

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income attributable to The Ensign Group, Inc.	\$ 11,326	\$ 13,188	\$ 20,498	\$ 28,360
Non-GAAP adjustments				
Results at urgent care centers, including noncontrolling interests(a)	47	191	(148)	22
Costs incurred for facilities currently being constructed and other start-up operations(b)	2,794	472	5,592	618
Results at a closed facility, including continued obligations and closing expenses(c)	219	—	8,403	—
Stock-based compensation expense(d)	2,780	1,733	4,665	3,226
Cost of services - Insurance reserve in connection with the settlement of a general liability claim(e)	1,586	—	1,586	—
General and administrative - Acquisition related costs(f)	748	438	893	590
General and administrative - Costs incurred related to new systems implementation and professional service fees(g)	269	881	947	1,168
General and administrative - Break up fee, net of costs, received in connection with a public auction(h)	—	—	—	(1,019)
Depreciation and amortization - Patient base(i)	713	308	991	592
Interest expense - Write off of deferred financing fees and amortization of deferred financing fees related to spin-off debt(j)	—	46	225	92
Provision for income taxes on Non-GAAP adjustments(k)	(3,422)	(1,510)	(8,758)	(1,966)
Non-GAAP Net Income	\$ 17,060	\$ 15,747	\$ 34,894	\$ 31,683

Diluted Earnings Per Share As Reported

	2016	2015	2016	2015
Net Income	\$ 0.22	\$ 0.25	\$ 0.39	\$ 0.55
Average number of shares outstanding	51,931	52,866	52,134	51,272

Adjusted Diluted Earnings Per Share

	2016	2015	2016	2015
Net Income	\$ 0.33	\$ 0.30	\$ 0.67	\$ 0.62
Average number of shares outstanding	51,931	52,866	52,134	51,272

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue	\$ (7,042)	\$ (6,974)	\$ (14,642)	\$ (13,641)
Cost of services	6,226	6,351	12,751	12,235
Rent	554	520	1,116	1,009
Depreciation and amortization	304	296	603	577
Non-controlling interest	5	(2)	24	(158)
Total Non-GAAP adjustment	<u>\$ 47</u>	<u>\$ 191</u>	<u>\$ (148)</u>	<u>\$ 22</u>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue	\$ (6,894)	\$ -	\$ (10,653)	\$ -
Cost of services	7,343	462	12,464	608
Rent	2,165	7	3,488	7
Depreciation and amortization	180	10	293	10
Total Non-GAAP adjustment	<u>\$ 2,794</u>	<u>\$ 479</u>	<u>\$ 5,592</u>	<u>\$ 625</u>

(c) Represent results at closed facility during the three and six months ended June 30, 2016, including fair value of continued obligation under lease agreement and related closing expenses \$7.9 million and operating loss of \$0.3 million.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue	\$ -	\$ -	\$ (105)	\$ -
Cost of services	207	-	8,436	-
Rent	2	-	58	-
Depreciation and amortization	10	-	14	-
Total Non-GAAP adjustment	<u>\$ 219</u>	<u>\$ -</u>	<u>\$ 8,403</u>	<u>\$ -</u>

(d) Represent stock-based compensation expense incurred.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Cost of services	\$ 1,316	\$ 1,119	\$ 2,529	\$ 2,081
General and administrative	1,464	614	2,136	1,145
Total Non-GAAP adjustment	<u>\$ 2,780</u>	<u>\$ 1,733</u>	<u>\$ 4,665</u>	<u>\$ 3,226</u>

(e) Included in cost of services are insurance reserves in connection with the settlement of a general liability claim.

(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 general and administrative expense is breakup fee, net of costs, received in connection with a public auction.

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

(j) Included in interest expense are write-offs of deferred financing fees associated with the amendment of credit facility and amortization of deferred financing fees related to the former revolving credit facility as part of the spin-off transaction.

(k) Represent adjustment to provision for income tax to our historical year to date effective tax rate of 38.5%