December 31,	
	2018	2017
Trade name	$ 328	$ 292
Medicare and Medicaid licenses	24,808	22,491
Total	$25,136	$ 22,783

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NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

Intangible Assets	Weighted Average Life (Years)	December 31, 2018 Gross Carrying	2018 Accumulated Amortization	2018 Net	December 31, 2017 Gross Carrying	2017 Accumulated Amortization	2017 Net
Patient base	0.7	$ 591	$ (573)	$18	$ 654	$ (627)	$ 27
Customer relationships	2.6	470	(410)	60	470	(396)	74
Total		$ 1,061	$ (983)	$78	$ 1,124	$ (1,023)	$101

Amortization expense was $101, $100 and $897 for the years ended December 31, 2018, 2017 and 2016, respectively. Of the $897 in amortization expense incurred during the year ended December 31, 2016, approximately $648 related to the amortization of favorable leases that did not reoccur in the year ended December 31, 2017 or 2018.

Estimated amortization expense for each of the periods ending December 31 is as follows:

Year	Amount
2019	$ 33
2020	14
2021	14
2022	14
2023	3
	$ 78

10. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	December 31, 2018	2017
Refunds payable	$ 1,905	$ 1,443
Deferred revenue	1,542	1,308
Resident deposits	6,310	6,092
Property taxes	932	1,854
Other	1,682	1,276
Other accrued liabilities	$ 12,371	$ 11,973

Refunds payable includes payables related to overpayments, duplicate payments and credit balances from various payor sources. Deferred revenue occurs when the Company receives payments in advance of services provided. Resident deposits include refundable deposits to residents. Property taxes include amounts owed on our various properties.

11. INCOME TAXES

Effective January 1, 2018, the Tax Act reduced the corporate rate from 35.0% to 21.0%. The Company has adopted ASU 2018-05, *Income Taxes (Topic 740): Amendments to SEC Paragraph Pursuant to SEC Staff Accounting Bulletin No. 118*, which allows the Company to record provisional amounts during the period of

enactment. Any changes to the provisional amounts are recorded as adjustments to the provision for income taxes in the period the amounts are determined. During the year ended December 31, 2017, the Company recognized a provisional reduction to income tax expense of $315 to reflect the revaluation of the Company's net deferred tax liabilities based on the U.S. federal tax rate of 21%. In accordance with SAB 118, the Tax Act related income tax effects that were initially reported as provisional estimates were refined as additional analysis was performed. As of December 31, 2018, the Company has completed its accounting for the tax effects of the enactment of the Tax Act.

The U.S. government may issue additional guidance on the final impact of U.S. tax reform that may differ from current law, possibly materially, due to factors such as changes in interpretations of the Tax Act, and any legislative action to address uncertainties that arise because of the Tax Act.

The rate impact of each year's Tax Act adjustment is outlined in the rate reconciliation table below.

The provision for income taxes on continuing operations for the years ended December 31, 2018, 2017 and 2016 is summarized as follows:

	Year Ended December 31,		
	2018	2017	2016
Current:			
Federal	$3,223	$3,550	$4,329
State	915	649	831
	4,138	4,199	5,160
Deferred:			
Federal	226	1,305	(51)
State	(12)	186	(44)
	214	1,491	(95)
Adjustment to deferred taxes for tax rate change	—	(315)	—
Total	$4,352	$5,375	$5,065

A reconciliation of the federal statutory rate to the effective tax rate for income from continuing operations for the years ended December 31, 2018, 2017 and 2016, respectively, is comprised as follows:

	Year Ended December 31,		
	2018	2017	2016
Income tax expense at statutory rate	21.0%	35.0%	35.0%
State income taxes—net of federal benefit	3.5	3.5	3.9
Non-deductible expenses	0.4	0.3	0.6
Equity compensation	(2.9)	(1.4)	—
Revaluation of deferred	(0.2)	(2.0)	—
Other adjustments	(0.7)	(0.5)	(0.5)
Total income tax provision	21.1%	34.9%	39.0%

The Company adopted ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, for the year ended December 31, 2017. Accordingly, the Company's 2018 and 2017 tax rates were favorably impacted by excess tax benefits on equity compensation.

NEW VENTURES
NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

The Company's deferred tax assets and liabilities as of December 31, 2018 and 2017 are summarized below. The deferred taxes in 2018 and 2017 reflect the federal tax rate of 21.0%.

	December 31,	
	2018	2017
Deferred tax assets (liabilities):		
Accrued expenses	$ 2,964	$ 1,862
Allowance for doubtful accounts	857	955
State taxes	178	122
Total deferred tax assets	3,999	2,939
Depreciation and amortization	(4,357)	(3,005)
Prepaid expenses	(240)	(311)
Other liabilities	(14)	(29)
Total deferred tax liabilities	(4,611)	(3,345)
Net deferred tax liabilities	$ (612)	$ (406)

The federal statutes of limitations on the Company's 2014, 2013, and 2012 income tax years lapsed during the third quarter of 2018, 2017, and 2016, respectively. During the fourth quarter of each year, various state statutes of limitations also lapsed. The lapses for the years ended December 31, 2018, 2017 and 2016 had no impact on the Company's unrecognized tax benefits.

As of December 31, 2018 and 2017 the Company did not have any unrecognized tax benefits, net of their state benefits, that would affect the Company's effective tax rate. The Company classifies interest and/or penalties on income tax liabilities or refunds as additional income tax expense or income. Such amounts are not material.

12. OPTIONS AND AWARDS

Stockholders have approved the Parent stock plans ("2007 Omnibus Incentive Plan" and "2017 Omnibus Incentive Plan" or collectively the "Parent Plans") and the Company has implemented the Subsidiary Equity Plan (together with the Parent Plans, the "Plans"), which provide for the granting of equity-based compensation. Under The Plans, stock-based payment awards, including employee stock options and restricted stock awards, are issued based on estimated fair value. The following disclosures represent share-based compensation expense relating to the Plans, including awards to employees of the Company's subsidiaries and an allocation of costs from employees in the Service Center. Total share-based compensation expense for all of the Plans for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
Parent Plans direct expense	$ 482	$ 475	$ 457
Parent Plans allocated expense	522	459	559
Subsidiary Equity Plan	1,378	1,364	1,325
Total share-based compensation	$2,382	$2,298	$2,341

As share-based compensation expense recognized in the Company's combined statements of income for the years ended December 31, 2018, 2017 and 2016 was based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. The Company estimates forfeitures at the time of grant and, if necessary, revises the estimate in subsequent periods if actual forfeitures differ.

NEW VENTURES
NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

The Company uses the Black-Scholes option-pricing model to recognize the value of stock-based compensation expense for share-based payment awards under the Plans. Determining the appropriate fair-value model and calculating the fair value of stock-based awards at the grant date requires considerable judgment, including estimating stock price volatility, expected option life and forfeiture rates. The Company develops estimates based on historical data and market information, which can change significantly over time. The Black-Scholes model requires several key judgments, including:

- The expected option term is calculated by the average of the contractual term of the options and the weighted average vesting period for all options.
- Estimated volatility reflects the volatility of the Parent's share price.
- The dividend yield is based on the historical pattern of dividends as well as expected dividend patterns.
- The risk-free rate is based on the implied yield of U.S. Treasury notes as of the grant date with a remaining term approximately equal to the expected term.
- Estimated forfeiture rate is based on the Parent's historical forfeiture activity of unvested stock options.

The Parent Plans

Stock Options

Under the Parent Plans, options granted to employees of the subsidiaries of New Ventures employees generally vest over five years at 20% per year on the anniversary of the grant date. Options expire ten years after the date of grant. The fair value of each option is estimated on the grant date using a Black-Scholes option-pricing model with the following weighted average assumptions for stock options granted:

Grant Year	Options Granted	Weighted Average Risk-Free Rate	Expected Life	Weighted Average Volatility	Weighted Average Dividend Yield
2018	11	2.8%	6.2 years	32.0%	0.5%
2017	27	2.0%	6.2 years	35.2%	0.8%
2016	52	1.4%	6.3 years	37.8%	0.8%

The expected volatility is based on the historical market volatility of the Parent's stock price over the expected life of the stock options granted. The expected life represents the period of time that the awards are expected to be outstanding and is based on the contractual terms of each instrument, taking into account employees' historical exercise and termination behavior.

For the years ended December 31, 2018, 2017 and 2016, the following represents the exercise price and fair value displayed at grant date for stock option grants:

Grant Year	Granted	Weighted Average Exercise Price	Weighted Average Fair Value of Options
2018	11	$ 36.61	$ 12.73
2017	27	$ 20.06	$ 6.97
2016	52	$ 19.41	$ 6.81

The weighted average exercise price equaled the weighted average fair value of common stock on the grant date for all options granted during the periods ended December 31, 2018, 2017 and 2016 and therefore, the intrinsic value was $0 at date of grant.

NEW VENTURES
NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

The following table represents the employee stock option activity during the years ended December 31, 2018, 2017 and 2016:

	Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Vested	Weighted Average Exercise Price of Options Vested
January 1, 2016	379	$ 11.99	152	$ 7.71
Granted	52	19.41		
Forfeited	(4)	8.92		
Exercised	(37)	5.18		
December 31, 2016	390	11.03	151	$ 7.91
Granted	27	20.06		
Forfeited	—	—		
Exercised	(50)	10.27		
December 31, 2017	367	14.69	191	$ 12.58
Granted	11	36.61		
Forfeited	(13)	13.05		
Exercised	(68)	13.81		
December 31, 2018	297	$ 15.94	182	$ 13.28

The following summary information reflects stock options outstanding, vested and related details as of December 31, 2018:

	Stock Options Outstanding				Stock Options
Year of Grant	Exercise Price	Number Outstanding	Black-Scholes Fair Value	Remaining Contractual Life (Years)	Vested and Exercisable
2009	$ 4.06 - 4.56	5	$ 11	1	5
2010	4.77 - 4.96	3	6	2	3
2011	5.90 - 7.99	13	46	3	13
2012	6.56 - 7.96	21	73	4	21
2013	7.98 - 11.49	25	121	5	25
2014	10.55 - 18.94	105	625	6	72
2015	21.47 - 25.24	46	419	7	24
2016	18.79 - 19.89	44	299	8	16
2017	18.64 - 22.90	24	165	9	3
2018	$26.53 38.59	11	143	10	—
Total		297	$ 1,908		182

NEW VENTURES
NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

Restricted Stock Awards

All awards were granted at an issued price of $0 and generally vest over five years. A summary of the status of the Parent's non-vested restricted stock awards as of December 31, 2018, 2017 and 2016, and changes during the years ended December 31, 2018, 2017 and 2016, is presented below:

	Non-Vested Restricted Awards	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2016	35	$ 20.14
Granted	19	19.50
Vested	(16)	18.81
Forfeited	(3)	19.01
Nonvested at December 31, 2016	35	$ 20.46
Granted	10	19.44
Vested	(14)	19.59
Forfeited	(1)	19.18
Nonvested at December 31, 2017	30	$ 20.41
Granted	3	36.61
Vested	(11)	20.10
Forfeited	(1)	22.56
Nonvested at December 31, 2018	21	$ 22.59

In future periods, the Company expects to recognize approximately $696 and $490 in share-based compensation expense for unvested options and unvested restricted stock awards, respectively, which were outstanding as of December 31, 2018. Future share-based compensation expense will be recognized over 2.5 and 2.8 weighted average years for unvested options and restricted stock awards, respectively. There were 115 unvested and outstanding options at December 31, 2018, of which 108 are expected to vest. The weighted average contractual life for options outstanding, vested and expected to vest at December 31, 2018 was 5.8 years.

