ENSIGN GROUP, INC
Form 10-Q
August 03, 2017

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended June 30, 2017.

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from to .

Commission file number: 001-33757

THE ENSIGN GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	33-0861263
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

27101 Puerta Real, Suite 450
Mission Viejo, CA 92691
(Address of Principal Executive Offices and Zip Code)

(949) 487-9500
(Registrant’s Telephone Number, Including Area Code)

N/A
(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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. (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o	Emerging growth company o

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. o

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No
As of August 2, 2017, 50,868,326 shares of the registrant’s common stock were outstanding.

THE ENSIGN GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017
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PART I.

Item 1. Financial Statements

THE ENSIGN GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par values)
(Unaudited)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$33,476	$57,706
Accounts receivable—less allowance for doubtful accounts of $39,759 and $39,791 at June 30, 2017 and December 31, 2016, respectively	243,248	244,433
Investments—current	13,643	11,550
Prepaid income taxes	10,343	302
Prepaid expenses and other current assets	23,135	19,871
Total current assets	323,845	333,862
Property and equipment, net	490,386	484,498
Insurance subsidiary deposits and investments	25,899	23,634
Escrow deposits	23,925	1,582
Deferred tax asset	23,013	23,073
Restricted and other assets	13,329	12,614
Intangible assets, net	34,184	35,076
Goodwill	73,159	67,100
Other indefinite-lived intangibles	24,444	19,586
Total assets	$1,032,184	$1,001,025
Liabilities and equity		
Current liabilities:		
Accounts payable	$32,915	$38,991
Accrued charge related to class action lawsuit (Note 18)	11,000	—
Accrued wages and related liabilities	72,701	84,686
Accrued self-insurance liabilities—current	21,010	21,359
Other accrued liabilities	58,787	58,763
Current maturities of long-term debt	8,165	8,129
Total current liabilities	204,578	211,928
Long-term debt—less current maturities	284,465	275,486
Accrued self-insurance liabilities—less current portion	48,658	43,992
Deferred rent and other long-term liabilities	11,119	9,124
Deferred gain related to sale-leaseback (Note 17)	12,403	—
Total liabilities	561,223	540,530
Commitments and contingencies (Notes 15, 17 and 18)		
Equity:		
Ensign Group, Inc. stockholders' equity:		
Common stock; $0.001 par value; 75,000 shares authorized; 53,173 and 50,795 shares issued and outstanding at June 30, 2017, respectively, and 52,787 and 50,838 shares issued and outstanding at December 31, 2016, respectively (Note 3)	53	52

Additional paid-in capital (Note 3)	258,632	252,493
Retained earnings	244,049	235,021
Common stock in treasury, at cost, 1,932 and 1,520 shares at June 30, 2017 and December 31, 2016, respectively (Note 3)	(38,405)	(31,117)
Total Ensign Group, Inc. stockholders' equity	464,329	456,449
Non-controlling interest	6,632	4,046
Total equity	470,961	460,495
Total liabilities and equity	$ 1,032,184	$ 1,001,025

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	$448,279	$410,517	$890,019	$793,750
Expense:				
Cost of services	366,946	330,538	722,433	636,846
Charge related to class action lawsuit (Note 18)	—	—	11,000	—
(Gain)/losses related to operational closures (Note 7 and 17)	(1,286)	—	2,731	7,935
Rent—cost of services (Note 17)	32,585	30,741	64,485	57,732
General and administrative expense	17,253	19,657	38,523	37,045
Depreciation and amortization	10,750	9,772	21,264	18,069
Total expenses	426,248	390,708	860,436	757,627
Income from operations	22,031	19,809	29,583	36,123
Other income (expense):				
Interest expense	(3,053)	(1,446)	(6,498)	(2,816)
Interest income	288	278	578	513
Other expense, net	(2,765)	(1,168)	(5,920)	(2,303)
Income before provision for income taxes	19,266	18,641	23,663	33,820
Provision for income taxes	6,886	7,278	8,326	13,167
Net income	12,380	11,363	15,337	20,653
Less: net income attributable to noncontrolling interests	163	37	279	155
Net income attributable to The Ensign Group, Inc.	$12,217	$11,326	$15,058	$20,498
Net income per share attributable to The Ensign Group, Inc.:				
Basic	$0.24	$0.23	$0.30	$0.41
Diluted	$0.23	$0.22	$0.29	$0.39
Weighted average common shares outstanding:				
Basic	50,705	50,274	50,736	50,476
Diluted	52,548	51,931	52,593	52,134
Dividends per share	$0.0425	$0.0400	$0.0850	$0.0800

See accompanying notes to condensed consolidated financial statements.

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THE ENSIGN GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$15,337	$20,653
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,264	18,069
Amortization of deferred financing fees	509	313
Amortization of deferred gain on sale-leaseback	(92)	—
Long-lived asset impairment	111	137
Write-off of deferred financing fees	—	197
Deferred income taxes	61	3
Provision for doubtful accounts	14,647	12,081
Share-based compensation	4,600	4,665
Excess tax benefit from share-based compensation (Note 2)	—	(1,534)
Change in operating assets and liabilities		
Accounts receivable	(14,289)	(29,295)
Prepaid income taxes	(10,041)	268
Prepaid expenses and other assets	(4,533)	2,337
Insurance subsidiary deposits and investments	(4,358)	196
Charge related to class action lawsuit (Note 18)	11,000	—
Liabilities related to operational closures (Note 7 and 17)	2,620	7,558
Accounts payable	(4,379)	545
Accrued wages and related liabilities	(11,985)	(6,871)
Income taxes payable	(1,182)	(195)
Other accrued liabilities	1,550	760
Accrued self-insurance liabilities	3,759	6,814
Deferred rent liability	321	127
Net cash provided by operating activities	24,920	36,828
Cash flows from investing activities:		
Purchase of property and equipment	(23,013)	(36,443)
Cash payment for business acquisitions	(41,645)	(56,081)
Cash payment for asset acquisitions	(310)	(777)
Escrow deposits	(23,925)	(6,704)
Escrow deposits used to fund business acquisitions	1,582	400
Cash proceeds from sale-leaseback	38,000	—
Cash proceeds from the sale of property and equipment and insurance proceeds	1,017	371
Restricted and other assets	(332)	(623)
Net cash used in investing activities	(48,626)	(99,857)
Cash flows from financing activities:		
Proceeds from revolving credit facility (Note 15)	460,000	332,000
Payments on revolving credit facility and other debt (Note 15)	(451,052)	(247,316)
Issuance of treasury stock upon exercise of options	—	92
Issuance of common stock upon exercise of options	2,249	4,124
Repurchase of shares of common stock (Note 3)	(7,288)	(30,000)

Dividends paid	(4,350)	(4,097)
Excess tax benefit from share-based compensation (Note 2)	—	1,561
Purchase of non-controlling interest	(83)	—
Payments of deferred financing costs	—	(1,385)
Net cash (used in) provided by financing activities	(524)	54,979
Net decrease in cash and cash equivalents	(24,230)	(8,050)
Cash and cash equivalents beginning of period	57,706	41,569
Cash and cash equivalents end of period	$33,476	$33,519

See accompanying notes to condensed consolidated financial statements.

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THE ENSIGN GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2017	2016
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$7,160	$2,699
Income taxes	$19,543	$11,552
Non-cash financing and investing activity:		
Accrued capital expenditures	$5,130	$5,682

See accompanying notes to condensed consolidated financial statements.

