

**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		Year Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Net income attributable to The Ensign Group, Inc.	\$ 18,337	\$ 13,601	\$ 49,990	\$ 55,432
<b>Non-GAAP adjustments</b>				
Results at urgent care centers, including noncontrolling interests(a)	3,174	1,703	3,149	2,148
Costs incurred for facilities currently being constructed and other start-up operations(b)	4,661	2,234	15,006	3,786
Results at a closed facility and a facility not at full function, including continued obligations and closing expenses(c)	307	—	8,845	—
Share-based compensation expense(d)	2,194	1,729	9,101	6,677
Cost of services - Insurance reserve in connection with the settlement of claims(e)	223	—	4,924	—
General and administrative - Acquisition related costs(f)	164	604	1,102	1,397
Gain on sale of urgent care centers(g)	(16,655)	—	(19,160)	—
General and administrative - Costs incurred related to new systems implementation and professional service fees(h)	76	698	1,148	2,817
General and administrative - Break up fee, net of costs, received in connection with a public auction(i)	—	—	—	(1,019)
Depreciation and amortization - Patient base(j)	20	214	1,678	1,013
Interest expense - Write off of deferred financing fees and amortization of deferred financing fees related to spin-off debt(k)	—	46	349	184
Provision for income taxes on Non-GAAP adjustments(l)	3,069	(2,290)	(9,126)	(6,325)
<b>Non-GAAP Net Income</b>	<b>\$ 15,570</b>	<b>\$ 18,539</b>	<b>\$ 67,006</b>	<b>\$ 66,110</b>

**Diluted Earnings Per Share As Reported**

Net Income	\$ 0.35	\$ 0.26	\$ 0.96	\$ 1.06
Average number of shares outstanding	52,231	53,193	52,133	52,210

**Adjusted Diluted Earnings Per Share**

Net Income	\$ 0.30	\$ 0.35	\$ 1.29	\$ 1.27
Average number of shares outstanding	52,231	53,193	52,133	52,210

**Footnote:**

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

	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Revenue	\$ (4,186)	\$ (6,741)	\$ (24,759)	\$ (26,748)
Cost of services	4,342	6,808	22,420	25,327
Rent	406	551	2,021	2,097
Depreciation and amortization	—	302	861	1,182
Non-controlling interest	2,612	783	2,606	290
Total Non-GAAP adjustment	<u>\$ 3,174</u>	<u>\$ 1,703</u>	<u>\$ 3,149</u>	<u>\$ 2,148</u>

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

	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Revenue	\$ (13,579)	\$ (1,318)	\$ (35,140)	\$ (1,318)
Cost of services	14,278	2,846	38,990	4,372
Rent	3,674	649	10,346	649
Depreciation and amortization	288	57	810	83
Total Non-GAAP adjustment	<u>\$ 4,661</u>	<u>\$ 2,234</u>	<u>\$ 15,006</u>	<u>\$ 3,786</u>

(c) Represent results at closed facility during the three months and year ended December 31, 2016, including the fair value of continued obligation under the lease agreement and related closing expenses of \$7.9 million.

	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Revenue	\$ (499)	\$ -	\$ (603)	-
Cost of services	743	-	9,309	-
Rent	55	-	118	-
Depreciation and amortization	8	-	21	-
Total Non-GAAP adjustment	<u>\$ 307</u>	<u>\$ -</u>	<u>\$ 8,845</u>	<u>\$ -</u>

(d) Represent share-based compensation expense incurred.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Cost of services	\$ 1,211	\$ 1,105	\$ 4,956	\$ 4,265
General and administrative	983	624	4,145	2,412
Total Non-GAAP adjustment	<u>\$ 2,194</u>	<u>\$ 1,729</u>	<u>\$ 9,101</u>	<u>\$ 6,677</u>

(e) Included in cost of services are insurance reserves in connection with the settlement of claims.

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

(g) Included in gain on sale of urgent care centers is a gain recorded as a result of the urgent care sales.

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

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

(k) 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.

(l) Represents an adjustment to provision for income tax to our historical year to date effective tax rate of 38.5%