

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income attributable to The Ensign Group, Inc.	\$ 14,212	\$ 11,155	\$ 29,269	\$ 31,653
Non-GAAP adjustments				
Results at urgent care centers, including noncontrolling interests(a)	—	123	—	(25)
Costs incurred for facilities currently being constructed and other start-up operations(b)	3,097	4,753	11,004	10,345
Results related to closed operations and operations not at full capacity, including continued obligations and closing expense(c)	468	136	5,598	8,538
Losses related to Hurricane Harvey on impacted operations(d)	558	—	558	—
Share-based compensation expense(e)	2,156	2,242	6,755	6,907
Legal costs and charges related to the settlement of the class action lawsuit(f)	—	—	11,163	—
Cost of services - Insurance reserve in connection with the settlement of a general liability claim(g)	—	3,115	—	4,701
General and administrative - Acquisition related costs(h)	169	45	617	938
Gain on sale of urgent care centers (i)	—	(2,505)	—	(2,505)
General and administrative - Costs incurred related to new systems implementation and professional service fees(j)	—	126	—	1,073
Depreciation and amortization - Patient base(k)	402	669	553	1,660
Interest expense - Write off of deferred financing fees(l)	—	124	—	349
Provision for income taxes on Non-GAAP adjustments(m)	(2,236)	(3,437)	(12,744)	(12,195)
Non-GAAP Net Income	\$ 18,826	\$ 16,546	\$ 52,773	\$ 51,439
Diluted Earnings Per Share As Reported				
Net Income	\$ 0.27	\$ 0.21	\$ 0.56	\$ 0.61
Average number of shares outstanding	52,828	52,045	52,674	52,102
Adjusted Diluted Earnings Per Share				
Net Income	0.36	0.32	1.00	0.99
Average number of shares outstanding	52,828	52,045	52,674	52,102

Footnote:

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue	\$ —	\$ (5,931)	\$ —	\$ (20,573)
Cost of services	—	5,326	—	18,077
Rent	—	499	—	1,615
Depreciation and amortization	—	257	—	860
Non-controlling interest	—	(28)	—	(4)
Total Non-GAAP adjustment	\$ —	\$ 123	\$ —	\$ (25)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue	\$ (16,327)	\$ (10,908)	\$ (45,206)	\$ (21,561)
Cost of services	15,045	12,247	43,698	24,711
Rent	4,098	3,185	11,694	6,673
Depreciation and amortization	281	229	818	522
Total Non-GAAP adjustment	\$ 3,097	\$ 4,753	\$ 11,004	\$ 10,345

(c) Represent results at closed operations and operations not at full capacity during the three and nine months ended September 30, 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 during the nine months ended September 30, 2017 and 2016, respectively. Included in the nine months ended September 30, 2017 results is the loss recovery of \$1.3 million of certain losses related to a closed facility in prior year.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue	\$ (261)	\$ —	\$ (2,805)	\$ (105)
Losses related to operational closures	—	—	2,731	7,243
Cost of services	617	131	4,794	1,324
Rent	96	5	792	62
Depreciation and amortization	16	—	86	14
Total Non-GAAP adjustment	\$ 468	\$ 136	\$ 5,598	\$ 8,538

(d) Losses related to Hurricane Harvey on impacted operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue	\$ (232)	\$ —	\$ (232)	\$ —
Cost of services	733	—	733	—
Rent	50	—	50	—
Depreciation and amortization	7	—	7	—
Total Non-GAAP adjustment	\$ 558	\$ —	\$ 558	\$ —

(e) Represent share-based compensation expense incurred.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of services	\$ 1,197	\$ 1,216	\$ 3,769	\$ 3,745
General and administrative	959	1,026	2,986	3,162
Total Non-GAAP adjustment	\$ 2,156	\$ 2,242	\$ 6,755	\$ 6,907

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

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

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

(i) Included in (gain)/loss related to divestitures is gain on sale of urgent care centers.

(j) 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.

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

(l) Included in interest expense are write-offs of deferred financing fees associated with the amendment of credit facility for the three and nine months ended September 30, 2016.

(m) Represents an adjustment to provision for income tax to our historical year to date effective tax rate of 35.5%, resulting from adoption of ASU 2016-09, for the three and nine months ended September 30, 2017 and 38.5% for the three and nine months ended September 30, 2016.