

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 March 31,	
	2018	2017
Net income attributable to The Ensign Group, Inc.	\$ 23,132	\$ 2,840
Non-GAAP adjustments		
Costs incurred for facilities currently being constructed and other start-up operations(a)	1,575	4,542
(Return of unclaimed class action settlement)/charges related to the settlement of the class action lawsuit(b)	(1,664)	11,000
Share-based compensation expense(c)	2,309	2,224
Results related to closed operations and operations not at full capacity, including continued obligations and closing expense(d)	198	5,587
Depreciation and amortization - Patient base(e)	39	36
General and administrative - Transaction-related costs(f)	28	88
Provision for income taxes on Non-GAAP adjustments(g)	(1,553)	(8,454)
Non-GAAP Net Income	\$ 24,064	\$ 17,863

Diluted Earnings Per Share As Reported

Net Income	\$ 0.43	\$ 0.05
Average number of shares outstanding	53,518	52,633

Adjusted Diluted Earnings Per Share

Net Income	0.45	0.34
Average number of shares outstanding	53,518	52,633

Footnotes:

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

	Three Months Ended March 31,	
	2018	2017
Revenue	\$ (16,224)	\$ (12,967)
Cost of services	13,972	13,598
Rent	3,583	3,662
Depreciation and amortization	244	249
Total Non-GAAP adjustment	\$ 1,575	\$ 4,542

(b) (Return of unclaimed class action settlement funds)/charges incurred in connection with the settlement of the class action lawsuit.

(c) Represents share-based compensation expense incurred.

	Three Months Ended March 31,	
	2018	2017
Cost of services	\$ 1,257	\$ 1,235
General and administrative	1,052	989
Total Non-GAAP adjustment	\$ 2,309	\$ 2,224

(d) Represents results at closed operations and operations not at full capacity, including the fair value of continued obligation under the lease agreement and related closing expenses of \$4.0 million for the three months ended March 31, 2017.

	Three Months Ended March 31,	
	2018	2017
Revenue	\$ —	\$ (2,372)
(Gains)/Losses related to operational closures	—	4,017
Cost of services	116	3,274
Rent	74	611
Depreciation and amortization	8	57
Total Non-GAAP adjustment	\$ 198	\$ 5,587

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

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

(g) Represents an adjustment to the provision for income tax to our historical year to date effective tax rate of 25.0%, resulting from adoption of Tax Cuts and Jobs Act, for the three months ended March 31, 2018 and 35.5% for the three months ended March 31, 2017.