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THE ENSIGN GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars and shares in thousands, except per share data)
(Unaudited)

1. DESCRIPTION OF BUSINESS

The Company - The Ensign Group, Inc. (collectively, Ensign or the Company), is a holding company with no direct operating assets, employees or revenue. The Company, through its operating subsidiaries, is a provider of health care services across the post-acute care continuum, as well as other ancillary businesses. As of June 30, 2017, the Company operated 222 facilities, 41 home health, hospice and home care agencies and other ancillary operations located in Arizona, California, Colorado, Idaho, Iowa, Kansas, Nebraska, Nevada, Oregon, South Carolina, Texas, Utah, Washington and Wisconsin. The Company's operating subsidiaries, each of which strives to be the operation of choice in the community it serves, provide a broad spectrum of skilled nursing, assisted living, home health, home care, hospice and other ancillary services. The Company's operating subsidiaries have a collective capacity of approximately 18,400 operational skilled nursing beds and 4,700 assisted living and independent living units. As of June 30, 2017, the Company owned 56 of its 222 affiliated facilities and leased an additional 166 facilities through long-term lease arrangements and had options to purchase 10 of those 166 facilities. As of December 31, 2016, the Company owned 50 of its 210 affiliated facilities and leased an additional 160 facilities through long-term lease arrangements, and had options to purchase nine of those 160 facilities.

Certain of the Company’s wholly-owned independent subsidiaries, collectively referred to as the Service Center, provide certain accounting, payroll, human resources, information technology, legal, risk management and other centralized services to the other operating subsidiaries through contractual relationships with such subsidiaries. The Company also has a wholly-owned captive insurance subsidiary (the Captive) that provides some claims-made coverage to the Company’s operating subsidiaries for general and professional liability, as well as coverage for certain workers’ compensation insurance liabilities.

Each of the Company's affiliated operations are operated by separate, wholly-owned, independent subsidiaries that have their own management, employees and assets. References herein to the consolidated “Company” and “its” assets and activities in this quarterly report is not meant to imply, nor should it be construed as meaning, that The Ensign Group, Inc. has direct operating assets, employees or revenue, or that any of the subsidiaries, are operated by The Ensign Group, Inc.

Other Information — The accompanying condensed consolidated financial statements as of June 30, 2017 and for the three and six months ended June 30, 2017 and 2016 (collectively, the Interim Financial Statements) are unaudited. Certain information and note disclosures normally included in annual consolidated financial statements have been condensed or omitted, as permitted under applicable rules and regulations. Readers of the Interim Financial Statements should refer to the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2016 which are included in the Company’s annual report on Form 10-K, File No. 001-33757 (the Annual Report) filed with the Securities and Exchange Commission (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. The results of operations presented in the Interim Financial Statements are not necessarily representative of operations for the entire year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The accompanying Interim Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The Company is the sole member or shareholder of various consolidated limited liability companies and corporations established to operate various acquired skilled nursing and assisted living operations, home health, hospice and home care operations, and related ancillary services. All intercompany transactions and balances have been eliminated in consolidation. The condensed consolidated financial statements include the accounts of all entities controlled by the Company through its ownership of a majority voting interest. The Company presents noncontrolling interest within the equity section of its condensed consolidated balance sheets. The Company presents the amount of condensed consolidated net income that is attributable to The Ensign Group, Inc. and the noncontrolling interest in its condensed consolidated statements of income.

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 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, allowance for doubtful accounts, intangible assets and goodwill, impairment of long-lived assets, general and professional liability, workers' compensation and healthcare claims included in accrued self-insurance liabilities, and income taxes. Actual results could differ from those estimates.

Fair Value of Financial Instruments —The Company’s financial instruments consist principally of cash and cash equivalents, debt security investments, accounts receivable, insurance subsidiary deposits, accounts payable and borrowings. The Company believes all of the financial instruments’ recorded values approximate fair values because of their nature or respective short durations.

Revenue Recognition — The Company recognizes revenue when the following four conditions have been met: (i) there is persuasive evidence that an arrangement exists; (ii) delivery has occurred or service has been rendered; (iii) the price is fixed or determinable; and (iv) collection is reasonably assured. The Company's revenue is derived primarily from providing healthcare services to patients and is recognized on the date services are provided at amounts billable to the individual. For reimbursement arrangements with third-party payors, including Medicaid, Medicare and private insurers, revenue is recorded based on contractually agreed-upon amounts on a per patient basis.

Revenue from the Medicare and Medicaid programs accounted for 68.2% of the Company's revenue for both the three and six months ended June 30, 2017, and 68.0% and 67.3% for the three and six months ended June 30, 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. The Company recorded adjustments to revenue which were not material to the Company's consolidated revenue for the three and six months ended June 30, 2017 and 2016.

The Company’s service specific revenue recognition policies are as follows:

Skilled Nursing Revenue

The Company’s revenue is derived primarily from providing long-term healthcare services to patients and is recognized on the date services are provided at amounts billable to individual patients. For patients under reimbursement arrangements with third-party payors, including Medicaid, Medicare and private insurers, revenue is recorded based on contractually agreed-upon amounts or rate on a per patient, daily basis or as services are performed.

Assisted and Independent Living Revenue

The Company's 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 assisted living care. Residency agreements are generally for a term of 30 days, with resident fees billed monthly in advance. For patients under reimbursement arrangements with Medicaid, revenue is recorded based on contractually agreed-upon amounts or rate on a per resident, daily basis or as services. Revenue for certain ancillary charges is recognized as services are provided, and such fees are billed monthly in arrears.

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 patient care was unusually costly; (b) a low utilization payment adjustment if the number of visits was fewer than five; (c) a partial payment if the patient transferred to another provider or the Company received a patient from another provider before completing the episode; (d) a payment adjustment based upon the level of therapy services required; (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 or authorizations acceptable to the payor 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.

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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 its 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. The Company makes 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, 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 other accrued liabilities.

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.

In evaluating the collectability of accounts receivable, the Company considers a number of factors, including the age of the accounts, changes in collection patterns, the composition of patient accounts by payor type and the status of ongoing disputes with third-party payors. On an annual basis, the historical collection percentages are reviewed by payor and by state and are updated to reflect the recent collection experience of the Company. In order to determine the appropriate reserve rate percentages which ultimately establish the allowance, the Company analyzes historical cash collection patterns by payor and by state. The percentages applied to the aged receivable balances are based on the Company's historical experience and time limits, if any, for managed care, Medicare, Medicaid and other payors. The Company periodically refines its estimates of the allowance for doubtful accounts based on experience with the estimation process and changes in circumstances.

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 59 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 Company's 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 subsidiaries 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 recorded an impairment charge of $111 and $137 related to the closure of facilities during the six

months ended June 30, 2017 and 2016, respectively. The Company did not identify any asset impairment during the three months ended June 30, 2017 and 2016.
Intangible Assets and Goodwill — Definite-lived intangible assets consist primarily of favorable leases, lease acquisition costs, patient base, facility trade names and customer relationships. Favorable leases and lease acquisition costs are amortized over the life of the lease of the facility. 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 on the acquisition date. Trade names at affiliated facilities are amortized over 30 years and customer relationships are amortized over a period of up to 20 years.

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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.

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. 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. See further discussion at Note 11, Goodwill and Other Indefinite-Lived Intangible Assets.