The aggregate intrinsic value of options outstanding, vested, expected to vest and exercised as of and for the years ended December 31, 2018, 2017 and 2016 is as follows:

	December 31,		
Options	2018	2017	2016
Outstanding	$6,545	$6,219	$6,064
Vested	4,604	4,410	4,388
Expected to vest	1,941	1,810	1,676
Exercisable	2,263	2,177	2,167

The intrinsic value is calculated as the difference between the market value of the underlying common stock and the exercise price of the options.

Subsidiary Equity Plan

On May 26, 2016, the Parent implemented a management equity plan and granted stock options and restricted stock awards of a subsidiary of the Parent. These awards generally vest over a period of three to five years or upon the occurrence of certain prescribed events. The value of the stock options and restricted stock awards is tied to the value of the common stock of the subsidiary. The awards can be put to the Company at

various prescribed dates, which in no event is earlier than six months after vesting of the restricted stock or exercise of the stock options. The Company can also call the awards, at any time.

The grant date fair value of the awards is recognized as compensation expense over the relevant vesting periods, with a corresponding adjustment to non-controlling interest. The grant value was determined based on independent valuation of the subsidiary shares close to the grant date. The valuation incorporated a discounted cash flow analysis combined with a market-based approach to determine the fair value of the subsidiary equity. Share-based compensation expense related to stock options granted under the Subsidiary Equity Plan was $43, $28 and $8 for the years ended December 31, 2018, 2017 and 2016, respectively.

The Company granted awards of 3,323 shares of restricted stock awards during the year ended December 31, 2016. The fair value of these restricted awards was based on an independent valuation of the subsidiary shares close to the grant date. The Company did not grant any additional restricted awards subsequent to the year ended December 31, 2016. Share-based compensation expense related to restricted awards granted under the Subsidiary Equity Plan was $1,335, $1,336 and $1,317 for the years ended December 31, 2018, 2017 and 2016, respectively.

The following table represents stock options and restricted stock awards activity during the years ended December 31, 2018, 2017 and 2016:

	Number of Options Outstanding	Weighted Average Exercise Price	Non-Vested Restricted Awards	Weighted Average Grant Date Fair Value
January 1, 2016	—	$ —	—	$ —
Granted	120	1.37	3,323	1.37
Forfeited	—	—	—	—
Vested	—	—	(375)	1.37
December 31, 2016	120	$ 1.37	2,948	$ 1.37
Granted	174	1.62	—	—
Forfeited	—	—	—	—
Options Exercised/Shares Vested	(2)	1.37	(976)	1.37
December 31, 2017	292	$ 1.52	1,972	$ 1.37
Granted	221	2.20	—	—
Forfeited	(19)	1.49	—	—
Options Exercised/Shares Vested	(11)	1.51	(976)	1.37
December 31, 2018	483	$ 1.83	996	$ 1.37

In future periods, the Company expects to recognize approximately $162 and $563 in share-based compensation expense for unvested options and unvested restricted stock awards, respectively, which were outstanding as of December 31, 2018. Future share-based compensation expense will be recognized over 3.6 and 0.5 weighted average years for unvested options and restricted stock awards, respectively. There were 65 vested and exercisable options at December 31, 2018. There were 418 unvested and outstanding options at December 31, 2018, all of which are expected to vest. The weighted average contractual life for options outstanding, vested and expected to vest at December 31, 2018 was 8.6 years.

During 2018, the Company repurchased 865 shares under the Subsidiary Equity Plan for $1,972. The Company subsequently sold the shares and received net proceeds of $1,972. In addition, in June 2019, the

Company repurchased 469 shares under the Subsidiary Equity Plan for $2,293. The Company subsequently sold the shares and received net proceeds of $2,293.

13. LEASES

As of December 31, 2018, the Company's operating subsidiaries leased 50 senior living communities and its administrative offices under non-cancelable operating leases, most of which have initial lease terms ranging from five to 20 years. Most of these leases contain renewal options, most involve rent increases and none contain purchase options. The lease term excludes lease renewals as the renewal rents are not at a bargain, there are no economic penalties for the Company not to renew the lease, and it is not reasonably assured that the Company will exercise the extension options. As of December 31, 2018, the Company's operating subsidiaries leased 27 communities from subsidiaries of the Parent. The existing leases with subsidiaries of the Parent are for initial terms of 15 years. In addition to rent, each of the operating companies are required to pay the following: (1) all impositions and taxes levied on or with respect to the leased properties (other than taxes on the income of the lessor); (2) all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties; (3) all insurance required in connection with the leased properties and the business conducted on the leased properties; (4) all community maintenance and repair costs; and (5) all fees in connection with any licenses or authorizations necessary or appropriate for the leased properties and the business conducted on the leased properties.

Fifteen of the Company's affiliated senior living communities, excluding the communities that are operated under the Ensign Leases, are operated under two separate master lease arrangements. Under these master leases, a breach at a single community could subject one or more of the other communities covered by the same master lease to the same default risk. Failure to comply with Medicare and Medicaid provider requirements is a default under several of the Company's leases and master leases. In addition, other potential defaults related to an individual community may cause a default of an entire master lease portfolio and could trigger cross-default provisions in the Parent's outstanding debt arrangements and other leases. With an indivisible lease, it is difficult to restructure the composition of the portfolio or economic terms of the master lease without the consent of the landlord.

Future minimum lease payments for all leases as of December 31, 2018:

Year	Amount
2019	$ 33,055
2020	32,181
2021	31,625
2022	31,241
2023	30,896
Thereafter	243,333
	$ 402,331

14. COMMITMENTS AND CONTINGENCIES

Regulatory Matters—The Company provides services in complex and highly regulated industries. The Company's compliance with applicable Federal, State and Local laws and regulations governing these industries may be subject to governmental review and adverse findings may result in significant regulatory action, which could include sanctions, damages, fines, penalties (many of which may not be covered by insurance), and even exclusion from government programs. The Company is a party to various regulatory and other governmental

audits and investigations in the ordinary course of business and cannot predict the ultimate outcome of any Federal or State regulatory survey, audit or investigation. While governmental audits and investigations are the subject of administrative appeals, the appeals process, even if successful, may take several years to resolve. The Department of Justice, the Centers for Medicare and Medicaid Services ("CMS"), or other federal and state enforcement and regulatory agencies may conduct additional investigations related to the Company's businesses. The Company believes that it is presently in compliance in all material respects with all applicable laws and regulations.

Cost-Containment Measures—Government and third party payors have instituted cost-containment measures designed to limit payments made to providers of healthcare services, and there can be no assurance that future measures designed to limit payments made to providers will not adversely affect the Company.

Indemnities—From time to time, the Company enters into certain types of contracts that contingently require the Company to indemnify parties against third-party claims. These contracts primarily include (i) certain real estate leases, under which the Company may be required to indemnify property owners or prior operators for post-transfer environmental or other liabilities and other claims arising from the Company's use of the applicable premises, (ii) operations transfer agreements, in which the Company agrees to indemnify past operators of agencies and communities the Company acquires against certain liabilities arising from the transfer of the operation and/or the operation thereof after the transfer, (iii) certain Parent lending agreements, and (iv) certain agreements with the management, directors and employees, under which the subsidiaries of the Company may be required to indemnify such persons for liabilities arising out of their employment relationships. The terms of such obligations vary by contract and, in most instances, a specific or maximum dollar amount is not explicitly stated therein. Generally, amounts under these contracts cannot be reasonably estimated until a specific claim is asserted. Consequently, because no claims have been asserted, no liabilities have been recorded for these obligations on the Company's combined balance sheets for any of the years presented.

Litigation—The Company's businesses involve a significant risk of liability given the age and health of the patients and residents served by its operating subsidiaries. The Company, its operating companies, and others in the industry may be subject to a number of claims and lawsuits, including professional liability claims, alleging that services provided have resulted in personal injury, elder abuse, wrongful death or other related claims. Healthcare litigation (including class action litigation) is common and is filed based upon a wide variety of claims and theories, and the Company is routinely subjected to these claims in the ordinary course of business, including potential claims related to patient care and treatment, professional negligence and class actions, as well as employment related claims. If there were a significant increase in the number of these claims or an increase in amounts owing should plaintiffs be successful in their prosecution of these claims, this could materially adversely affect the Company's business, financial condition, results of operations and cash flows. In addition, the defense of these lawsuits may result in significant legal costs, regardless of the outcome, and can result in large settlement amounts or damage awards.

In addition to the potential lawsuits and claims described above, the Company is also subject to potential lawsuits under the False Claims Act (the "FCA") and comparable state laws alleging submission of fraudulent claims for services to any healthcare program (such as Medicare) or payor. A violation may provide the basis for exclusion from federally-funded healthcare programs. Such exclusions could have a correlative negative impact on the Company's financial performance. Some states, including California, Arizona and Texas, have enacted similar whistleblower and false claims laws and regulations. In addition, the Deficit Reduction Act of 2005 created incentives for states to enact anti-fraud legislation modeled on the FCA. As such, the Company could face increased scrutiny, potential liability and legal expenses and costs based on claims under state false claims acts in markets in which it does business.

NEW VENTURES
NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

In May 2009, Congress passed the Fraud Enforcement and Recovery Act ("FERA") which made significant changes to the FCA, expanding the types of activities subject to prosecution and whistleblower liability. Following changes by FERA, healthcare providers face significant penalties for the knowing retention of government overpayments, even if no false claim was involved. Providers can now be liable for knowingly and improperly avoiding or decreasing an obligation to pay money or property to the government; including the retention of any government overpayment. The Patient Protection and Affordable Care Act of 2010 (the "ACA") supplemented FERA by imposing an affirmative obligation on healthcare providers to return an overpayment to CMS within 60-day of "identification" or the date any corresponding cost report is due, whichever is later. According to CMS's February 12, 2016, final rule with respect to Medicare Parts A and B, providers have an obligation to proactively exercise "reasonable diligence" to identify overpayments. The 60 day clock begins to run after the reasonable diligence period has concluded, which may take at most six months from the receipt of credible information. Retention of any overpayment beyond this period may create liability under the FCA. In addition, FERA extended protections against retaliation for whistleblowers, including protections not only for employees, but also contractors and agents. Thus, there is generally no need for an employment relationship in order to qualify for protection against retaliation for whistleblowing.

The Company cannot predict or provide any assurance as to the possible outcome of any litigation. If any litigation were to proceed, and the Company and its operating companies are subjected to, alleged to be liable for, or agree to a settlement of, claims or obligations under federal Medicare statutes, the FCA, or similar state and federal statutes and related regulations, the Company's business, financial condition and results of operations and cash flows could be materially and adversely affected. Among other things, any settlement or litigation could involve the payment of substantial sums to settle any alleged civil violations, and may also include the assumption of specific procedural and financial obligations by the Company or its operating companies going forward under a corporate integrity agreement and/or other arrangement with the government.

Medicare Revenue Recoupments—The Company is subject to reviews relating to Medicare services, billings and potential overpayments by Unified Program Integrity Contractors (UPIC), Recovery Audit Contractors (RAC), Zone Program Integrity Contractors (ZPIC), Program Safeguard Contractors (PSC) and Medicaid Integrity Contributors (MIC) programs, collectively referred to as "Reviews". As of December 31, 2018, six of the Company's independent operating subsidiaries had Reviews scheduled, on appeal or in dispute resolution process, both pre- and post-payment. The Company anticipates that these probe reviews will increase in frequency in the future. If an operation fails a Review and/or subsequent Review, the operation could then be subject to extended Review, suspension of payment, or extrapolation of the identified error rate to all billing in the same time period. As of December 31, 2018, the Company's independent operating subsidiaries have responded to the requests and the related claims are currently under Review, on appeal or in the dispute resolution process.

