

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 December 31,		Year Ended December 31,	
	2017	2016	2017	2016
Net income attributable to The Ensign Group, Inc.	\$ 11,206	\$ 18,337	\$ 40,475	\$ 49,990
Non-GAAP adjustments				
Costs incurred for facilities currently being constructed and other start-up operations(a)	2,374	4,661	13,378	15,006
Legal costs and charges related to the settlement of the class action lawsuit and insurance claims(b)	14	223	11,177	4,924
Share-based compensation expense(c)	2,941	2,194	9,695	9,101
Results related to closed operations and operations not at full capacity, including continued obligations and closing expense(d)	4	307	5,602	8,845
Bonus accrual as a result of the Tax Act(e)	3,100	—	3,100	—
Losses related to Hurricane Harvey on impacted operations(f)	741	—	1,299	—
Depreciation and amortization - Patient base(g)	180	20	733	1,678
General and administrative - Transaction-related costs(h)	100	164	717	1,102
General and administrative - Costs incurred related to new systems implementation and professional service fees(i)	80	76	80	1,148
Results at urgent care centers, including noncontrolling interests(j)	—	3,174	—	3,149
Gain on sale of urgent care centers (k)	—	(16,655)	—	(19,160)
Interest expense - Write off of deferred financing fees(l)	—	—	—	349
Provision for income taxes on Non-GAAP adjustments(m)	344	3,069	(12,399)	(9,126)
Non-GAAP Net Income	\$ 21,084	\$ 15,570	\$ 73,857	\$ 67,006

Diluted Earnings Per Share As Reported				
Net Income	\$ 0.21	\$ 0.35	\$ 0.77	\$ 0.96
Average number of shares outstanding	53,176	52,231	52,829	52,133

Adjusted Diluted Earnings Per Share				
Net Income	0.40	0.30	1.40	1.29
Average number of shares outstanding	53,176	52,231	52,829	52,133

Footnote:

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

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	2017	2016
Revenue	\$ (17,480)	\$ (13,579)	\$ (62,686)	\$ (35,140)
Cost of services	15,726	14,278	59,424	38,990
Rent	3,865	3,674	15,559	10,346
Depreciation and amortization	263	288	1,081	810
Total Non-GAAP adjustment	\$ 2,374	\$ 4,661	\$ 13,378	\$ 15,006

(b) Legal costs and charges incurred in connection with the settlement of the class action lawsuit in 2017 and insurance claims in 2016.

(c) Represent share-based compensation expense incurred.

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	2017	2016
Cost of services	\$ 1,219	\$ 1,211	\$ 4,988	\$ 4,956
General and administrative	1,722	983	4,707	4,145
Total Non-GAAP adjustment	\$ 2,941	\$ 2,194	\$ 9,695	\$ 9,101

(d) Represent results at closed operations and operations not at full capacity.

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	2017	2016
Revenue	\$ —	\$ (499)	\$ (2,805)	\$ (603)
(Gains)/Losses related to operational closures	(410)	—	2,321	—
Cost of services	321	743	5,115	9,309
Rent	93	55	885	118
Depreciation and amortization	—	8	86	21
Total Non-GAAP adjustment	\$ 4	\$ 307	\$ 5,602	\$ 8,845

(e) Represent bonus accrual as a result of the Tax Act.

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	2017	2016
Cost of services	\$ 600	\$ —	\$ 600	\$ —
General and administrative	2,500	—	2,500	—
Total Non-GAAP adjustment	\$ 3,100	\$ —	\$ 3,100	\$ —

(f) Losses related to Hurricane Harvey and California fires on impacted operations.

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	2017	2016
Revenue	870	—	638	—
Cost of services	(129)	—	604	—
Rent	—	—	50	—
Depreciation and amortization	—	—	7	—
Total Non-GAAP adjustment	\$ 741	\$ —	\$ 1,299	\$ —

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

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

(i) Included in general and administrative expense are costs incurred related to new systems implementation and professional fees associated with income tax rate credits, tax reform impacts and adoption of the new revenue recognition standard.

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

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	2017	2016
Revenue	\$ —	\$ (4,186)	\$ —	\$ (24,759)
Cost of services	—	4,342	—	22,420
Rent	—	406	—	2,021
Depreciation and amortization	—	—	—	861
Non-controlling interest	—	2,612	—	2,606
Total Non-GAAP adjustment	\$ —	\$ 3,174	\$ —	\$ 3,149

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

(l) Included in interest expense are write-offs of deferred financing fees associated with the amendment of credit facility for the year ended December 31, 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 months ended and year ended December 31, 2017 and 38.5% for the three months ended and year ended December 31, 2016.