Self-Insurance — The Company is partially self-insured for general and professional liability up to a base amount per claim (the self-insured retention) with an aggregate, one-time deductible above this limit. Losses beyond these amounts are insured through third-party policies with coverage limits per claim, per location and on an aggregate basis for the Company. Starting on January 1, 2017, the combined self-insured retention was $500 per claim, subject to an additional one-time deductible of $750 for California affiliated facilities and a separate, one-time, deductible of $1,000 for non-California facilities. For all affiliated facilities, except those located in Colorado, the third-party coverage above these limits was $1,000 per claim, $3,000 per facility, with a $5,000 blanket aggregate limit and an additional state-specific aggregate where required by state law. In Colorado, the third-party coverage above these limits was $1,000 per claim and $3,000 per facility for skilled nursing facilities, which is independent of the aforementioned blanket aggregate limits that apply outside of Colorado.

The self-insured retention and deductible limits for general and professional liability and workers' compensation for all states (except Texas and Washington for workers' compensation) are self-insured through the Captive, the related assets and liabilities of which are included in the accompanying condensed consolidated balance sheets. The Captive is subject to certain statutory requirements as an insurance provider. These requirements include, but are not limited to, maintaining statutory capital. The Company’s policy is to accrue amounts equal to the actuarially estimated costs to settle open claims of insureds, as well as an estimate of the cost of insured claims that have been incurred but not reported. The Company develops information about the size of the ultimate claims based on historical experience, current industry information and actuarial analysis, and evaluates the estimates for claim loss exposure on a quarterly basis. Accrued general liability and professional malpractice liabilities on an undiscounted basis, net of anticipated insurance recoveries, were $37,676 and $34,735 as of June 30, 2017 and December 31, 2016, respectively.

The Company’s operating subsidiaries are self-insured for workers’ compensation in California. To protect itself against loss exposure in California with this policy, the Company has purchased individual specific excess insurance coverage that insures individual claims that exceed $500 per occurrence. In Texas, the operating subsidiaries have elected non-subscriber status for workers’ compensation claims and, effective February 1, 2011, the Company has purchased individual stop-loss coverage that insures individual claims that exceed $750 per occurrence. As of July 1, 2014, the Company’s operating subsidiaries in all other states, with the exception of Washington, are under a loss sensitive plan that insures individual claims that exceed $350 per occurrence. In Washington, the operating subsidiaries' coverage is financed through premiums paid by the employers and employees. The claims and pay benefits are managed through a state insurance pool. Outside of California, Texas and Washington, the Company has purchased insurance coverage that insures individual claims that exceed $350 per accident. In all states except Washington, the Company accrues amounts equal to the estimated costs to settle open claims, as well as an estimate of the cost of claims that have been incurred but not reported. The Company uses actuarial valuations to estimate the liability based on historical experience and industry information. Accrued workers’ compensation liabilities are recorded on an undiscounted basis in the accompanying condensed consolidated balance sheets and were $21,617 and $20,873 as of June 30, 2017 and December 31, 2016, respectively.

In addition, the Company has recorded an asset and equal liability of $4,662 and $4,104 at June 30, 2017 and December 31, 2016, respectively, in order to present the ultimate costs of malpractice and workers' compensation claims and the anticipated insurance recoveries on a gross basis. See Note 12, Restricted and Other Assets.

The Company self-funds medical (including prescription drugs) and dental healthcare benefits to the majority of its employees. The Company is fully liable for all financial and legal aspects of these benefit plans. To protect itself against loss exposure with this policy, the Company has purchased individual stop-loss insurance coverage that insures individual claims that exceed $300 for each covered person with an additional one-time aggregate individual stop loss deductible of $75. Beginning 2016, the Company's policy does not include the additional one-time aggregate individual stop loss deductible of $75. The Company’s accrued liability under these plans recorded on an undiscounted basis in the accompanying condensed consolidated balance sheets was $5,713 and $5,639 as of June 30, 2017 and December 31, 2016, respectively.

The Company believes that adequate provision has been made in the Interim Financial Statements for liabilities that may arise out of patient care, workers’ compensation, healthcare benefits and related services provided to date. The amount of the

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THE ENSIGN GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Company’s reserves was determined based on an estimation process that uses information obtained from both company-specific and industry data. This estimation process requires the Company to continuously monitor and evaluate the life cycle of the claims. Using data obtained from this monitoring and the Company’s assumptions about emerging trends, the Company, with the assistance of an independent actuary, develops information about the size of ultimate claims based on the Company’s historical experience and other available industry information. 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 damage awards with respect to unpaid claims. The self-insured liabilities are based upon estimates, and while management believes that the estimates of loss are reasonable, the ultimate liability may be in excess of or less than the recorded amounts. Due to the inherent volatility of actuarially determined loss estimates, it is reasonably possible that the Company could experience changes in estimated losses that could be material to net income. If the Company’s actual liability exceeds its estimates of loss, its future earnings, cash flows and financial condition would be adversely affected.

Income Taxes — 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 — The noncontrolling interest in a subsidiary is initially recognized at estimated fair value on the acquisition date and is presented within total equity in the Company's condensed consolidated balance sheets. The Company presents the noncontrolling interest and the amount of consolidated net income attributable to The Ensign Group, Inc. in its condensed consolidated statements of income and net income per share is calculated based on net income attributable to The Ensign Group, Inc.'s stockholders. 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 made to employees and directors including employee stock options 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.

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 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.

Recent Accounting Pronouncements — Except for rules and interpretive releases of the Securities and Exchange Commission (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 March 2016, the FASB issued a new standard to simplify several aspects of the accounting for employee share-based payment transactions, which includes the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new standard was effective for the Company in the first quarter of fiscal year 2017. Under the previous guidance, excess tax benefits and deficiencies from share-based compensation arrangements were recorded in equity when the awards vested or were settled. The new guidance requires prospective recognition of excess tax benefits and deficiencies in the income statement, resulting in the recognition of excess tax benefits in income tax expense, of $697 and $1,207, rather than in paid-in-capital, for the three and six months ended June 30, 2017, respectively.

In addition, under the new guidance, excess income tax benefits from share-based compensation arrangements are classified as cash flow from operations, rather than as cash flow from financing activities. The Company has elected to apply the cash flow classification guidance prospectively, resulting in an increase to operating cash flow for the six months ended June 30, 2017, and the prior year period has not been adjusted.

The Company has also elected to continue to estimate the expected forfeitures rather than electing to account for forfeitures as they occur. Finally, the adoption of the guidance requires excess tax benefits and deficiencies to be prospectively excluded from assumed future proceeds in the calculation of diluted shares, resulting in an increase in diluted weighted average shares outstanding.

Accounting Standards Recently Issued But Not Yet Adopted by the Company

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 Accounting Standard Codification (ASC) 718. This guidance is effective for annual and interim periods beginning after December 15, 2017, which will be the Company's fiscal year 2018, with early adoption permitted in certain cases. The adoption of this standard is not expected to have a material impact on the Company's consolidated 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 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. This guidance is effective for annual and interim periods beginning after December 15, 2017, which will be the Company's fiscal year 2018, with early adoption permitted in certain cases. The adoption of this standard is not expected to have a material impact on the Company's consolidated 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 shifts 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 Board 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 Company's consolidated financial statements.

