

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,	
	2017	2016	2017	2016
Net income attributable to The Ensign Group, Inc.	\$ 12,217	\$ 11,326	\$ 15,058	\$ 20,498
Non-GAAP adjustments				
Results at urgent care centers, including noncontrolling interests(a)	—	47	—	(148)
Costs incurred for facilities currently being constructed and other start-up operations(b)	3,365	2,794	7,907	5,592
Results related to closed operations and operations not at full capacity, including continued obligations and closing expense(c)	(457)	219	5,130	8,403
Share-based compensation expense(d)	2,376	2,780	4,600	4,665
Legal costs and charges related to the settlement of the class action lawsuit(e)	163	—	11,163	—
Cost of services - Insurance reserve in connection with the settlement of a general liability claim(f)	—	1,586	—	1,586
General and administrative - Acquisition related costs(g)	360	748	448	893
General and administrative - Costs incurred related to new systems implementation and professional service fees(h)	—	269	—	947
Depreciation and amortization - Patient base(i)	115	713	151	991
Interest expense - Write off of deferred financing fees(j)	—	—	—	225
Provision for income taxes on Non-GAAP adjustments(k)	(2,054)	(3,422)	(10,508)	(8,758)
Non-GAAP Net Income	\$ 16,085	\$ 17,060	\$ 33,949	\$ 34,894
Diluted Earnings Per Share As Reported				
Net Income	\$ 0.23	\$ 0.22	\$ 0.29	\$ 0.39
Average number of shares outstanding	52,548	51,931	52,593	52,134
Adjusted Diluted Earnings Per Share				
Net Income	\$ 0.31	\$ 0.33	\$ 0.65	\$ 0.67
Average number of shares outstanding	52,548	51,931	52,133	52,210

Footnote:

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	\$ —	\$ (7,042)	\$ —	\$ (14,642)
Cost of services	—	6,226	—	12,751
Rent	—	554	—	1,116
Depreciation and amortization	—	304	—	603
Non-controlling interest	—	5	—	24
Total Non-GAAP adjustment	\$ —	\$ 47	\$ —	\$ (148)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	\$ (15,912)	\$ (6,894)	\$ (28,879)	\$ (10,653)
Cost of services	15,055	7,343	28,653	12,464
Rent	3,934	2,165	7,596	3,488
Depreciation and amortization	288	180	537	293
Total Non-GAAP adjustment	\$ 3,365	\$ 2,794	\$ 7,907	\$ 5,592

(c) Represent results at closed operations and operations not at full capacity during the three and six months ended June 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 six months ended June 30, 2017 and 2016, respectively. Included in the three and six months ended June 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	\$ (172)	\$ —	\$ (2,544)	\$ (105)
Losses related to operational closures	(1,286)	—	2,731	7,935
Cost of services	903	207	4,177	501
Rent	85	2	696	58
Depreciation and amortization	13	10	70	14
Total Non-GAAP adjustment	\$ (457)	\$ 219	\$ 5,130	\$ 8,403

(d) Represent share-based compensation expense incurred.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of services	\$ 1,338	\$ 1,316	\$ 2,573	\$ 2,529
General and administrative	1,038	1,464	2,027	2,136
Total Non-GAAP adjustment	\$ 2,376	\$ 2,780	\$ 4,600	\$ 4,665

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

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

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

(h) 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.

(i) Included in depreciation and amortization are amortization expenses 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 for the six months ended June 30, 2016.

(k) 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 six months ended June 30, 2017 and 38.5% for the three and six months ended June 30, 2016.