

**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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income attributable to The Ensign Group, Inc.	\$ 11,155	\$ 13,472	\$ 31,653	\$ 41,831
<b>Non-GAAP adjustments</b>				
Results at urgent care centers, including noncontrolling interests(a)	123	422	(25)	445
Costs incurred for facilities currently being constructed and other start-up operations(b)	4,753	934	10,345	1,552
Results at a closed facility, including continued obligations and closing expenses(c)	136	—	8,538	—
Share-based compensation expense(d)	2,242	1,722	6,907	4,948
Cost of services - Insurance reserve in connection with the settlement of claims(e)	3,115	—	4,701	—
General and administrative - Acquisition related costs(f)	45	203	938	793
Gain on sale of urgent care centers(g)	(2,505)	—	(2,505)	—
General and administrative - Costs incurred related to new systems implementation and professional service fees(h)	126	920	1,073	2,119
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)	669	205	1,660	797
Interest expense - Write off of deferred financing fees and amortization of deferred financing fees related to spin-off debt(k)	124	46	349	138
Provision for income taxes on Non-GAAP adjustments(l)	(3,437)	(2,070)	(12,195)	(4,035)
<b>Non-GAAP Net Income</b>	<b>\$ 16,546</b>	<b>\$ 15,854</b>	<b>\$ 51,439</b>	<b>\$ 47,569</b>
				\$ -
<b>Diluted Earnings Per Share As Reported</b>				
Net Income	\$ 0.21	\$ 0.25	\$ 0.61	\$ 0.81
Average number of shares outstanding	52,045	53,070	52,102	51,880
<b>Adjusted Diluted Earnings Per Share</b>				
Net Income	\$ 0.32	\$ 0.30	\$ 0.99	\$ 0.92
Average number of shares outstanding	52,045	53,070	52,102	51,880

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	\$ (5,931)	\$ (6,366)	\$ (20,573)	\$ (20,007)
Cost of services	5,326	6,284	18,077	18,519
Rent	499	537	1,615	1,546
Depreciation and amortization	257	303	860	880
Non-controlling interest	(28)	(336)	(4)	(493)
<b>Total Non-GAAP adjustment</b>	<b>\$ 123</b>	<b>\$ 422</b>	<b>\$ (25)</b>	<b>\$ 445</b>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	\$ (10,908)	\$ -	\$ (21,561)	\$ -
Cost of services	12,247	918	24,711	1,526
Rent	3,185	3	6,673	10
Depreciation and amortization	229	13	522	16
<b>Total Non-GAAP adjustment</b>	<b>\$ 4,753</b>	<b>\$ 934</b>	<b>\$ 10,345</b>	<b>\$ 1,552</b>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	\$ -	-	\$ (105)	-
Cost of services	131	-	8,567	-
Rent	5	-	62	-
Depreciation and amortization	-	-	14	-
<b>Total Non-GAAP adjustment</b>	<b>\$ 136</b>	<b>\$ -</b>	<b>\$ 8,538</b>	<b>\$ -</b>

(d) Represent share-based compensation expense incurred.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Cost of services	\$ 1,216	\$ 1,078	\$ 3,745	\$ 3,160
General and administrative	1,026	644	3,162	1,788
<b>Total Non-GAAP adjustment</b>	<b>\$ 2,242</b>	<b>\$ 1,722</b>	<b>\$ 6,907</b>	<b>\$ 4,948</b>

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

(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%