In August 2016, the FASB issued amended authoritative guidance to reduce the diversity in practice related to the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. The new provisions target cash flow issues related to (i) debt prepayment or debt extinguishment costs, (ii) settlement of debt instruments with coupon rates that are insignificant relative to effective interest rates, (iii) contingent consideration payments made after a business combination, (iv) proceeds from settlement of insurance claims, (v) proceeds from the settlement of corporate-owned life insurance and bank-owned life insurance policies, (vi) distributions received from equity method investees, (vii) beneficial interests in securitization transactions and (viii) separately identifiable cash flows and application of the predominance principle. This guidance will be effective for fiscal years beginning after December 15, 2017, which will be the Company's fiscal year 2018, with early adoption permitted. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

In March 2016, the FASB issued its standard to amend the principal-versus-agent implementation guidance and illustrations in the Board’s new revenue standard, which includes accounting implication related to (1) determining the appropriate unit of account under the revenue standard’s principal-versus-agent guidance and (2) applying the indicators of whether an entity is a principal or an agent in accordance with the revenue standard’s control principle. The guidance will be effective for fiscal years beginning after December 15, 2017, which will be the Company's fiscal year 2018. The guidance has the same effective date as the new revenue standard and the Company is required to adopt the guidance by using the same transition method it would use to adopt the new revenue standard. The Company's evaluation of the adoption method and impact to the consolidated financial statements is ongoing and being performed concurrently with the new revenue standard.

In February 2016, the FASB issued amended authoritative guidance on accounting for leases. The new provisions require that a lessee of operating leases recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The lease liability will be equal to the present value of lease payments, with the right-of-use asset based upon the lease liability. The classification criteria for distinguishing between finance (or capital) leases and operating leases are substantially similar to the previous lease guidance, but with no explicit bright lines. As such, operating leases will result in straight-line rent expense similar to current practice. For short term leases (term of 12 months or less), a lessee is permitted to make an accounting election not to recognize lease assets and lease liabilities, which would generally result in lease expense being recognized on a straight-line basis over the lease term. This guidance applies to all entities and is effective for annual periods beginning after December 15, 2018, which will be the Company's fiscal year 2019, with early adoption permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements but expects this adoption will result in a significant increase in the assets and liabilities on its consolidated balance sheet.

In January 2016, the FASB issued amended authoritative guidance which makes targeted improvements for financial instruments. The new provisions impact certain aspects of recognition, measurement, presentation and disclosure requirements of financial instruments. Specifically, the guidance will (1) require equity investments to be measured at fair value with changes in fair value recognized in net income, (2) simplify the impairment assessment of equity investments without readily determinable fair values, (3) eliminate the requirement to disclose the method and assumptions used to estimate fair value for financial instruments measured at amortized cost, and (4) require separate presentation of financial assets and financial liabilities by measurement category. The guidance is effective for annual and interim periods beginning after December 15, 2017, which will be the Company's fiscal year 2018. Early adoption is not permitted. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

In May 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. The new standard supersedes most current revenue recognition guidance, including industry-specific guidance, and may be applied 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). In July 2015, the FASB formally deferred for one year the effective date of the new revenue standard and decided to permit entities to early adopt the standard. In December 2016, the FASB made certain technical corrections to further clarify the core revenue recognition principles, primarily in response to feedback from several sources, including the FASB/IASB Transition Resource Group. The guidance will be effective for fiscal years beginning after December 15, 2017, which will be the Company's fiscal year 2018. The Company initiated an adoption plan in fiscal year 2015, beginning with preliminary evaluation of the standard, and will continue by performing additional analysis of revenue streams and transactions for which the accounting may change under the new standard. For example, the Company is currently performing analysis regarding the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics. The adoption plan, which also includes evaluation of the adoption method and the impact to the consolidated financial statements, is ongoing and will be completed by the end of fiscal year 2017. The new guidance requires enhanced disclosures, including revenue recognition policies to identify performance obligations and significant judgments in measurement and recognition. The FASB has issued and may issue in the future, interpretive guidance, which may impact its evaluation, however the Company currently anticipates adopting the standard as of January 1, 2018, using the modified retrospective method.

3. COMMON STOCK

On February 8, 2017, the Company announced that its Board of Directors authorized a stock repurchase program, under which the Company may repurchase up to $30,000 of its common stock under the program for a period of 12 months. Under this program, the Company is authorized to repurchase its issued and outstanding common shares from time to time in open-market and privately negotiated transactions and block trades in accordance with federal securities laws. The stock repurchase program is scheduled to expire on February 8, 2018. During the three and six months ended June 30, 2017, the Company repurchased 69 and 412 shares of its common stock for a total of $1,220 and $7,288, respectively.

On November 4, 2015 and February 9, 2016, the Company announced that its Board of Directors authorized two stock repurchase programs, under which the Company may repurchase up to $15,000 of its common stock under each program for a period of 12 months. During the first quarter of 2016, the Company repurchased 1,452 shares of its common stock for a total of $30,000 and the repurchase programs expired upon the repurchase of the full authorized amount under the plans.

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4. COMPUTATION OF NET INCOME PER COMMON SHARE

Basic net income per share is computed by dividing income from continuing operations attributable to The Ensign Group, Inc. stockholders by the weighted average number of outstanding common shares for the period. The computation of diluted net income per share is similar to the computation of basic net income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

The adoption of ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting: Topic 718 requires excess tax benefits and deficiencies to be prospectively excluded from assumed future proceeds in the calculation of diluted shares, resulting in an increase in diluted weighted average shares outstanding. A reconciliation of the numerator and denominator used in the calculation of basic net income per common share follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net income	$12,380	$11,363	$15,337	$20,653
Less: net income attributable to noncontrolling interests	163	37	279	155
Net income attributable to The Ensign Group, Inc.	$12,217	$11,326	$15,058	$20,498
Denominator:				
Weighted average shares outstanding for basic net income per share	50,705	50,274	50,736	50,476
Basic net income per common share attributable to The Ensign Group, Inc.	$0.24	$0.23	$0.30	$0.41

A reconciliation of the numerator and denominator used in the calculation of diluted net income per common share follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net income	$12,380	$11,363	$15,337	$20,653
Less: net income attributable to noncontrolling interests	163	37	279	155
Net income attributable to The Ensign Group, Inc.	$12,217	$11,326	$15,058	$20,498
Denominator:				
Weighted average common shares outstanding	50,705	50,274	50,736	50,476
Plus: incremental shares from assumed conversion (1)	1,843	1,657	1,857	1,658
Adjusted weighted average common shares outstanding	52,548	51,931	52,593	52,134
Diluted net income per common share attributable to The Ensign Group, Inc.	$0.23	$0.22	$0.29	$0.39

(1) Options outstanding which are anti-dilutive and therefore not factored into the weighted average common shares amount above were 1,378 and 1,312 for the three and six months ended June 30, 2017, respectively and 850 and 774 for the three and six months ended June 30, 2016 respectively.

5. FAIR VALUE MEASUREMENTS

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.

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The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016:

	June 30, 2017			December 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash and cash equivalents	$33,476	$ —	$ —	$57,706	$ —	$ —

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.

Debt Security Investments - Held to Maturity

At June 30, 2017 and December 31, 2016, the Company had approximately $39,542 and $35,184, respectively, in debt security investments which were classified as held to maturity and carried at amortized cost. The carrying value of the debt securities approximates fair value. The Company has the intent and ability to hold these debt securities to maturity. Further, as of June 30, 2017, the debt security investments were held in AA, A and BBB+ rated debt securities.