Concentrations

Credit Risk—The Company has significant accounts receivable balances, the collectability of which is dependent on the availability of funds from certain governmental programs, primarily Medicare and Medicaid. These receivables represent the only significant concentration of credit risk for the Company. The Company does not believe there are significant credit risks associated with these governmental programs. The Company believes that an appropriate allowance has been recorded for the possibility of these receivables proving uncollectible, and continually monitors and adjusts these allowances as necessary. The Company's receivables from the Medicare and Medicaid programs accounted for approximately 72.4% and 69.1% of its gross accounts receivable as of December 31, 2018 and 2017, respectively. Revenue from reimbursement under the Medicare and Medicaid programs accounted for 53.1%, 51.4% and 49.6% of the Company's revenue for the years ended December 31, 2018, 2017 and 2016, respectively.

NEW VENTURES
NOTES TO COMBINED FINANCIAL STATEMENTS—(Continued)

15. DEFINED CONTRIBUTION PLAN

The Company's employees have historically participated in the Parent's 401(k) defined contribution plan (the 401(k) Plan). Under the 401(k) Plan, eligible employees of the Parent's subsidiaries may contribute up to 15% of their annual basic earnings. Additionally, the 401(k) Plan provides for discretionary matching contributions (as defined in the 401(k) Plan) by the Parent. Beginning in 2007, the 401(k) Plan allowed eligible employees to contribute up to 90% of their eligible compensation, subject to applicable annual Internal Revenue Code limits. The Parent allocated costs and made contributions to the 401(k) Plan on our behalf in the amount of $185, $147 and $103 during the years ended December 31, 2018, 2017 and 2016 respectively.

Schedule II

Valuation and Qualifying Accounts

	Balances at Beginning of Year	Impact of ASC 606 Adoption (1)	Additions Charged to Costs and Expenses	Deductions	Balances at End of Year
			(In thousands)		
Year Ended December 31, 2016					
Allowance for doubtful accounts	$ (2,734)	$ —	$ (2,435)	$ 1,494	$ (3,675)
Year Ended December 31, 2017					
Allowance for doubtful accounts	$ (3,675)	$ —	$ (3,374)	$ 1,991	$ (5,058)
Year Ended December 31, 2018					
Allowance for doubtful accounts	$ (5,058)	$ 4,590	$ (346)	$ 198	$ (616)

(1) Subsequent to the adoption of ASC 606, the majority of what was previously presented as allowance for doubtful accounts related to bad debt expense has been incorporated as an implicit price concession factored into net revenue and accounts receivable. Allowance for doubtful accounts as of December 31, 2018 represents the Company's best estimate of probable losses inherent in the accounts receivable balance based on known troubled accounts and other currently available evidence.

All other schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the combined financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
The Pennant Group, Inc.

Opinion on the Financial Statement

We have audited the accompanying balance sheet of The Pennant Group, Inc. (the "Company") as of January 24, 2019 and the related notes (collectively referred to as the "financial statement"). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of January 24, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

The financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

Costa Mesa, California
February 12, 2019

We have served as the Company's auditor since 2019.

THE PENNANT GROUP, INC.

BALANCE SHEET

	January 24, 2019
	(In thousands)
Assets	
Total assets	$ —
Liabilities	
Total liabilities	—
Stockholder's Equity	
Common Stock, par value $0.001 per share, 1,000 shares authorized, issued and outstanding	—
Total stockholder's equity	—
Total liabilities and stockholder's equity	$ —

The accompanying notes are an integral part of this balance sheet.

THE PENNANT GROUP, INC.

NOTES TO THE FINANCIAL STATEMENT

Note 1—Organization

The Pennant Group, Inc. (the "Company") was formed as a Delaware corporation on January 24, 2019. The Company has not commenced operations, nor has the Company entered into any contracts. The principal activity of the Company is intended to be that of a holding company comprising of operating companies providing services to the growing senior population in the United States, operating in multiple lines of businesses across Arizona, California, Colorado, Idaho, Iowa, Nevada, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin and Wyoming.

Note 2—Summary of Significant Accounting Policies

Basis of Presentation-The balance sheet has been prepared in accordance with accounting principles generally accepted in the United States of America. Separate statements of operations, changes in stockholder's equity and cash flows have not been presented because there have been no activities since incorporation.

Note 3—Stockholder's Equity

The Company is authorized to issue 1,000 shares of common stock, par value $0.001 per share ("Common Stock"). Under the Company's certificate of incorporation all shares of common stock are identical. All the outstanding shares of the Company's common stock are currently owned, directly by The Ensign Group, Inc.

Note 4—Subsequent Events

The Company has evaluated all subsequent events through February 12, 2019, the date the balance sheet was available to be issued. The Company did not note any subsequent events requiring disclosure or adjustments to the balance sheet.

NEW VENTURES
CONDENSED COMBINED BALANCE SHEETS
(Unaudited)

	June 30, 2019	December 31, 2018
	(In thousands)	
Assets		
Current assets:		
Cash	$ 43	$ 41
Accounts receivable—less allowance for doubtful accounts of $935 and $616, respectively	27,704	24,469
Prepaid expenses and other current assets	4,461	4,613
Total current assets	32,208	29,123
Property and equipment, net	13,158	10,458
Right-of-use assets (Note 13)	237,948	—
Restricted and other assets	2,611	2,464
Intangible assets, net	62	78
Goodwill	42,392	30,892
Other indefinite-lived intangibles	28,286	25,136
Total assets	$356,665	$ 98,151
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 4,902	$ 4,390
Accrued wages and related liabilities	12,458	12,786
Lease liabilities—current (Note 13)	13,152	—
Other accrued liabilities	12,521	12,371
Total current liabilities	43,033	29,547
Long-term lease liabilities—less current portion (Note 13)	226,453	—
Other long-term liabilities	691	3,316
Total liabilities	270,177	32,863
Commitments and contingencies		
Equity:		
Net parent investment	73,315	55,856
Non-controlling interest	13,173	9,432
Total equity	86,488	65,288
Total liabilities and equity	$356,665	$ 98,151

The accompanying notes are an integral part of these condensed combined financial statements.

NEW VENTURES
CONDENSED COMBINED STATEMENTS OF INCOME
(Unaudited)

	Six Months Ended June 30,	
	2019	2018
	(In thousands)	
Revenue	$160,641	$137,768
Expense		
Cost of services	121,767	101,941
Rent—cost of services (Note 13)	16,830	15,289
General and administrative expense	15,133	8,991
Depreciation and amortization	1,772	1,435
Total expenses	155,502	127,656
Income from operations	5,139	10,112
Provision for income taxes	(32)	2,200
Net income	5,171	7,912
Less: net income attributable to noncontrolling interest	350	370
Net income attributable to New Ventures	$4,821	$7,542

The accompanying notes are an integral part of these condensed combined financial statements.

NEW VENTURES
CONDENSED COMBINED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

	Net Parent Investment	Non-Controlling Interest	Total
		(In thousands)	
Total equity as of December 31, 2018	$ 55,856	$9,432	$65,288
Noncontrolling interest attributable to subsidiary equity plan	(2,814)	3,391	577
Net income attributable to noncontrolling interest	—	350	350
Net transfer from parent	15,452	—	15,452
Net income attributable to New Ventures	4,821	—	4,821
Total equity as of June 30, 2019	$ 73,315	$ 13,173	$86,488

	Net Parent Investment	Non-Controlling Interest	Total
		(In thousands)	
Total equity as of December 31, 2017	$ 54,996	$ 4,920	$59,916
Noncontrolling interest attributable to subsidiary equity plan	(1,964)	2,645	681
Net income attributable to noncontrolling interest	—	370	370
Net transfer to parent	(6,005)	—	(6,005)
Net income attributable to New Ventures	7,542	—	7,542
Total equity as of June 30, 2018	$ 54,569	$ 7,935	$62,504

The accompanying notes are an integral part of these condensed combined financial statements.

NEW VENTURES
CONDENSED COMBINED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2019	2018
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 5,171	$ 7,912
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,772	1,435
Provision for doubtful accounts	460	118
Share-based compensation	1,127	1,177
Non-cash leasing arrangement (Note 13)	161	—
Change in operating assets and liabilities		
Accounts receivable	(3,695)	(1,813)
Prepaid expenses and other assets	(1,110)	(516)
Operating lease obligations	133	—
Accounts payable	162	583
Accrued wages and related liabilities	(328)	(1,029)
Other accrued liabilities	150	499
Other long-term liabilities	—	885
Net cash provided by operating activities	4,003	9,251
Cash flows from investing activities:		
Purchase of property and equipment	(3,641)	(2,065)
Cash payments for business acquisitions, net of cash received	(14,759)	—
Cash payments for asset acquisitions	(20)	(48)
Escrow deposits	—	(13)
Restricted and other assets	(147)	(433)
Net cash used in investing activities	(18,567)	(2,559)
Cash flows from financing activities:		
Proceeds from sale of subsidiary shares	2,293	—
Repurchase of subsidiary shares	(2,293)	—
Net investment from/(to) parent	14,566	(6,689)
Net cash provided by/(used in) financing activities	14,566	(6,689)
Net increase in cash	2	3
Cash beginning of period	41	36
Cash end of period	$ 43	$ 39
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Lease liabilities	$ 16,721	$ —
Non-cash financing and investing activity:		
Capital expenditures	$ 600	$ 334
Right-of-use assets obtained in exchange for new operating lease obligation	$ 4,198	$ —

The accompanying notes are an integral part of these condensed combined financial statements.

NEW VENTURES
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS
(Dollars and shares in thousands, except per share data)
(Unaudited)

1. DESCRIPTION OF BUSINESS

New Ventures (the "Company," "it," or "its") is comprised of the home health and hospice agencies and substantially all of the senior living businesses of The Ensign Group, Inc. (NASDAQ: ENSG) ("Ensign" or the "Parent"), which was formed in 1999 with the goal of establishing a new level of quality care within the skilled nursing industry. As of June 30, 2019, the Company's subsidiaries operated 62 home health, hospice and home care agencies and 51 senior living communities located in Arizona, California, Colorado, Idaho, Iowa, Nevada, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin, and Wyoming.

Certain of the Company's subsidiaries, collectively referred to as the Service Center, provide certain accounting, payroll, human resources, information technology, legal, risk management, and other services to the operations through contractual relationships.

Each of the Company's affiliated operations are operated by separate, independent subsidiaries that have their own management, employees and assets. Each of the Parent's affiliated operations are operated by separate, independent subsidiaries that have their own management, employees, and assets. References herein to the consolidated "Company," "Parent" and "its" assets and activities is not meant to imply, nor should it be construed as meaning, that New Ventures or The Ensign Group, Inc. has direct operating assets, employees or revenue, or that any of the subsidiaries, are operated by New Ventures or The Ensign Group, Inc.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—On May 6, 2019, Ensign announced a proposed plan to separate its home health and hospice operations and substantially all of its senior living businesses into a publicly traded company, The Pennant Group, Inc. ("Pennant"). To accomplish the separation, Ensign will contribute the Company's assets and liabilities into Pennant and distribute to Ensign's stockholders substantially all of the outstanding shares of Pennant common stock. The distribution is expected to qualify as a tax-free transaction, except to the extent of cash received in lieu of fractional shares, after which Ensign stockholders will own shares in both Ensign and Pennant.

The accompanying unaudited condensed combined financial statements of the Company (the "Interim Financial Statements") have been prepared on a stand-alone basis and are derived from the consolidated financial statements and accounting records of Ensign. The Interim Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and pursuant to the regulations of the U.S. Securities and Exchange Commission (the "SEC"). Management believes that the Interim Financial Statements reflect all adjustments which are of a normal and recurring nature necessary to present fairly the Company's financial position and results of operations in all material respects. All intercompany transactions and balances between the various legal entities comprising the Company have been eliminated in the Interim Financial Statements. The condensed combined statements of income reflect income that is attributable to the Company and the noncontrolling interest.

The Company consists of various limited liability companies and corporations established to operate home health, hospice, home care, and senior living operations. The condensed combined balance sheets of the Company include assets and liabilities of the Parent that are specifically identifiable or otherwise attributable to the Company. Revenue was derived from transactional information specific to the Company's services provided. The costs in the condensed combined statements of income reflect direct and allocated costs.

