

THE ENSIGN GROUP, INC.
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION
(In thousands, except per share data)
(Unaudited)

RECONCILIATION OF GAAP TO NON-GAAP NET INCOME

	Three Months Ended	
	March 31,	
	2017	2016
Net income attributable to The Ensign Group, Inc.	\$ 2,840	\$ 9,172
Non-GAAP adjustments		
Results at urgent care centers, including noncontrolling interests(a)	—	(195)
Costs incurred for facilities currently being constructed and other start-up operations(b)	4,542	2,798
Results related to closed operations and operations not at full capacity, including continued obligations and closing expense(c)	5,587	8,184
Share-based compensation expense(d)	2,224	1,885
Legal costs and charges related to the settlement of the class action lawsuit(e)	11,000	-
General and administrative - Acquisition related costs(f)	88	145
General and administrative - Costs incurred related to new systems implementation and professional service fees(g)	—	678
Depreciation and amortization - Patient base(h)	36	276
Interest expense - Write off of deferred financing fees(i)	—	225
Provision for income taxes on Non-GAAP adjustments(j)	(8,454)	(5,337)
Non-GAAP Net Income	\$ 17,863	\$ 17,831
Diluted Earnings Per Share As Reported		
Net Income	\$ 0.05	\$ 0.18
Average number of shares outstanding	52,633	52,334
Adjusted Diluted Earnings Per Share		
Net Income	\$ 0.34	\$ 0.34
Average number of shares outstanding	52,633	52,334

Footnote:

(a) Represent operating results at urgent care centers, including noncontrolling interest.

	Three Months Ended	
	March 31,	
	2017	2016
Revenue	\$ -	\$ (7,600)
Cost of services	-	6,525
Rent	-	562
Depreciation and amortization	-	300
Non-controlling interest	-	18
Total Non-GAAP adjustment	\$ -	\$ (195)

(b) Represent operating results for facilities currently being constructed and other start-up operations.

	Three Months Ended	
	March 31,	
	2017	2016
Revenue	\$ (12,967)	\$ (3,758)
Cost of services	13,598	5,121
Rent	3,662	1,322
Depreciation and amortization	249	113
Total Non-GAAP adjustment	\$ 4,542	\$ 2,798

(c) Represent results at closed operations and operations not at full capacity during the three months ended March 31, 2017 and 2016, including the fair value of continued obligation under the lease agreement and related closing expenses of \$4.0 million and \$7.9 million, respectively.

	Three Months Ended	
	March 31,	
	2017	2016
Revenue	\$ (2,372)	\$ (105)
Losses related to operational closures	\$ 4,017	\$ 7,935
Cost of services	3,274	295
Rent	611	56
Depreciation and amortization	57	3
Total Non-GAAP adjustment	\$ 5,587	\$ 8,184

(d) Represent share-based compensation expense incurred.

	Three Months Ended	
	March 31,	
	2017	2016
Cost of services	\$ 1,235	\$ 1,212
General and administrative	989	673
Total Non-GAAP adjustment	\$ 2,224	\$ 1,885

(e) Legal costs and charges incurred in connection with the settlement of the class action lawsuit.

(f) Included in general and administrative expense are costs incurred to acquire an operation which are not capitalizable.

(g) Included in general and administrative expense are costs incurred related to new systems implementation and income tax credits which contributed to a decrease in effective tax rate.

(h) Included in depreciation and amortization are amortization expenses related to patient base intangible assets at newly acquired skilled nursing and assisted living facilities.

(i) Included in interest expense are write-offs of deferred financing fees associated with the amendment of credit facility for the three months ended March 31, 2016.

(j) Represents an adjustment to provision for income tax to our historical year to date effective tax rate of 35.5%, resulting from the adoption of ASU 2016-09, for the three months ended March 31, 2017 and 38.5% for the three months ended March 31, 2016.