6. REVENUE AND ACCOUNTS RECEIVABLE

Revenue for the three and six months ended June 30, 2017 and 2016 is summarized in the following tables:

	Three Months Ended June 30,			
	2017		2016	
	Revenue	% of Revenue	Revenue	% of Revenue
Medicaid	$152,637	34.0 %	$139,226	33.9 %
Medicare	128,151	28.6	119,443	29.1
Medicaid — skilled	24,913	5.6	20,661	5.0
Total Medicaid and Medicare	305,701	68.2	279,330	68.0
Managed care	74,925	16.7	65,178	15.9
Private and other payors(1)	67,653	15.1	66,009	16.1
Revenue	$448,279	100.0 %	$410,517	100.0 %

(1) Private and other payors also includes revenue from all payors generated in other ancillary services for both the three months ended June 30, 2017 and 2016 and urgent care centers for the three months ended June 30, 2016.

	Six Months Ended June 30,			
	2017		2016	
	Revenue	% of Revenue	Revenue	% of Revenue
Medicaid	$300,908	33.8 %	$262,867	33.1 %
Medicare	258,072	29.0	229,721	28.9
Medicaid — skilled	47,930	5.4	42,327	5.3

Total Medicaid and Medicare	606,910	68.2	534,915	67.3
Managed care	150,486	16.9	129,721	16.4
Private and other payors[(1)]	132,623	14.9	129,114	16.3
Revenue	$890,019	100.0 %	$793,750	100.0 %

(1) Private and other payors also includes revenue from all payors generated in other ancillary services for both the six months ended June 30, 2017 and 2016 and urgent care centers for the six months ended June 30, 2016.

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THE ENSIGN GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Accounts receivable as of June 30, 2017 and December 31, 2016 is summarized in the following table:

	June 30, 2017	December 31, 2016
Medicaid	$109,306	$ 111,031
Managed care	67,064	66,346
Medicare	50,270	55,500
Private and other payors	56,367	51,347
	283,007	284,224
Less: allowance for doubtful accounts	(39,759)	(39,791)
Accounts receivable, net	$243,248	$ 244,433

7. BUSINESS SEGMENTS

The Company has three reportable operating segments: (1) transitional and skilled services, which includes the operation of skilled nursing facilities; (2) assisted and independent living services, which includes the operation of assisted and independent living facilities; and (3) home health and hospice services, which includes the Company's home health, home care and hospice businesses. The Company's Chief Executive Officer, who is our chief operating decision maker, or CODM, reviews financial information at the operating segment level.

The Company also reports an “all other” category that includes revenue from its mobile diagnostics and other ancillary operations for both the three and six months ended June 30, 2017 and 2016 and urgent care centers for the three and six months ended June 30, 2016. The Company completed the sale of its urgent care centers in the third and fourth quarter of 2016. These operations are neither significant individually nor in aggregate and therefore do not constitute a reportable segment. The reporting segments are business units that offer different services and are managed separately to provide greater visibility into those operations. The expansion of the Company's assisted and independent living services led it to separate the assisted and independent living services into a distinct reportable segment in the fourth quarter of 2016. Previously, the Company had two reportable segments: (1) transitional, skilled and assisted living services (TSA services), which includes the operation of skilled nursing facilities and assisted living facilities; and (2) home health and hospice services. The Company has presented the financial information for the three and six months ended June 30, 2016 on a comparative basis to conform with the current year segment presentation. Certain revenues by payor source were reclassified between Medicaid and "Private and other" to conform with the current year presentation. See also Note 11, Goodwill and Other Indefinite-Lived Intangible Assets for comparative information on changes in the carrying amount of goodwill by segment.

As of June 30, 2017, transitional and skilled services included 155 wholly-owned affiliated skilled nursing facilities and 21 campuses that provide skilled nursing and rehabilitative care services. The Company provided room and board and social services through 46 wholly-owned affiliated assisted and independent living facilities and 21 campuses. Home health, home care and hospice services were provided to patients through 41 affiliated agencies. As of June 30, 2017, the Company held majority membership interests in other ancillary operations, which operating results are included in the "all other" category.

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 accounting policies of the reporting segments are the same as those described in Note 2, Summary of Significant Accounting Policies. The Company's CODM does not review assets by segment in his resource allocation and therefore assets by segment are not disclosed below.

Segment revenues by major payor source were as follows:

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Three Months Ended June 30, 2017						
	Transitional and Skilled Services	Assisted and Independent Living Services	Home Health and Hospice Services	All Other		Total Revenue	Revenue %
Medicaid	$142,833	$ 7,203	$2,601	$—		$152,637	34.0 %
Medicare	104,450	—	23,701	—		128,151	28.6
Medicaid-skilled	24,913	—	—	—		24,913	5.6
Subtotal	272,196	7,203	26,302	—		305,701	68.2
Managed care	69,265	—	5,660	—		74,925	16.7
Private and other	33,756	25,806	2,659	5,432	(1)	67,653	15.1
Total revenue	$375,217	$ 33,009	$34,621	$5,432		$448,279	100.0 %

(1) Private and other payors also includes revenue from all payors generated in other ancillary services for the three months ended June 30, 2017.

	Three Months Ended June 30, 2016						
	Transitional and Skilled Services	Assisted and Independent Living Services	Home Health and Hospice Services	All Other		Total Revenue	Revenue %
Medicaid	$129,860	$ 6,655	$2,711	$—		$139,226	33.9 %
Medicare	99,184	—	20,259	—		119,443	29.1
Medicaid-skilled	20,661	—	—	—		20,661	5.0
Subtotal	249,705	6,655	22,970	—		279,330	68.0
Managed care	61,121	—	4,057	—		65,178	15.9
Private and other	29,591	24,053	1,466	10,899	(1)	66,009	16.1
Total revenue	$340,417	$ 30,708	$28,493	$10,899		$410,517	100.0 %

(1) Private and other payors also includes revenue from all payors generated in other ancillary services and urgent care centers for the three months ended June 30, 2016.

	Six Months Ended June 30, 2017						
	Transitional and Skilled Services	Assisted and Independent Living Services	Home Health and Hospice Services	All Other		Total Revenue	Revenue %
Medicaid	$281,658	$ 14,239	$5,011	$—		$300,908	33.8 %
Medicare	212,379	—	45,693	—		258,072	29.0
Medicaid-skilled	47,930	—	—	—		47,930	5.4
Subtotal	541,967	14,239	50,704	—		606,910	68.2
Managed care	139,621	—	10,865	—		150,486	16.9
Private and other	65,968	51,116	5,185	10,354	(1)	132,623	14.9
Total revenue	$747,556	$ 65,355	$66,754	$10,354		$890,019	100.0 %

(1) Private and other payors also includes revenue from all payors generated in other ancillary services for the six months ended June 30, 2017.

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THE ENSIGN GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Six Months Ended June 30, 2016					
	Transitional and Skilled Services	Assisted and Independent Living Services	Home Health and Hospice Services	All Other	Total Revenue	Revenue %
Medicaid	$244,682	$ 12,899	$5,286	$—	$262,867	33.1 %
Medicare	190,828	—	38,893	—	229,721	28.9
Medicaid-skilled	42,327	—	—	—	42,327	5.3
Subtotal	477,837	12,899	44,179	—	534,915	67.3
Managed care	121,660	—	8,061	—	129,721	16.4
Private and other	56,134	47,978	2,919	22,083 (1)	129,114	16.3
Total revenue	$655,631	$ 60,877	$55,159	$22,083	$793,750	100.0 %

(1) Private and other payors also includes revenue from all payors generated in other ancillary services and urgent care centers for the six months ended June 30, 2016.