NEW VENTURES
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

The financial information included herein may not reflect the condensed combined financial position, results of operations, changes in equity, and cash flows of the Company in the future, and does not reflect what they would have been had the Company been operated as a separate, stand-alone entity during the periods presented.

The Company engages in various transactions with subsidiaries of Ensign, including a cash management process and other shared services. Intercompany transactions with Ensign's businesses are not settled on a routine basis, all amounts due to (from) subsidiaries of Ensign, are classified as Net Parent Investment in the condensed combined balance sheets. Changes in the Parent's equity investment arising from cash transactions are presented as financing activities in the accompanying condensed combined statements of cash flows.

Cost Allocation—The Interim Financial Statements include allocations of costs for certain shared services provided to the Company by Ensign subsidiaries. Such allocations include, but are not limited to, executive management, accounting, human resources, information technology, compliance, legal, payroll, insurance, tax, treasury, and other general and administrative items. These costs were allocated to the Company on a basis of revenue, location, employee count, or other measures. These cost allocations are reflected within general and administrative expense in the condensed combined statements of income, including for share-based compensation expenses disclosed in *Note 12*, *Options and Awards*. The amount of general and administrative costs allocated for the six months ended June 30, 2019 and 2018, inclusive of share-based compensation expense were $15,133 and $8,991, respectively. Management believes the basis on which the expenses have been allocated to be a reasonable reflection of the services provided to us during the periods presented.

The Parent is partially self-insured for healthcare, general and professional liability, and workers' compensation, and historically allocated premium expense to all subsidiaries of Ensign in its accounting records. To reflect all of the insurance costs, quarterly actuary determined adjustments were allocated to the Company based on the proportional historical premium expense. No self-insurance accruals have been allocated to the Company as these accruals represent the obligations of the Parent.

The Parent's external debt and related interest expense have not been allocated to the Company for any of the periods presented as no portion of the borrowings is being assumed by the Company as part of the separation.

Employees of the Company's subsidiaries participate in Ensign's equity-based incentive plans (the "Ensign Plans") and the Cornerstone Subsidiary Equity plan (the "Subsidiary Equity Plan"). Share-based compensation includes the expense attributable to employees of the Company's subsidiaries participating in the Ensign Plans, as well as the allocated cost related to Ensign subsidiaries' employees that participate in the Ensign Plans. Share-based compensation related to Ensign subsidiaries' employees that participate in the Ensign Plans were allocated on the basis of revenue. All share-based compensation related to the Subsidiary Equity Plan was recognized in the Interim Financial Statements and, therefore, no cost allocation was necessary.

The share-based compensation costs associated with the Subsidiary Equity Plan awards is initially measured at fair value at the grant date and is expensed as non-cash compensation over the vesting term. Historically, these awards have been granted once a year and the fair value has been determined by an independent valuation of the subsidiary shares. The valuation incorporated a discounted cash flow analysis combined with a market-based approach to determine the fair value of the subsidiary equity.

Cash presented in the condensed combined balance sheets represents cash located at our operations. The Company participates in the Parent's cash management program. Accordingly, no cash for this business was allocated to the Company in the Interim Financial Statements. The net activity of cash due to (from) the Parent is reflected in the net investment from the Parent.

NEW VENTURES
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

Estimates and Assumptions—The preparation of Interim Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Interim Financial Statements and the reported amounts of revenue and expenses during the reporting periods. The most significant estimates in the Company's Interim Financial Statements relate to revenue, cost allocations, intangible assets and goodwill, impairment of long-lived assets, right-of-use assets and lease liabilities for leases greater than 12 months, and income taxes. Actual results could differ from those estimates.

Fair Value of Financial Instruments—The Company's financial instruments consist principally of cash, accounts receivable, accounts payable and accrued liabilities. The Company believes all of the financial instruments' recorded values approximate fair values because of their nature or respective short durations. Fair value measurements are based on a three-tier hierarchy that prioritizes the inputs used to measure fair value. These tiers include: Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Revenue Recognition—On January 1, 2018, the Company adopted Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers (ASC 606) applying the modified retrospective method. The adoption of ASC 606 did not have a material impact on the measurement nor on the recognition of revenue of contracts, for which all revenue had not been recognized, as of January 1, 2018, therefore no cumulative adjustment has been made to the opening balance of retained earnings at the beginning of 2018. See *Note 4, Revenue and Accounts Receivable*.

Accounts Receivable and Allowance for Doubtful Accounts—Accounts receivable consist primarily of amounts due from Medicare and Medicaid programs, other government programs, managed care health plans and private payor sources, net of estimates for variable consideration. The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in the accounts receivable balance.

Property and Equipment—Property and equipment are initially recorded at their historical cost. Repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets (ranging from three to 15 years). Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the remaining lease term.

Impairment of Long-Lived Assets—The Company reviews the carrying value of long-lived assets that are held and used in the operating subsidiaries for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of these assets is determined based upon expected undiscounted future net cash flows from the operating subsidiary to which the assets relate, utilizing management's best estimate, appropriate assumptions, and projections at the time. If the carrying value is determined to be unrecoverable from future operating cash flows, the asset is deemed impaired and an impairment loss would be recognized to the extent the carrying value exceeded the estimated fair value of the asset. The Company estimates the fair value of assets based on the estimated future discounted cash flows of the asset. Management has evaluated its long-lived assets and the Company did not identify any asset impairment during the six months ended June 30, 2019 and 2018.

Leases and Leasehold Improvements—The Company leases senior living communities and commercial office space. On January 1, 2019, the Company adopted Accounting Standards Codification Topic 842, *Leases*, using the modified retrospective transition method. Leases for reporting periods beginning after January 1, 2019

are presented under Topic 842, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 840. The Company has elected the package of practical expedients permitted under the transition guidance which allows us to not reassess (1) initial direct costs, (2) lease classification for existing or expired leases, and (3) lease definition for existing or expired contracts as of the effective date of January 1, 2019. The Company determines if an arrangement is a lease at the inception of each lease. At the inception of each lease, the Company performs an evaluation to determine whether the lease should be classified as an operating or finance lease. Operating leases are included in operating lease assets, current operating lease liabilities and noncurrent operating lease liabilities on the Company's condensed combined balance sheet. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at lease commencement date in determining the present value of future lease payments. The Company records rent expense for operating leases on a straight-line basis over the term of the lease. The lease term used for straight-line rent expense is calculated from the date the Company is given control of the leased premises through the end of the lease term. The lease term excludes lease renewals as the renewal rents are not at a bargain, there are no economic penalties for the Company not to renew the lease, and it is not reasonably assured that the Company will exercise the extension options. The lease term used for this evaluation also provides the basis for establishing depreciable lives for buildings subject to lease and leasehold improvements.

The Company recognizes lease expense for leases with an initial term of 12 months or less on a straight-line basis over the lease term. These leases are not recorded on the condensed combined balance sheet. Certain of the Company's lease agreements include rental payments that are adjusted periodically for inflation. The lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Company does not have material subleases.

Intangible Assets and Goodwill—Definite-lived intangible assets consist primarily of patient base and customer relationships. Patient base is 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 when acquired.

The Company's indefinite-lived intangible assets consist of trade names and Medicare and Medicaid licenses. The Company tests indefinite-lived intangible assets for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable. The Company did not identify any asset impairment during the six months ended June 30, 2019 and 2018.

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. Given the time it takes to obtain pertinent information, the initial fair value might not be finalized at the time of the reported period. Accordingly, it is not uncommon for the initial estimates to be subsequently revised. The Company recorded goodwill and other intangible assets at the operation level when acquired, and as such, these assets are identifiable specifically to the operations of New Ventures. Goodwill is subject to annual testing for impairment. In addition, goodwill is tested for impairment if events occur or circumstances change that would reduce the fair value of a reporting unit below its carrying amount. The Company performs its annual test for impairment during the fourth quarter of each year. The Company did not identify any impairment charge during the six months ended June 30, 2019 and 2018. See further discussion at Note 9, *Goodwill and Intangible Assets, Net*.

Income Taxes—Historically, the Company's operations have been included in the Parent's U.S. federal and state income tax returns and all income taxes have been paid by subsidiaries of Ensign. Income tax expense and other income tax related information contained in these Interim Financial Statements are presented on a separate tax return approach. Under this approach, the provision for income taxes represents income tax paid or payable

for the current year plus the change in deferred taxes during the year calculated as if the Company was a stand-alone taxpayer filing hypothetical income tax returns. Management believes that the assumptions and estimates used to determine these tax amounts are reasonable. However, the Company's Interim Financial Statements may not necessarily reflect its income tax expense or tax payments in the future, or what tax amounts would have been if the Company had been a stand-alone company during the periods presented.

Deferred tax assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at tax rates in effect when such temporary differences are expected to reverse. The Company generally expects to fully utilize its deferred tax assets; however, when necessary, the Company records a valuation allowance to reduce its net deferred tax assets to the amount that is more likely than not to be realized.

In determining the need for a valuation allowance or the need for and magnitude of liabilities for uncertain tax positions, the Company makes certain estimates and assumptions. These estimates and assumptions are based on, among other things, knowledge of operations, markets, historical trends and likely future changes and, when appropriate, the opinions of advisors with knowledge and expertise in certain fields. Due to certain risks associated with the Company's estimates and assumptions, actual results could differ.

Noncontrolling Interest—As grants related to the Subsidiary Equity Plan are vested and exercised , the Company's membership interest in its home health and hospice subsidiary is reduced based on the number of shares vested and exercised. The Company presents the noncontrolling interest and the amount of combined net income attributable to the Company in its Interim Financial Statements. The carrying amount of the noncontrolling interest is adjusted based on an allocation of subsidiary earnings based on ownership interest.

Share-Based Compensation—The Company measures and recognizes compensation expense for all share-based payment awards, including employee stock options, made to employees and Parent's directors based on estimated fair values, ratably over the requisite service period of the award. Net income has been reduced as a result of the recognition of the fair value of all stock options and restricted stock awards issued, the amount of which is contingent upon the number of future grants and other variables. The total amount of share-based compensation was $1,127 and $1,177 for the six months ended June 30, 2019 and 2018, respectively, of which $903 and $932 was recorded in general and administrative expense.

Invested Capital—The net parent investment on the condensed combined balance sheets represents Ensign's historical investment in the Company, the net effect of transactions with, and allocations from, the Parent and the Company's accumulated earnings.

Recent Accounting Pronouncements—Except for rules and interpretive releases of the SEC under authority of federal securities laws and a limited number of grandfathered standards, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) is the sole source of authoritative GAAP literature recognized by the FASB and applicable to the Company. For any new pronouncements announced, the Company considers whether the new pronouncements could alter previous generally accepted accounting principles and determines whether any new or modified principles will have a material impact on the Company's reported financial position or operations in the near term. The applicability of any standard is subject to the formal review of the Company's financial management and certain standards are under consideration.

Recent Accounting Standards Adopted by the Company

In February 2016, the FASB established Topic 842, Leases, by issuing ASU No. 2016-02, which requires lessees to recognize leases with terms longer than 12 months on the balance sheets and disclose key information

about leasing arrangements. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The classification criteria for distinguishing between operating and finance (previously capital) leases are substantially similar to the previous lease guidance, but with no explicit bright lines.

The Company adopted the standard as of January 1, 2019, using the modified retrospective transition method that allows it to apply the standard as of the adoption date and record a cumulative adjustment in equity, if applicable. The Company has elected the package of practical expedients permitted under the transition guidance which allows it to not reassess (1) initial direct costs, (2) lease classification for existing or expired leases, and (3) lease definition for existing or expired contracts as of the effective date of January 1, 2019. The new standard also provides practical expedients for an entity's ongoing accounting. The Company has made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheets and recognize those lease payments in the condensed combined statements of income on a straight-line basis over the lease term. The Company has also elected the practical expedient to not separate lease and non-lease components for all of its leases as the non-lease components are not significant to the overall lease costs.