The following table sets forth selected financial data consolidated by business segment:

	Three Months Ended June 30, 2017					
	Transitional and Skilled Services(3)	Assisted and Independent Living Services(3)	Home Health and Hospice Services	All Other	Elimination	Total
Revenue from external customers	$375,217	$ 33,009	$34,621	$5,432	$ —	$448,279
Intersegment revenue (1)	631	—	—	729	(1,360)	—
Total revenue	$375,848	$ 33,009	$34,621	$6,161	$ (1,360)	$448,279
Segment income (loss) (2)	$31,704	$ 3,657	$4,923	$(18,253)	$ —	$22,031
Interest expense, net of interest income						$(2,765)
Income before provision for income taxes						$19,266
Depreciation and amortization	$7,204	$ 1,492	$230	$1,824	$ —	$10,750

(1) Intersegment revenue represents services provided at the Company's skilled nursing facilities and other ancillary operations to the Company's other operating subsidiaries.
(2) Segment income (loss) includes depreciation and amortization expense and excludes general and administrative expense and interest expense for transitional and skilled services, assisted and independent living services and home health and hospice businesses. General and administrative expense is included in "All Other" category.
(3) The Company's campuses represents facilities that offer both skilled nursing, assisted and/or independent living services. Revenue and expenses related to skilled nursing, assisted and independent living services have been allocated and recorded in the respective reportable segment.

	Three Months Ended June 30, 2016					
	Transitional and Skilled Services(3)	Assisted and Independent Living Services(3)	Home Health and Hospice Services	All Other	Elimination	Total
Revenue from external customers	$340,417	$ 30,708	$28,493	$10,899	$ —	$410,517

Intersegment revenue (1)	781	—	—	694	(1,475)	—
Total revenue	$341,198	$ 30,708	$28,493	$11,593	$ (1,475)	$410,517
Segment income (loss) (2)	$32,835	$ 3,263	$4,349	$(20,638)	$ —	$19,809
Interest expense, net of interest income						$(1,168)
Income before provision for income taxes						$18,641
Depreciation and amortization	$6,792	$ 983	$229	$1,768	$ —	$9,772

(1) Intersegment revenue represents services provided at the Company's skilled nursing facilities, urgent care centers and other ancillary operations to the Company's other operating subsidiaries.

(2) Segment income (loss) includes depreciation and amortization expense and excludes general and administrative expense and interest expense for transitional and skilled services, assisted and independent living services and home health and hospice businesses. General and administrative expense is included in "All Other" category.
(3) The Company's campuses represents facilities that offer both skilled nursing, assisted and/or independent living services. Revenue and expenses related to skilled nursing, assisted and independent living services have been allocated and recorded in the respective reportable segment.

	Six Months Ended June 30, 2017					
	Transitional and Skilled Services(3)	Assisted and Independent Living Services(3)	Home Health and Hospice Services	All Other	Elimination	Total
Revenue from external customers	$747,556	$ 65,355	$66,754	$10,354	$ —	$890,019
Intersegment revenue (1)	1,375	—	—	1,613	(2,988)	—
Total revenue	$748,931	$ 65,355	$66,754	$11,967	$ (2,988)	$890,019
Segment income (loss) (2)	$63,494	$ 8,096	$9,217	$(51,224)	$ —	$29,583
Interest expense, net of interest income						$(5,920)
Income before provision for income taxes						$23,663
Depreciation and amortization	$14,157	$ 3,115	$466	$3,526	$ —	$21,264

(1) Intersegment revenue represents services provided at the Company's skilled nursing facilities and other ancillary operations to the Company's other operating subsidiaries.
(2) Segment income (loss) includes depreciation and amortization expense and excludes general and administrative expense and interest expense for transitional and skilled services, assisted and independent living services and home health and hospice businesses. General and administrative expense is included in "All Other" category.
(3) The Company's campuses represents facilities that offer both skilled nursing, assisted and/or independent living services. Revenue and expenses related to skilled nursing, assisted and independent living services have been allocated and recorded in the respective reportable segment.

	Six Months Ended June 30, 2016					
	Transitional and Skilled Services(3)	Assisted and Independent Living Services(3)	Home Health and Hospice Services	All Other	Elimination	Total
Revenue from external customers	$655,631	$ 60,877	$55,159	$22,083	$ —	$793,750
Intersegment revenue (1)	1,491	—	—	965	(2,456)	—
Total revenue	$657,122	$ 60,877	$55,159	$23,048	$ (2,456)	$793,750
Segment income (loss) (2)	$60,431	$ 6,523	$7,525	$(38,356)	$ —	$36,123
Interest expense, net of interest income						$(2,303)
Income before provision for income taxes						$33,820
Depreciation and amortization	$12,031	$ 2,046	$496	$3,496	$ —	$18,069

(1) Intersegment revenue represents services provided at the Company's skilled nursing facilities, urgent care centers and other ancillary operations to the Company's other operating subsidiaries.

(2) Segment income (loss) includes depreciation and amortization expense and excludes general and administrative expense and interest expense for transitional and skilled services, assisted and independent living services and home health and hospice businesses. General and administrative expense is included in "All Other" category.
(3) The Company's campuses represents facilities that offer both skilled nursing, assisted and/or independent living services. Revenue and expenses related to skilled nursing, assisted and independent living services have been allocated and recorded in the respective reportable segment.

The Company's transitional and skilled services segment income for the six months ended June 30, 2017 and 2016 included continued obligations under the lease related to closed operations, lease termination costs and related closing expenses of $4,017 and $7,935, respectively. These amounts included the value of the present value of future rental payments of approximately $2,715 and $6,512 and long-lived assets impairment of $111 and $137 for the six months ended June 30, 2017 and 2016, respectively. See Note 17, Leases for further detail. Included in the three months ended June 30, 2017 is the loss recovery of $1,286 related to a facility that was closed in the prior year.

8. ACQUISITIONS

The Company’s acquisition focus is to purchase or lease operating subsidiaries that are complementary to the Company’s current affiliated operations, 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 accompanying Interim Financial Statements subsequent to the date of acquisition. Acquisitions are accounted for using the acquisition method of accounting. The Company also enters into long-term leases that may include options to purchase the affiliated facilities. As a result, from time to time, the Company will acquire affiliated facilities that the Company has been operating under third-party leases.

During the six months ended June 30, 2017, the Company expanded its operations with the addition of four stand-alone skilled nursing operations, six stand-alone assisted living operations, one campus operation, one home health agency and one hospice agency through a combination of long-term leases and purchases. The Company did not acquire any material assets or assume any liabilities other than the tenant's post-assumption rights and obligations under the long-term leases. The Company has also invested in new ancillary services that are complementary to its existing transitional and skilled services, assisted and independent living services, and home health and hospice businesses. The aggregate purchase price for these acquisitions for the six months ended June 30, 2017 was $41,763. The addition of these operations added 508 operational skilled nursing beds and 239 assisted living units operated by the Company's operating subsidiaries. The Company entered into a separate operations transfer agreement with the prior operator as part of each transaction.

The Company's operating subsidiaries also opened three newly constructed stand-alone skilled nursing operations under long-term lease agreements, which added 385 operational skilled nursing beds.

The table below presents the allocation of the purchase price for the operations acquired in business combinations during the six months ended June 30, 2017 and 2016. As of the date of this filing, the preliminary allocation of the purchase price for the acquisitions in the second quarter was not completed as necessary valuation information was not yet available.

	Six Months Ended June 30,	
	2017	2016
Land	$3,595	$866
Building and improvements	24,527	16,056
Equipment, furniture, and fixtures	2,298	7,998
Assembled occupancy	410	1,220
Definite-lived intangible assets	—	363
Goodwill	6,059	28,790
Favorable leases	—	393
Other indefinite-lived intangible assets	4,548	600
Other assets acquired, net of liabilities assumed	326	6
Total acquisitions	$41,763	$56,292

In addition to the business combinations above, the Company acquired Medicare and Medicaid licenses for additional hospice and skilled nursing beds to add to existing operations for an aggregate purchase price of $310.

Subsequent to June 30, 2017, the Company acquired two stand-alone skilled nursing operations and three assisted and independent living operations for an aggregate purchase price of $22,830, which included real estate. The addition of these operations added 194 operational skilled nursing beds and 361 operational assisted and independent living units operated by the Company's operating subsidiaries.

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 on invested capital. 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 three and six months ended June 30, 2017 were not material acquisitions to the Company individually or in the aggregate. Accordingly, pro forma

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financial information is not presented. These acquisitions have been included in the June 30, 2017 condensed consolidated balance sheet of the Company, and the operating results have been included in the condensed consolidated statements of operations of the Company since the dates the Company gained effective control.

9. PROPERTY AND EQUIPMENT— Net

Property and equipment, net consist of the following:

	June 30, 2017	December 31, 2016
Land	$44,301	$ 47,565
Buildings and improvements	310,620	304,263
Equipment	167,660	153,170
Furniture and fixtures	5,425	6,931
Leasehold improvements	86,340	80,164
Construction in progress	2,803	2,441
	617,149	594,534
Less: accumulated depreciation	(126,763)	(110,036)
Property and equipment, net	$490,386	$ 484,498

The Company disposed of $24,847 of land, building and equipments as part of the sale-leaseback transaction in the three months ended June 30, 2017. See Note 17, Leases for information on the sale-leaseback transaction. See also Note 8, Acquisitions for information on acquisitions during the six months ended June 30, 2017.

10. INTANGIBLE ASSETS — Net

		June 30, 2017			December 31, 2016		
Intangible Assets	Weighted Average Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Lease acquisition costs	23.2	$483	$ (89)	$394	$483	$ (78)	$405
Favorable leases	32.5	35,116	(5,579)	29,537	35,116	(4,589)	30,527
Assembled occupancy	0.5	2,307	(2,048)	259	1,897	(1,897)	—
Facility trade name	30.0	733	(281)	452	733	(269)	464
Customer relationships	18.6	4,933	(1,391)	3,542	4,933	(1,253)	3,680
Total		$43,572	$ (9,388)	$34,184	$43,162	$ (8,086)	$35,076

Amortization expense was $690 and $1,302 for the three and six months ended June 30, 2017, respectively, and $1,410 and $2,497 for the three and six months ended June 30, 2016, respectively.

Estimated amortization expense for each of the years ending December 31 is as follows:

Year	Amount
2017 (remainder)	$1,388
2018	2,321
2019	2,301
2020	2,301
2021	2,270

2022	2,244
Thereafter	21,359
	$34,184

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11. GOODWILL AND OTHER INDEFINITE-LIVED INTANGIBLE ASSETS

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 Accounting Standards Codification 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 following table represents activity in goodwill by segment as of and for the six months ended June 30, 2017:

	Goodwill				
	Transitional and Skilled Services	Assisted and Independent Living Services	Home Health and Hospice Services	All Other	Total
January 1, 2017	$40,636	$ 3,538	$17,901	$5,025	$67,100
Additions	3,980	—	1,826	253	6,059
June 30, 2017	$44,616	$ 3,538	$19,727	$5,278	$73,159

The Company anticipates that total goodwill recognized will be fully deductible for tax purposes as of June 30, 2017. See further discussion of goodwill acquired at Note 8, Acquisitions.
During the six months ended June 30, 2017, the Company recorded $4,823 in Medicare and Medicaid licenses and $35 in trade name indefinite-lived intangible assets as part of its acquisitions.

Other indefinite-lived intangible assets consists of the following:

	June 30, 2017	December 31, 2016
Trade name	$1,181	$ 1,146
Medicare and Medicaid licenses	23,263	18,440
	$24,444	$ 19,586

12. RESTRICTED AND OTHER ASSETS
Restricted and other assets consist of the following:

	June 30, 2017	December 31, 2016
Debt issuance costs, net	$3,169	$ 3,611
Long-term insurance losses recoverable asset	4,662	4,104

Deposits with landlords	4,708	3,526
Capital improvement reserves with landlords and lenders	790	673
Note receivable from sale of urgent care centers	—	700
Restricted and other assets	$13,329	$ 12,614

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Included in restricted and other assets as of June 30, 2017 are anticipated insurance recoveries related to the Company's workers' compensation, general and professional liability claims that are recorded on a gross rather than net basis in accordance with an Accounting Standards Update issued by the FASB. Note receivable from sale of urgent centers was reclassed to current assets from restricted and other assets as the Company is anticipating to receive the receivable within the 12 months period.

13. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	June 30, 2017	December 31, 2016
Quality assurance fee	$6,989	$ 4,604
Refunds payable	20,015	18,368
Deferred revenue	4,608	6,994
Cash held in trust for patients	2,460	2,373
Resident deposits	6,210	6,099
Dividends payable	2,182	2,186
Property taxes	8,058	9,130
Income tax payable	—	1,182
Operational closure liability	962	1,972
Other	7,303	5,855
Other accrued liabilities	$58,787	$ 58,763

Quality assurance fee represents amounts payable to Arizona, California, Colorado, Idaho, Iowa, Kansas, Nebraska, Nevada, Utah, Washington and Wisconsin as a result of a mandated fee based on patient days or licensed beds. Refunds payable includes payables related to overpayments and duplicate payments from various payor sources. Deferred revenue occurs when the Company receives payments in advance of services provided. Resident deposits include refundable deposits to patients. Cash held in trust for patients reflects monies received from, or on behalf of, patients. Maintaining a trust account for patients is a regulatory requirement and, while the trust assets offset the liabilities, the Company assumes a fiduciary responsibility for these funds. The cash balance related to this liability is included in other current assets in the accompanying condensed consolidated balance sheets. Operational closure liability includes short-term portion of the closing costs that are payable within the next 12 months. The remaining long-term portion is included in other long-term liabilities in the accompanying condensed consolidated balance sheets.

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14. INCOME TAXES
The Company is not currently under examination by any major income tax jurisdiction. During 2017, the statutes of limitations will lapse on the Company's 2013 Federal tax year and certain 2012 and 2013 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, 2017 or 2016.
For the six months ended June 30, 2017 and 2016, the Company recorded total pre-tax charges related to lease terminations and closing expenses in connection with the closure of operations of $2,731 and $7,935, respectively. The Company recorded estimated tax benefits of $1,049 and $3,065 for the six months ended June 30, 2017 and 2016 related to the losses. See Note 17, Leases. The Company recorded a loss of $11,000 related to class action lawsuit and an estimated tax benefits of $4,220 during the six months ended June 30, 2017. There were no similar charges during the six months ended June 30, 2016. See Note 18, Commitments and Contingencies.