The adoption of this standard resulted in recognition of right-of-use assets and lease liabilities of $238,573 and $241,453, respectively, on the Company's combined balance sheet as of January 1, 2019. Equity was not impacted as a result of the adoption of this standard. The standard did not materially affect its combined net earnings or have a notable impact on liquidity or debt covenant compliance under the Parent's current agreements. See further discussion at Note 13, *Leases*.

Prior to the adoption of ASC 842, the Company recognized revenue related to its senior living residency agreements in accordance with the provisions of ASC 840, Leases ("ASC 840"). Subsequent to the adoption of ASU 2016-02, Leases, lessors are required to separately recognize and measure the lease component of a contract with a customer utilizing the provisions of ASC 842 and the non-lease components utilizing the provisions of ASC 606, Revenue from Contracts with Customers. To separately account for the components, the transaction price is allocated among the components based upon the estimated stand alone selling prices of the components. Additionally, certain components of a contract which were previously included within the lease element recognized in accordance with ASC 840 prior to the adoption of ASU 2016-02 (such as common area maintenance services, other basic services, and executory costs) are recognized as non-lease components subject to the provisions of ASC 606 subsequent to the adoption of ASU 2016-02. Entities are required to recognize a cumulative effect adjustment to beginning retained earnings as of the initial application date of ASU 2016-02 for changes to amounts recognized for these certain components for the transition from ASC 840 to ASC 606. However, entities are permitted to elect the practical expedient under ASU 2018-11, Leases, allowing lessors to not separate non-lease components from the associated lease components when certain criteria are met. Entities that elect to utilize the lease/non-lease component combination practical expedient under ASU 2018-11 upon initial application of ASC 842 are required to apply the practical expedient to all new and existing transactions within a class of underlying assets that qualify for the expedient as of the initial application date with a cumulative effect adjustment to beginning retained earnings as of the initial application date for any changes recognized related to existing transactions.

Upon adoption of ASU 2016-02 and ASU 2018-11, the Company elected the lessor practical expedient within ASU 2018-11. The Company recognizes revenue under these resident agreements based upon the predominant component, either the lease or non-lease component, of the contracts rather than allocating the consideration and separately accounting for it under ASC Topic 842 and ASC Topic 606. The Company has concluded that the non-lease components of the agreements with respect to its senior living communities are the predominant component of the contract, therefore, the Company recognizes revenue for these residents agreements under ASC Topic 606. The timing and pattern of revenue recognition is substantially the same as that prior to the adoption of these standards.

NEW VENTURES
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

In June 2018, the FASB issued ASU 2018-07, which simplifies several aspects of the accounting for nonemployee share-based payment transactions resulting from expanding the scope of Topic 718, Compensation-Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. The Company adopted this guidance effective January 1, 2019. The adoption of this guidance did not have a material impact on its combined financial statements and related disclosures.

Accounting Standards Recently Issued but Not Yet Adopted by the Company

In August 2018, the FASB issued amended guidance to simplify fair value measurement disclosure requirements. The new provisions eliminate the requirements to disclose (1) transfers between Level 1 and Level 2 of the fair value hierarchy, (2) policies related to valuation processes and the timing of transfers between levels of the fair value hierarchy, and (3) net asset value disclosure of estimates of timing of future liquidity events. The FASB also modified disclosure requirements of Level 3 fair value measurements. This guidance is effective for annual periods beginning after December 15, 2019, which will be the Company's fiscal year 2020, with early adoption permitted. The adoption of this standard is not expected to have a material impact on the condensed combined financial statements.

In January 2017, the FASB issued amended authoritative guidance to simplify and reduce the cost and complexity of the goodwill impairment test. The new provisions eliminate step 2 from the goodwill impairment test and shift the concept of impairment from a measure of loss when comparing the implied fair value of goodwill to its carrying amount to comparing the fair value of a reporting unit with its carrying amount. The FASB also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment or step 2 of the goodwill impairment test. The new guidance does not amend the optional qualitative assessment of goodwill impairment. This guidance is effective for annual periods beginning after December 15, 2019, which will be the Company's fiscal year 2020, with early adoption permitted. The adoption of this standard is not expected to have a material impact on the condensed combined financial statements.

In June 2016, the FASB issued ASU 2016-13 "Financial Instruments—Credit Losses (Topic 326): Measurement of credit Losses on Financial Instruments", which replaces the existing incurred loss impairment model with an expected credit loss model and requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected. The guidance will be effective for fiscal years beginning after December 15, 2019, which will be the Company's fiscal year 2020, early adoption is permitted. The Company has not yet determined the effect of the ASU on its results of operations, financial condition or cash flows.

3. RELATED PARTY TRANSACTIONS AND NET PARENT INVESTMENT

The Interim Financial Statements include a combination of stand-alone and combined business functions between Ensign and the Company's subsidiaries. The Company leases 28 of its senior living communities from subsidiaries of the Parent. These leases are all based on a term of 15 years from the lease commencement date. The total amount of rent expense included in rent—cost of services paid to related parties was $5,467 and $5,102 for the six months ended June 30, 2019 and 2018, respectively. These leases will be modified in connection with the spin-off resulting in an overall increase in rent expense. See Note 13, *Leases* for further discussion.

NEW VENTURES
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

Certain related party activity occurs as the Company's subsidiaries receive services from the Parent's subsidiaries. Services included in cost of services were $1,495 and $1,334 for the six months ended June 30, 2019 and 2018, respectively.

The condensed combined balance sheets of the Company include Parent assets and liabilities that are specifically identifiable or otherwise attributable to the Company and will be transferred to the Company in connection with the spin-off. Transactions that have occurred between subsidiaries of the Company and subsidiaries of the Parent are considered to be effectively settled at the time the transaction is recorded. The net effect of these transactions, including the cash management, is included in the condensed combined statements of cash flows as *Net Investment to Parent*.

4. REVENUE AND ACCOUNTS RECEIVABLE

Revenues are recognized when services are provided to the patients at the amount that reflects the consideration to which the Company expects to be entitled from patients and third-party payors, including Medicaid, Medicare and insurers (private and Medicare replacement plans), in exchange for providing patient care. The healthcare services in home health and hospice patient contracts include routine services in exchange for a contractual agreed-upon amount or rate. Routine services are treated as a single performance obligation satisfied over time as services are rendered. As such, patient care services represent a bundle of services that are not capable of being distinct. Additionally, there may be ancillary services which are not included in the rates for routine services, but instead are treated as separate performance obligations satisfied at a point in time, if and when those services are rendered.

Revenue recognized from healthcare services are adjusted for estimates of variable consideration to arrive at the transaction price. The Company determines the transaction price based on contractually agreed-upon amounts or rate, adjusted for estimates of variable consideration. The Company uses the expected value method in determining the variable component that should be used to arrive at the transaction price, using contractual agreements and historical reimbursement experience within each payor type. The amount of variable consideration which is included in the transaction price may be constrained, and is included in the net revenue only to the extent that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur in a future period. If actual amounts of consideration ultimately received differ from the Company's estimates, the Company adjusts these estimates, which would affect net service revenue in the period such variances become known.

Revenue from the Medicare and Medicaid programs accounted for 54.1% and 52.7% of the Company's revenue for the six months ended June 30, 2019 and 2018, respectively. The Company records revenue from these governmental and managed care programs as services are performed at their expected net realizable amounts under these programs. The Company's revenue from governmental and managed care programs is subject to audit and retroactive adjustment by governmental and third-party agencies. Consistent with healthcare industry accounting practices, any changes to these governmental revenue estimates are recorded in the period the change or adjustment becomes known based on final settlement.

Disaggregation of Revenue

The Company disaggregates revenue from contracts with its patients by reportable operating segments and payors. The Company determines that disaggregating revenue into these categories achieves the disclosure objectives to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. A reconciliation of disaggregated revenue to segment revenue as well as revenue by payor is provided in Note 6, *Business Segments*.

NEW VENTURES
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

The Company's service specific revenue recognition policies are as follows:

Home Health Revenue

Medicare Revenue

Net service revenue is recorded under the Medicare prospective payment system based on a 60-day episode payment rate that is subject to adjustment based on certain variables including, but not limited to: (a) an outlier payment if the patient's care was unusually costly; (b) a low utilization adjustment if the number of visits was fewer than five; (c) a partial payment if the patient transferred to another provider or transferred from another provider before completing the episode; (d) a payment adjustment based upon the level of covered therapy services; (e) the number of episodes of care provided to a patient, regardless of whether the same home health provider provided care for the entire series of episodes; (f) changes in the base episode payments established by the Medicare program; (g) adjustments to the base episode payments for case mix and geographic wages; and (h) recoveries of overpayments.

The Company makes adjustments to Medicare revenue on completed episodes to reflect differences between estimated and actual payment amounts, an inability to obtain appropriate billing documentation and other reasons unrelated to credit risk. Therefore, the Company believes that its reported net service revenue and patient accounts receivable will be the net amounts to be realized from Medicare for services rendered.

In addition to revenue recognized on completed episodes, the Company also recognizes a portion of revenue associated with episodes in progress. Episodes in progress are 60-day episodes of care that begin during the reporting period, but were not completed as of the end of the period. As such, the Company estimates revenue and recognizes it on a daily basis. The primary factors underlying this estimate are the number of episodes in progress at the end of the reporting period, expected Medicare revenue per episode and the Company's estimate of the average percentage complete based on visits performed.

Non-Medicare Revenue

Episodic Based Revenue—The Company recognizes revenue in a similar manner as it recognizes Medicare revenue for episodic-based rates that are paid by other insurance carriers, including Medicare Advantage programs; however, these rates can vary based upon the negotiated terms.

Non-episodic Based Revenue—Revenue is recorded on an accrual basis based upon the date of service at amounts equal to its established or estimated per visit rates, as applicable.

Hospice Revenue

Revenue is recorded on an accrual basis based upon the date of service at amounts equal to the estimated payment rates. The estimated payment rates are daily rates for each of the levels of care the Company delivers. Revenue is adjusted for an inability to obtain appropriate billing documentation or authorizations acceptable to the payor and other reasons unrelated to credit risk. Additionally, as Medicare hospice revenue is subject to an inpatient cap and an overall payment cap, the Company monitors its provider numbers and estimates amounts due back to Medicare if a cap has been exceeded. The Company records these adjustments as a reduction to revenue and increases to other accrued liabilities.

Senior Living Revenue

The Company has elected the lessor practical expedient within ASC 842, Leases and recognizes, measures, presents, and discloses the revenue for services under the Company's senior living residency agreements based

upon the predominant component, either the lease or nonlease component, of the contracts. The Company has determined that the services included under the Company's senior living residency agreements have the same timing and pattern of transfer. The Company recognizes revenue under ASC 606, Revenue Recognition from Contracts with Customers for its senior residency agreements for which it has estimated that the nonlease components of such residency agreements are the predominant component of the contract.

The Company's senior living revenue consists of fees for basic housing and assisted living care. Accordingly, we record revenue when services are rendered on the date services are provided at amounts billable to individual residents. Residency agreements are generally for a term of 30 days, with resident fees billed monthly in advance. For residents under reimbursement arrangements with Medicaid, revenue is recorded based on contractually agreed-upon amounts or rates on a per resident, daily basis or as services are rendered.

Revenue for the six months ended June 30, 2019 and 2018, is summarized in the following tables:

	Six Months Ended June 30,			
	2019		2018	
	Revenue	% of Revenue	Revenue	% of Revenue
Medicare	$ 65,399	40.7%	$ 55,937	40.6%
Medicaid	21,537	13.4	16,691	12.1
Total Medicaid and Medicare	86,936	54.1	72,628	52.7
Managed care	13,875	8.6	11,898	8.6
Private and other (1)	59,830	37.3	53,242	38.7
Revenue	$160,641	100.0%	$137,768	100.0%

(1) Private and other payors also includes revenue from all payors generated in home care operations for the six months ended June 30, 2019 and 2018.

Balance Sheet Impact

Included in the Company's condensed combined balance sheets are contract assets, comprised of billed accounts receivable and unbilled receivables, which are the result of the timing of revenue recognition, billings and cash collections, as well as, contract liabilities, which primarily represent payments the Company receives in advance of services provided. The Company had no material contract liabilities for the six months ended June 30, 2019, related to its home health and hospice, or senior living services segments.

Accounts receivable as of June 30, 2019 and December 31, 2018 is summarized in the following table:

	June 30, 2019	December 31, 2018
Medicare	$ 13,799	$ 11,457
Medicaid	7,440	6,692
Managed care	3,345	3,079
Private and other	4,055	3,857
Accounts receivable, gross	28,639	25,085
Less: allowance for doubtful accounts	(935)	(616)
Accounts receivable, net	$ 27,704	$ 24,469

NEW VENTURES
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

Practical Expedients and Exemptions

As the Company's contracts with its patients have an original duration of one year or less, the Company uses the practical expedient applicable to its contracts and does not consider the time value of money. Further, because of the short duration of these contracts, the Company has not disclosed the transaction price for the remaining performance obligations as of the end of each reporting period or when the Company expects to recognize this revenue. In addition, the Company has applied the practical expedient provided by ASC 340, *Other Assets and Deferred Costs*, and all incremental customer contract acquisition costs are expensed as they are incurred because the amortization period would have been one year or less.

5. FAIR VALUE MEASUREMENTS

Our non-financial assets, which include long-lived assets, including goodwill, intangible assets and property and equipment, are not required to be measured at fair value on a recurring basis. However, on a periodic basis, or whenever events or changes in circumstances indicate that their carrying value may not be recoverable, we assess our long-lived assets for impairment. When impairment has occurred, such long-lived assets are written down to fair value. See Note 2, *Summary of Significant Accounting Policies* for further discussion of the Company's significant accounting policies.

6. BUSINESS SEGMENTS

The Company classifies its operations into the following reportable operating segments: (1) home health and hospice services, which includes the Company's home health, hospice and home care businesses; and (2) senior living services, which includes the operation of assisted living, independent living and memory care communities. The reporting segments are business units that offer different services and are managed separately to provide greater visibility into those operations.

As of June 30, 2019, the Company provided services through 62 affiliated home health, hospice and home care agencies, and 51 affiliated senior living operations.

The Company evaluates performance and allocates capital resources to each segment based on an operating model that is designed to maximize the quality of care provided and profitability. General and administrative expenses are not allocated to any segment for purposes of determining segment profit or loss, and are included in the "all other" category in the selected segment financial data that follows. The Company's Service Center provides various services to all lines of business. The accounting policies of the reporting segments are the same as those described in Note 2, *Summary of Significant Accounting Policies.* The Company does not review assets by segment and therefore assets by segment are not disclosed below.

Segment revenues by major payor source were as follows:

	Six Months Ended June 30, 2019			
	Home Health and Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 65,399	$ —	$ 65,399	40.7%
Medicaid	7,840	13,697	21,537	13.4
Subtotal	73,239	13,697	86,936	54.1
Managed care	13,875	—	13,875	8.6
Private and other	9,211 (1)	50,619	59,830	37.3
Total revenue	$ 96,325	$ 64,316	$ 160,641	100.0%

NEW VENTURES
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

(1) Private and other payors in our home health and hospice services segment includes revenue from all payors generated in home care operations.

	Six Months Ended June 30, 2018			
	Home Health and Hospice Services	Senior Living Services	Total Revenue	Revenue %
Medicare	$ 55,937	$ —	$ 55,937	40.6%
Medicaid	5,758	10,933	16,691	12.1
Subtotal	61,695	10,933	72,628	52.7
Managed care	11,898	—	11,898	8.6
Private and other	7,414 (1)	45,828	53,242	38.7
Total revenue	$ 81,007	$ 56,761	$ 137,768	100.0%

(1) Private and other payors in our home health and hospice services segment includes revenue from all payors generated in home care operations.

The following table sets forth selected financial data combined by business segment:

	Six Months Ended June 30, 2019			
	Home Health and Hospice Services	Senior Living Services	All Other	Total
Revenue	$ 96,325	$64,316	$ —	$160,641
Segment income (loss) before provision for income taxes (1)	$ 12,888	$ 7,434	$(15,183)	$ 5,139
Depreciation and amortization	$ 580	$ 1,142	$ 50	$ 1,772
Rent—cost of services	$ 1,414	$15,416	$ —	$ 16,830

(1) Segment income (loss) includes depreciation and amortization expense and excludes general and administrative expense for home health and hospice and senior living services businesses. General and administrative expense is included in the "All Other" category.

	Six Months Ended June 30, 2018			
	Home Health and Hospice Services	Senior Living Services	All Other	Total
Revenue	$ 81,007	$56,761	$ —	$137,768
Segment income (loss) before provision for income taxes (1)	$ 11,087	$ 8,016	$(8,991)	$ 10,112
Depreciation and amortization	$ 526	$ 909	$ —	$ 1,435
Rent—cost of services	$ 1,089	$14,200	$ —	$ 15,289

(1) Segment income (loss) includes depreciation and amortization expense and excludes general and administrative expense for home health and hospice and senior living services businesses. General and administrative expense is included in the "All Other" category.

7. ACQUISITIONS

The Company's acquisition focus is to purchase or lease operations that are complementary to the Company's current businesses, accretive to the Company's business or otherwise advance the Company's strategy. The results of all the Company's operating subsidiaries are included in the Interim Financial Statements subsequent to the date of acquisition. Acquisitions are accounted for using the acquisition method of accounting.

NEW VENTURES
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

During the six months ended June 30, 2019, the Company expanded its operations with the addition of two home health agencies, four hospice agencies, two home care agencies and one stand-alone senior living operation. The Company did not acquire any material assets or assume any liabilities. The addition of these operations added a total of 52 operational senior living units to be operated by the Company's operating subsidiaries. A subsidiary of the Company entered into a separate operations transfer agreement with the prior operator as part of each transaction. The aggregate purchase price for these acquisitions was $14,779.

The fair value of assets for all home health, hospice and home care acquisitions was concentrated in goodwill and as such, these transactions were classified as business combinations in accordance with ASC 805. The purchase price for the business combinations was $14,759, which consisted of goodwill of $11,500 and indefinite-lived intangible assets of $3,150. As of the date of this filing, the preliminary allocation of the purchase price for the acquisitions in the second quarter was not finalized as necessary valuation information was not yet available. The fair value of assets for the senior living acquisition was concentrated in intangible assets and as such, this transaction was classified as an asset acquisition. The purchase price for the asset acquisition was $20.

During the six months ended June 30, 2018, the Company expanded its operations with the addition of two stand-alone senior living operations. In connection with the acquisition of the senior living communities, the Company entered into a new long-term "triple-net" leases with subsidiaries of the Parent. The Company did not acquire any material assets or assume any liabilities. A subsidiary of the Company entered into a separate operations transfer agreement with the prior operator as part of each transaction. The aggregate purchase price for these acquisitions was $48. The fair value of assets for all acquisitions was concentrated in definite-lived intangible assets and as such, these transactions were classified as asset acquisitions in accordance with ASC 805.

The Company's acquisition strategy has been focused on identifying both opportunistic and strategic acquisitions within its target markets that offer strong opportunities for return. The operating subsidiaries acquired by the Company are frequently underperforming financially and can have regulatory and clinical challenges to overcome. From time to time, these acquisitions are more strategic in nature that may or may not have positive operational results. Financial information, especially with underperforming operating subsidiaries, is often inadequate, inaccurate or unavailable. Consequently, the Company believes that prior operating results are not a meaningful representation of the Company's current operating results or indicative of the integration potential of its newly acquired operating subsidiaries. Pro forma financial information has been included for the businesses acquired during the six months ended June 30, 2019. Businesses acquired during the six months ended June 30, 2018 were deemed immaterial and as such, no pro forma financial information has been included. The acquisitions during the six months ended June 30, 2019 have been included in the June 30, 2019 condensed combined balance sheets of the Company, and the operating results have been included in the condensed combined statements of income of the Company since the dates the Company gained effective control. Revenue and income before tax included in the condensed combined statement of income relating to the acquisitions during the six months ended June 30, 2019 was $3,728 and $483, respectively.

The following table represents unaudited pro forma results of condensed combined operations as if the acquisitions to date in fiscal year 2019, had occurred at the beginning of 2018, after giving effect to certain adjustments.

	Six Months Ended June 30,	
	2019	2018
Revenue	$ 171,589	$ 152,303
Net income attributable to New Ventures (a)	5,221	8,070

(a) Net income attributable to New Ventures for each of the six months ended June 30, 2019 and 2018 includes a tax impact of 25.0%, which is the effective tax rate without the impact of excess tax benefits from stock-based compensation.

NEW VENTURES
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

Revenues and operating costs were based on actual results from the prior operator or from regulatory filings where available. If actual results were not available, revenues and operating costs were estimated based on available partial operating results of the prior operator of the operation, or if no information was available, estimates were derived from the Company's post-acquisition operating results for that particular operation.

The foregoing unaudited pro forma information is not indicative of what the results of operations would have been if the acquisitions had actually occurred at the beginning of the periods presented, and is not intended as a projection of future results or trends.

Subsequent to June 30, 2019, the Company acquired one hospice agency and one stand-alone senior living operation. In connection with the acquisition of the senior living community, the Company entered into a new long-term "triple-net" lease with a subsidiary of the Parent. The addition of these operations added a total of 91 operational senior living units to be operated by the Company's operating subsidiaries. The aggregate purchase price for these acquisitions was $4,000. As of the date of this report, the preliminary allocation of the purchase price for the acquisitions acquired subsequent to June 30, 2019 were not completed as necessary valuation information was not yet available. As such, the determination whether these acquisitions should be classified as business combinations or asset acquisitions under ASC 805 will be determined upon completion of the allocation of the purchase price. The Company has evaluated all subsequent events through August 19, 2019, the date the Interim Financial Statements were available to be issued.

8. PROPERTY AND EQUIPMENT—NET

Property and equipment, net consist of the following:

	June 30, 2019	December 31, 2018
Leasehold improvements	$ 5,402	$ 4,299
Equipment	17,131	14,436
Furniture and fixtures	875	583
	23,408	19,318
Less: accumulated depreciation	(10,250)	(8,860)
Property and equipment, net	$ 13,158	$ 10,458

See also Note 7, *Acquisitions* for information on acquisitions during the six months ended June 30, 2019 and 2018.

9. GOODWILL AND INTANGIBLE ASSETS—NET

The Company tests goodwill during the fourth quarter of each year or more often if events or circumstances indicate there may be impairment. The Company performs its analysis for each reporting unit that constitutes a business for which discrete financial information is produced and reviewed by operating segment management and provides services that are distinct from the other components of the operating segment, in accordance with the provisions of ASC Topic 350, Intangibles-Goodwill and Other (ASC 350). This guidance provides the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value, a "Step 0" analysis. If, based on a review of qualitative factors, it is more

likely than not that the fair value of a reporting unit is less than its carrying value, the Company performs "Step 1" of the traditional two-step goodwill impairment test by comparing the net assets of each reporting unit to their respective fair values. The Company determines the estimated fair value of each reporting unit using a discounted cash flow analysis. In the event a unit's net assets exceed its fair value, an implied fair value of goodwill must be determined by assigning the unit's fair value to each asset and liability of the unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. An impairment loss is measured by the difference between the goodwill carrying value and the implied fair value.

The Company anticipates that the majority of total goodwill recognized will be fully deductible for tax purposes as of June 30, 2019. See further discussion of goodwill acquired at Note 7, *Acquisitions*.

The following table represents activity in goodwill by segment as of and for the six months ended June 30, 2019:

	Home Health and Hospice Services	Senior Living Services	Total
December 31, 2018	$ 27,250	$ 3,642	$30,892
Additions	11,500	—	11,500
June 30, 2019	$ 38,750	$ 3,642	$42,392

Other indefinite-lived intangible assets consists of the following:

	June 30, 2019	December 31, 2018
Trade name	$ 484	$ 328
Medicare and Medicaid licenses	27,802	24,808
Total	$ 28,286	$ 25,136

Definite-lived intangible assets consist of the following:

		June 30, 2019			December 31, 2018		
Intangible Assets	Weighted Average Life (Years)	Gross Carrying	Accumulated Amortization	Net	Gross Carrying	Accumulated Amortization	Net
Patient base	0.7	$ 611	$ (602)	$ 9	$ 591	$ (573)	$18
Customer relationships	2.6	470	(417)	53	470	(410)	60
Total		$ 1,081	$ (1,019)	$62	$ 1,061	$ (983)	$78

Amortization expense was $36 and $65 for the six months ended June 30, 2019 and 2018, respectively.

NEW VENTURES
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

Estimated amortization expense for each of the periods ending December 31 is as follows:

Year	Amount
2019 (remainder)	$ 17
2020	14
2021	14
2022	14
2023	3
	$ 62

10. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	June 30, 2019	December 31, 2018
Refunds payable	$ 2,001	$ 1,905
Deferred revenue	1,507	1,542
Resident deposits	6,246	6,310
Property taxes	876	932
Other	1,891	1,682
Other accrued liabilities	$ 12,521	$ 12,371

Refunds payable includes payables related to overpayments, duplicate payments and credit balances from various payor sources. Deferred revenue occurs when the Company receives payments in advance of services provided. Resident deposits include refundable deposits to residents and a small portion consists of non-refundable deposits recognized into revenue over a period of time. Property taxes include amounts owed on our various properties.

11. INCOME TAXES

The Company recorded income tax benefit and expense of $32 and $2,200 during the six months ended June 30, 2019 and 2018, respectively, or benefit of 0.6% of earnings before income taxes for the six months ended June 30, 2019, compared to 21.8% of income tax expense for the six months ended June 30, 2018. The effective tax rate for both six month periods include excess tax benefits from stock-based compensation which were offset by non-deductible expenses including non-deductible compensation.

The Company is not currently under examination by any major income tax jurisdiction. During 2019, the statutes of limitations will lapse on the Company’s 2015 Federal tax year and certain 2014 and 2015 state tax years. The Company does not believe the Federal or state statute lapses or any other event will significantly impact the balance of unrecognized tax benefits in the next twelve months. The net balance of unrecognized tax benefits was not material to the Interim Financial Statements for the six months ended June 30, 2019 and 2018.

The Company implemented ASC 842 as described in the Summary of Significant Accounting Policies. The new lease standard had no impact to the net deferred assets.

12. OPTIONS AND AWARDS

Stockholders have approved the Parent stock plans (“2007 Omnibus Incentive Plan” and “2017 Omnibus Incentive Plan” or collectively the “Parent Plans”) and the Company has implemented the Subsidiary Equity Plan

NEW VENTURES
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

(together with the Parent Plans the "Plans"), which provide for the granting of equity-based compensation. Under The Plans, stock-based payment awards, including employee stock options and restricted stock awards, are issued based on estimated fair value. The following disclosures represent share-based compensation expense relating to the Plans, including awards to employees of the Company's subsidiaries and an allocation of costs from employees in the Service Center. Total share-based compensation expense for all of the Plans for the six months ended June 30, 2019 and 2018:

	Six Months Ended June 30,	
	2019	2018
Parent Plans direct expense	$ 224	$ 245
Parent Plans allocated expense	326	251
Subsidiary Equity Plan	577	681
Total share-based compensation	$ 1,127	$ 1,177

As share-based compensation expense recognized in the Company's condensed combined statements of income for the six months ended June 30, 2019 and 2018 was based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. The Company estimates forfeitures at the time of grant and, if necessary, revises the estimate in subsequent periods if actual forfeitures differ.

The Company uses the Black-Scholes option-pricing model to recognize the value of stock-based compensation expense for share-based payment awards under the Plans. Determining the appropriate fair-value model and calculating the fair value of stock-based awards at the grant date requires considerable judgment, including estimating stock price volatility, expected option life and forfeiture rates. The Company develops estimates based on historical data and market information, which can change significantly over time.

The Parent Plans

Stock Options

Under the Parent Plans, options granted to employees of the subsidiaries of New Ventures employees generally vest over five years at 20% per year on the anniversary of the grant date. Options expire ten years after the date of grant. The fair value of each option is estimated on the grant date using a Black-Scholes option-pricing model with the following weighted average assumptions for stock options granted:

Grant Year	Options Granted	Weighted Average Risk-Free Rate	Expected Life	Weighted Average Volatility	Weighted Average Dividend Yield
2019	5	2.2%	6.3	33.9%	0.3%
2018	9	2.7%	6.2	32.0%	0.6%

The expected volatility is based on the historical market volatility of the Parent's stock price over the expected life of the stock options granted. The expected life represents the period of time that the awards are expected to be outstanding and is based on the contractual terms of each instrument, taking into account employees' historical exercise and termination behavior.

NEW VENTURES
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

For the six months ended June 30, 2019 and 2018, the following represents the exercise price and fair value displayed at grant date for stock option grants:

Grant Year	Granted	Weighted Average Exercise Price	Weighted Average Fair Value of Options
2019	5	$ 53.50	$ 19.16
2018	9	$ 36.61	$ 12.73

The weighted average exercise price equaled the weighted average fair value of common stock on the grant date for all options granted during the six months ended June 30, 2019 and 2018 and therefore, the intrinsic value was $0 at date of grant.

The following table represents the employee stock option activity during the six months ended June 30, 2019:

	Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Vested	Weighted Average Exercise Price of Options Vested
December 31, 2018	297	$ 15.94	182	$ 13.28
Employees transferred (1)	32	20.66		
Granted	5	53.50		
Forfeited	(7)	21.56		
Exercised	(47)	13.62		
June 30, 2019	280	$ 17.38	194	$ 13.93

(1) Represents awards to employees that have transferred between the Company and the Parent during the six month period ended June 30, 2019.

The following summary information reflects stock options outstanding, vested and related details as of June 30, 2019:

	Stock Options Outstanding				Stock Options
Year of Grant	Exercise Price	Number Outstanding	Black-Scholes Fair Value	Remaining Contractual Life (Years)	Vested and Exercisable
2009	$ 4.06 - 4.56	4	$ 7	0	4
2010	4.77 - 4.96	2	6	1	2
2011	5.90 - 7.99	13	46	2	13
2012	6.56 - 7.96	21	73	3	21
2013	7.98 - 11.49	19	88	4	19
2014	10.55 - 18.94	86	511	5	79
2015	21.47 - 25.24	39	353	6	25
2016	18.79 - 19.89	46	314	7	21
2017	18.64 - 22.90	27	190	8	8
2018	26.53 - 38.59	18	230	9	2
2019	53.50 - 53.99	5	95	10	—
Total		280	$ 1,913		194

NEW VENTURES
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

Restricted Stock Awards

All awards were granted at an issued price of $0 and generally vest over five years. A summary of the status of the Parent's non-vested restricted stock awards as of June 30, 2019, and changes during the period ended June 30, 2019, is presented below:

	Non-Vested Restricted Awards	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2018	21	$ 22.59
Employees transferred (1)	9	26.31
Vested	(4)	25.10
Forfeited	(1)	19.58
Nonvested at June 30, 2019	25	$ 23.51

(1) Represents non-vested awards related to employees that have transferred between the Company and the Parent during the six month period ended June 30, 2019.

In future periods, the Company expects to recognize approximately $704 and $582 in share-based compensation expense for unvested options and unvested restricted stock awards, respectively, which were outstanding as of June 30, 2019. Future share-based compensation expense will be recognized over 2.9 and 2.8 weighted average years for unvested options and restricted stock awards, respectively. There were 86 unvested and outstanding options at June 30, 2019, of which 80 are expected to vest. The weighted average contractual life for options outstanding, vested and expected to vest at June 30, 2019 was 5.6 years.

The aggregate intrinsic value of options outstanding, vested, expected to vest and exercisable as of and for the period ended June 30, 2019 is as follows:

Options	June 30, 2019	December 31, 2018
Outstanding	$ 12,078	$ 6,545
Vested	9,104	4,604
Expected to vest	2,974	1,941
Exercisable	$ 2,287	$ 2,263

The intrinsic value is calculated as the difference between the market value of the underlying common stock and the exercise price of the options.

Subsidiary Equity Plan

On May 26, 2016, the Parent implemented a management equity plan and granted stock options and restricted stock awards of a subsidiary of the Parent. These awards generally vest over a period of three to five years or upon the occurrence of certain prescribed events. The value of the stock options and restricted stock awards is tied to the value of the common stock of the subsidiary. The awards can be put to the Company at various prescribed dates, which in no event is earlier than six months after vesting of the restricted stock or exercise of the stock options. The Company can also call the awards, at any time. The Company did not grant any additional options or restricted stock awards during the six months ended June 30, 2019 and granted 221 options during the six months ended June 30, 2018. During the six months ended June 30, 2019 and 2018, there were 976 restricted stock awards that vested for both periods.

NEW VENTURES
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

The grant date fair value of the awards is recognized as compensation expense over the relevant vesting periods, with a corresponding adjustment to non-controlling interest. The grant value was determined based on independent valuation of the subsidiary shares close to the grant date. The valuation incorporated a discounted cash flow analysis combined with a market-based approach to determine the fair value of the subsidiary equity. Share-based compensation expense under the Subsidiary Equity Plan was $577 and $681 for the six months ended June 30, 2019 and 2018, respectively.

The following table represents stock options and restricted stock awards activity during the period ended June 30, 2019:

	Number of Options Outstanding	Weighted Average Exercise Price	Non-Vested Restricted Awards	Weighted Average Grant Date Fair Value
December 31, 2018	483	$ 1.83	996	$ 1.37
Vested			(976)	1.37
Forfeited	(2)	2.09	—	—
June 30, 2019	481	$ 1.83	20	$ 1.37

In future periods, the Company expects to recognize approximately $208 and $27 in share-based compensation expense for unvested options and unvested restricted stock awards, respectively, which were outstanding as of June 30, 2019. Future share-based compensation expense will be recognized over 3.4 and 0.4 weighted average years for unvested options and restricted stock awards, respectively. There were 163 vested and exercisable options at June 30, 2019. There were 318 unvested and outstanding options at June 30, 2019, all of which are expected to vest. The weighted average contractual life for options outstanding, vested and expected to vest at June 30, 2019 was 8.1 years.

In addition, in June 2019, the Company repurchased 469 shares under the Subsidiary Equity Plan for $2,293. The Company subsequently sold the shares and received net proceeds of $2,293.

13. LEASES

The Company’s operating subsidiaries lease 51 senior living communities and its administrative offices under non-cancelable operating leases, most of which have initial lease terms ranging from five to 20 years. Most of these leases contain renewal options, most involve rent increases and none contain purchase options. The lease term excludes lease renewals as the renewal rents are not at a bargain, there are no economic penalties for the Company to renew the lease, and it is not reasonably assured that the Company will exercise the extension options. As of June 30, 2019, the Company’s operating subsidiaries leased 28 communities from subsidiaries of the Parent. The existing leases with subsidiaries of the Parent are for initial terms of 15 years. In addition to rent, each of the operating companies are required to pay the following: (1) all impositions and taxes levied on or with respect to the leased properties (other than taxes on the income of the lessor); (2) all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties; (3) all insurance required in connection with the leased properties and the business conducted on the leased properties; (4) all community maintenance and repair costs; and (5) all fees in connection with any licenses or authorizations necessary or appropriate for the leased properties and the business conducted on the leased properties.

Fifteen of the Company’s affiliated senior living communities, excluding the communities that are operated under the Ensign Leases, are operated under two separate master lease arrangements. Under these master leases,

a breach at a single community could subject one or more of the other communities covered by the same master lease to the same default risk. Failure to comply with Medicare and Medicaid provider requirements is a default under several of the Company's leases and master leases. In addition, other potential defaults related to an individual community may cause a default of an entire master lease portfolio and could trigger cross-default provisions in the Parent's outstanding debt arrangements and other leases. With an indivisible lease, it is difficult to restructure the composition of the portfolio or economic terms of the master lease without the consent of the landlord.

Impact of New Leases Guidance

The adoption of ASC 842 did not result in adjustments to the Company's condensed combined statement of income. The components of operating lease expense(1) , are as follows:

	Six Months Ended June 30,	
	2019	2018
Facility Rent—cost of services	$ 15,416	$ 14,200
Office Rent—cost of services	1,414	1,089
Rent—cost of services(1)	16,830	15,289
General and administrative expense	62	44

(1) Operating lease costs include short-term leases, which are immaterial. Property and insurance, incurred as part of our triple net lease, is included in cost of services for the period ended June 30, 2019 and 2018 of $2,179 and $1,863, respectively.

Future minimum lease payments for all leases as of June 30, 2019:

Year	Amount
2019 (remainder)	$ 16,450
2020	32,881
2021	32,246
2022	31,760
2023	31,391
2024	30,986
Thereafter	216,380
Total lease payments	392,094
Less: present value adjustments	(152,489)
Present value of total lease liabilities	239,605
Less: current lease liabilities	(13,152)
Long-term operating lease liabilities	$ 226,453

Operating lease liabilities are based on the net present value of the remaining lease payments over the remaining lease term. In determining the present value of lease payments, the Company used its incremental borrowing rate based on the information available at the lease commencement date. As of June 30, 2019, the weighted average remaining lease term is 12.5 years and the weighted average discount rate used to determine the operating lease liability is 8.6%.

NEW VENTURES
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS—(Continued)

Future minimum lease payments for all leases as of December 31, 2018 were as follows:

Year	Amount
2019	$ 33,055
2020	32,181
2021	31,625
2022	31,241
2023	30,896
Thereafter	243,333
Total lease payments	$ 402,331

14. COMMITMENTS AND CONTINGENCIES

Regulatory Matters—The Company provides services in complex and highly regulated industries. The Company's compliance with applicable Federal, State and Local laws and regulations governing these industries may be subject to governmental review and adverse findings may result in significant regulatory action, which could include sanctions, damages, fines, penalties (many of which may not be covered by insurance), and even exclusion from government programs. The Company is a party to various regulatory and other governmental audits and investigations in the ordinary course of business and cannot predict the ultimate outcome of any Federal or State regulatory survey, audit or investigation. While governmental audits and investigations are the subject of administrative appeals, the appeals process, even if successful, may take several years to resolve. The Department of Justice, CMS, or other federal and state enforcement and regulatory agencies may conduct additional investigations related to the Company's businesses. The Company believes that it is presently in compliance in all material respects with all applicable laws and regulations.

Cost-Containment Measures—Government and third party payors have instituted cost-containment measures designed to limit payments made to providers of healthcare services, and there can be no assurance that future measures designed to limit payments made to providers will not adversely affect the Company.

Indemnities—From time to time, the Company enters into certain types of contracts that contingently require the Company to indemnify parties against third-party claims. These contracts primarily include (i) certain real estate leases, under which the Company may be required to indemnify property owners or prior operators for post-transfer environmental or other liabilities and other claims arising from the Company's use of the applicable premises, (ii) operations transfer agreements, in which the Company agrees to indemnify past operators of agencies and communities the Company acquires against certain liabilities arising from the transfer of the operation and/or the operation thereof after the transfer, (iii) certain Parent lending agreements, and (iv) certain agreements with the management, directors and employees, under which the subsidiaries of the Company may be required to indemnify such persons for liabilities arising out of their employment relationships. The terms of such obligations vary by contract and, in most instances, a specific or maximum dollar amount is not explicitly stated therein. Generally, amounts under these contracts cannot be reasonably estimated until a specific claim is asserted. Consequently, because no claims have been asserted, no liabilities have been recorded for these obligations on the Company's combined balance sheets for any of the periods presented.

Litigation—The Company's businesses involve a significant risk of liability given the age and health of the patients and residents served by its operating subsidiaries. The Company, its operating companies, and others in the industry may be subject to a number of claims and lawsuits, including professional liability claims, alleging that services provided have resulted in personal injury, elder abuse, wrongful death or other related claims. Healthcare litigation (including class action litigation) is common and is filed based upon a wide variety of

claims and theories, and the Company is routinely subjected to these claims in the ordinary course of business, including potential claims related to patient care and treatment, professional negligence and class actions, as well as employment related claims. If there were a significant increase in the number of these claims or an increase in amounts owing should plaintiffs be successful in their prosecution of these claims, this could materially adversely affect the Company's business, financial condition, results of operations and cash flows. In addition, the defense of these lawsuits may result in significant legal costs, regardless of the outcome, and can result in large settlement amounts or damage awards.

In addition to the potential lawsuits and claims described above, the Company is also subject to potential lawsuits under the False Claims Act (the "FCA") and comparable state laws alleging submission of fraudulent claims for services to any healthcare program (such as Medicare) or payor. A violation may provide the basis for exclusion from federally-funded healthcare programs. Such exclusions could have a correlative negative impact on the Company's financial performance. Some states, including California, Arizona and Texas, have enacted similar whistleblower and false claims laws and regulations. In addition, the Deficit Reduction Act of 2005 created incentives for states to enact anti-fraud legislation modeled on the FCA. As such, the Company could face increased scrutiny, potential liability and legal expenses and costs based on claims under state false claims acts in markets in which it does business.

In May 2009, Congress passed the Fraud Enforcement and Recovery Act ("FERA") which made significant changes to the FCA, expanding the types of activities subject to prosecution and whistleblower liability. Following changes by FERA, healthcare providers face significant penalties for the knowing retention of government overpayments, even if no false claim was involved. Providers can now be liable for knowingly and improperly avoiding or decreasing an obligation to pay money or property to the government; including the retention of any government overpayment. The Patient Protection and Affordable Care Act of 2010 (the "ACA") supplemented FERA by imposing an affirmative obligation on healthcare providers to return an overpayment to CMS within 60-day of "identification" or the date any corresponding cost report is due, whichever is later. According to CMS's February 12, 2016, final rule with respect to Medicare Parts A and B, providers have an obligation to proactively exercise "reasonable diligence" to identify overpayments. The 60 day clock begins to run after the reasonable diligence period has concluded, which may take at most six months from the receipt of credible information. Retention of any overpayment beyond this period may create liability under the FCA. In addition, FERA extended protections against retaliation for whistleblowers, including protections not only for employees, but also contractors and agents. Thus, there is generally no need for an employment relationship in order to qualify for protection against retaliation for whistleblowing.

The Company cannot predict or provide any assurance as to the possible outcome of any litigation. If any litigation were to proceed, and the Company and its operating companies are subjected to, alleged to be liable for, or agree to a settlement of, claims or obligations under federal Medicare statutes, the FCA, or similar state and federal statutes and related regulations, the Company's business, financial condition and results of operations and cash flows could be materially and adversely affected. Among other things, any settlement or litigation could involve the payment of substantial sums to settle any alleged civil violations, and may also include the assumption of specific procedural and financial obligations by the Company or its operating companies going forward under a corporate integrity agreement and/or other arrangement with the government.

Medicare Revenue Recoupments—The Company is subject to probe reviews relating to Medicare services, billings and potential overpayments by Unified Program Integrity Contractors (UPIC), Recovery Audit Contractors (RAC), Zone Program Integrity Contractors (ZPIC), Program Safeguard Contractors (PSC) and Medicaid Integrity Contributors (MIC) programs, collectively referred to as "Reviews". As of June 30, 2019, five of the Company's independent operating subsidiaries had Reviews scheduled, on appeal or in dispute resolution process, both pre- and post-payment. The Company anticipates that these probe reviews will increase in

frequency in the future. If an operation fails a Review and/or subsequent Review, the operation could then be subject to extended Review, suspension of payment, or extrapolation of the identified error rate to all billing in the same time period. As of June 30, 2019, the Company's independent operating subsidiaries have responded to the requests and the related claims are currently under Review, on appeal or in dispute resolution process.

Concentrations

Credit Risk—The Company has significant accounts receivable balances, the collectability of which is dependent on the availability of funds from certain governmental programs, primarily Medicare and Medicaid. These receivables represent the only significant concentration of credit risk for the Company. The Company does not believe there are significant credit risks associated with these governmental programs. The Company believes that an appropriate allowance has been recorded for the possibility of these receivables proving uncollectible, and continually monitors and adjusts these allowances as necessary. The Company's receivables from the Medicare and Medicaid programs accounted for approximately 74.2% and 72.4% of its gross accounts receivable as of June 30, 2019 and December 31, 2018, respectively. Revenue from reimbursement under the Medicare and Medicaid programs accounted for 54.1% and 52.7% of the Company's revenue for the six months ended June 30, 2019 and 2018, respectively.

15. DEFINED CONTRIBUTION PLAN

The Company's employees have historically participated in the Parent's 401(k) defined contribution plan (the 401(k) Plan). Under the 401(k) Plan, eligible employees of the Parent's subsidiaries may contribute up to 15% of their annual basic earnings. Additionally, the 401(k) Plan provides for discretionary matching contributions (as defined in the 401(k) Plan) by the Parent. Beginning in 2007, the 401(k) Plan allowed eligible employees to contribute up to 90% of their eligible compensation, subject to applicable annual Internal Revenue Code limits. The Parent allocated costs and made contributions to the 401(k) Plan on our behalf in the amount of $133 and $95 during the six months ended June 30, 2019 and 2018, respectively.

THE PENNANT GROUP, INC.
CONDENSED BALANCE SHEETS
(Unaudited)

	June 30, 2019	January 24, 2019
	(In thousands)	
Assets		
Total assets	$ —	$ —
Liabilities		
Total liabilities	—	—
Stockholder's Equity		
Common Stock, par value $0.001 per share, 1,000 shares authorized, issued and outstanding	—	—
Total stockholder's equity	—	—
Total liabilities and stockholder's equity	$ —	$ —

The accompanying notes are an integral part of these condensed balance sheets.

THE PENNANT GROUP, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENT

Note 1—Organization

The Pennant Group, Inc. (the "Company") was formed as a Delaware corporation on January 24, 2019. The Company has not commenced operations, nor has the Company entered into any contracts. The principal activity of the Company is intended to be that of a holding company comprising of operating companies providing services to the growing senior population in the United States, operating in multiple lines of businesses across Arizona, California, Colorado, Idaho, Iowa, Nevada, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin and Wyoming.

Note 2—Summary of Significant Accounting Policies

Basis of Presentation—The condensed balance sheets have been prepared in accordance with accounting principles generally accepted in the United States of America. Separate statements of operations, changes in stockholder's equity and cash flows have not been presented because there have been no activities since incorporation.

Note 3—Stockholder's Equity

The Company is authorized to issue 1,000 shares of common stock, par value $0.001 per share ("Common Stock"). Under the Company's certificate of incorporation all shares of common stock are identical. All the outstanding shares of the Company's common stock are currently owned, directly by The Ensign Group, Inc.

Note 4—Subsequent Events

The Company has evaluated all subsequent events through August 19, 2019, the date the balance sheet was available to be issued. The Company did not note any subsequent events requiring disclosure or adjustments to the balance sheet.