15. DEBT
Long-term debt consists of the following:

	June 30, 2017	December 31, 2016
Term loan with SunTrust, interest payable quarterly	$144,375	$ 148,125
Credit facility with SunTrust	135,000	122,000
Mortgage loans and promissory note, principal and interest payable monthly, interest at fixed rate	13,731	14,032
	293,106	284,157
Less: current maturities	(8,165)	(8,129)
Less: debt issuance costs	(476)	(542)
	$284,465	$ 275,486

Credit Facility with a Lending Consortium Arranged by SunTrust
The Company maintains a credit facility with a lending consortium arranged by SunTrust (as amended to date, the Credit Facility). On July 19, 2016, the Company entered into the second amendment to the credit facility (Second Amended Credit Facility), which amended the existing credit agreement to increase the aggregate principal amount up to $450,000. The Second Amended Credit Facility comprised of a $300,000 revolving credit facility and a $150,000 term loan. Borrowings under the term loan portion of the Second Amended Credit Facility mature on February 5, 2021 and amortize in equal quarterly installments, in an aggregate annual amount equal to 5.0% per annum of the original principal amount. The interest rates and commitment fee applicable to the Second Amended Credit Facility are similar to the Amended Credit Facility discussed below. Except as set forth in the Second Amended Credit Facility, all other terms and conditions of the Amended Credit Facility remained in full force and effect as described below.

On February 5, 2016, the Company amended its existing revolving credit facility to increase its aggregate principal amount available to $250,000 (the Amended Credit Facility). Under the credit facility, the Company may seek to obtain incremental revolving or term loans in an aggregate amount not to exceed $150,000. The interest rates applicable to loans under the credit facility are, at the Company's option, equal to either a base rate plus a margin ranging from 0.75% to 1.75% per annum or LIBOR plus a margin ranging from 1.75% to 2.75% per annum, based on the Consolidated Total Net Debt to Consolidated EBITDA ratio (as defined in the agreement). In addition, the Company will pay a commitment fee on the unused portion of the commitments under the credit facility that will range from 0.30% to 0.50% per annum, depending on the Consolidated Total Net Debt to Consolidated EBITDA ratio of the Company and its subsidiaries. The Company is permitted to prepay all or any portion of the loans under the credit facility prior to maturity without premium or penalty, subject to reimbursement of any LIBOR breakage costs of the lenders.

The Credit Facility is secured by a pledge of stock of the Company's material operating subsidiaries as well as a first lien on substantially all of its personal property. The credit facility contains customary covenants that, among other things, restrict, subject to certain exceptions, the ability of the Company and its operating subsidiaries to grant liens on their assets, incur indebtedness, sell assets, make investments, engage in acquisitions, mergers or consolidations, amend certain material agreements and pay certain dividends and other restricted payments. Under the Credit Facility, the Company must comply with financial maintenance covenants to be tested quarterly, consisting of a maximum Consolidated Total Net Debt to consolidated EBITDA ratio (which shall be increased to 3.50:1.00 for the first fiscal quarter and the immediate following three fiscal quarters), and a minimum interest/rent coverage ratio (which cannot be below 1.50:1.00). The majority of lenders can require that the Company and its operating subsidiaries mortgage certain of its real property assets to secure the Amended Credit Facility if an event of default occurs, the Consolidated Total Net Debt to consolidated EBITDA ratio is above 2.75:1.00 for two consecutive fiscal quarters, or its liquidity is equal or less than 10% of the Aggregate Revolving Commitment Amount (as defined in the agreement) for ten consecutive business days, provided that such mortgages will no longer be required if the event of default is cured, the Consolidated Total Net Debt to consolidated EBITDA ratio is below 2.75:1.00 for two consecutive fiscal quarters, or its liquidity is above 10% of the Aggregate Revolving Commitment Amount (as defined in the agreement) or ninety consecutive days, as applicable. As of June 30, 2017, the Company's operating subsidiaries had $279,375 outstanding under the Credit Facility. The outstanding balance on the term loan was $144,375, of which $7,500 is classified as short-term and the remaining $136,875 is classified as long-term. The outstanding balance on the revolving Credit Facility was $135,000, which is classified as long-term. The Company was in compliance with all loan covenants as of June 30, 2017.

As of August 1, 2017, there was approximately $279,375 outstanding under the Credit Facility.

Mortgage Loans and Promissory Note

The Company had outstanding indebtedness under mortgage loans and a promissory note issued in connection with various acquisitions. The mortgage loans are insured with the U.S. Department of Housing and Urban Development (HUD), which subjects the Company's operating subsidiaries to HUD oversight and periodic inspections. The mortgage loans and note bear fixed interest rates between 2.6% and 5.3% per annum. Amounts borrowed under the mortgage loans may be prepaid starting after the second anniversary of the notes subject to prepayment fees of the principal balance on the date of prepayment. These prepayment fees are reduced by 1.0% per year for years three through eleven of the loan. There is no prepayment penalty after year eleven. The term of the mortgage loans and the note is between 12 and 33 years. The mortgage loans and note are secured by the real property comprising the facilities and the rents, issues and profits thereof, as well as all personal property used in the operation of the facilities. As of June 30, 2017, the Company's operating subsidiaries had $13,731 outstanding under the mortgage loans and note, of which $665 is classified as short-term and the remaining $13,066 is classified as long-term. The Company was in compliance with all loan covenants as of June 30, 2017.

Based on Level 2, the carrying value of the Company's long-term debt is considered to approximate the fair value of such debt for all periods presented based upon the interest rates that the Company believes it can currently obtain for similar debt.

Off-Balance Sheet Arrangements

During the second quarter of 2016, the Company increased the letters of credit by $450. As of June 30, 2017, the Company had approximately $2,760 on the credit facility of borrowing capacity pledged as collateral to secure outstanding letters of credit.

16. OPTIONS AND AWARDS

Stock-based compensation expense consists of share-based payment awards made to employees and directors, including employee stock options and restricted stock awards, based on estimated fair values. As stock-based compensation expense recognized in the Company’s condensed consolidated statements of income for the three and six months ended June 30, 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.

The Company has four option plans, the 2001 Stock Option, Deferred Stock and Restricted Stock Plan (2001 Plan), the 2005 Stock Incentive Plan (2005 Plan), the 2007 Omnibus Incentive Plan (2007 Plan) and the 2017 Omnibus Incentive Plan (2017 Plan), all of which have been approved by the Company's stockholders. The total number of shares available under all of the Company’s stock incentive plans was 6,662 as of June 30, 2017.

2017 Omnibus Incentive Plan - During the second quarter of 2017, the Company's shareholders approved the 2017 Omnibus Incentive Plan (the 2017 Plan). The 2017 Plan provides for the issuance of 6,881 shares of common stock. The number of shares available to be issued under the 2017 Plan will be reduced by (i) one share for each share that relates to an option or stock appreciation right award and (ii) 2.5 shares for each share which relates to an award other than a stock option or stock appreciation right award (a full-value award). Granted non-employee director options vest and become exercisable in three equal annual installments, or the length of the term if less than three years, on the completion of each year of service measured from the grant date. All other options generally vest over five years at 20% per year on the anniversary of the grant date. Options expire 10 years from the date of grant. At June 30, 2017, there were 6,662 unissued shares of common stock available for issuance under this plan. The Company also retired the 2001 Plan, 2005 Plan and the 2007 Plan as a result of the approval of the 2017 Plan.

The Company uses the Black-Scholes option-pricing model to recognize the value of stock-based compensation expense for all share-based payment awards. 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 Company granted 280 options and 99 restricted stock awards from the 2007 and 2017 Plans during the six months ended June 30, 2017.

Stock Options

The Company used the following assumptions for stock options granted during the three months ended June 30, 2017 and 2016: