

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,	
	2018	2017	2018	2017
Net income attributable to The Ensign Group, Inc.	\$ 20,861	\$ 14,212	\$ 66,004	\$ 29,269
Non-GAAP adjustments				
Results related to facilities currently being constructed and other start-up operations(a)	500	3,097	3,347	11,004
(Return of unclaimed class action settlement)/charges related to the settlement of the class action lawsuit	—	—	(1,664)	11,163
Share-based compensation expense(b)	2,811	2,156	7,639	6,755
Results related to closed operations and operations not at full capacity, including continued obligations and closing expense(c)	224	468	712	5,598
Losses related to Hurricane Harvey on impacted operations(d)	—	558	—	558
Depreciation and amortization - patient base(e)	48	402	150	553
General and administrative - transaction-related costs(f)	228	169	338	617
COS - business interruption gains(g)	—	—	(675)	—
COS - Goodwill and intangible assets impairment(h)	3,177	—	3,177	—
Provision for income taxes on Non-GAAP adjustments(i)	(2,890)	(2,236)	(6,309)	(12,744)
Non-GAAP Net Income	\$ 24,959	\$ 18,826	\$ 72,719	\$ 52,773
Diluted Earnings Per Share As Reported				
Net Income	\$ 0.38	\$ 0.27	\$ 1.22	\$ 0.56
Average number of shares outstanding	54,632	52,828	54,176	52,674
Adjusted Diluted Earnings Per Share				
Net Income	0.46	0.36	1.34	1.00
Average number of shares outstanding	54,632	52,828	54,176	52,674

Footnotes:

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	\$ (17,011)	\$ (16,327)	\$ (49,577)	\$ (45,206)
Cost of services	13,672	15,045	41,444	43,698
Rent	3,596	4,098	10,750	11,694
Depreciation and amortization	243	281	730	818
Total Non-GAAP adjustment	\$ 500	\$ 3,097	\$ 3,347	\$ 11,004

(b) Represents share-based compensation expense incurred.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Cost of services	\$ 1,533	\$ 1,197	\$ 4,170	\$ 3,769
General and administrative	1,278	959	3,469	2,986
Total Non-GAAP adjustment	\$ 2,811	\$ 2,156	\$ 7,639	\$ 6,755

(c) 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 nine months ended September 30, 2017. Included in the three and nine months ended September 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	\$ —	\$ (261)	\$ —	\$ (2,805)
(Gains)/Losses related to operational closures	—	—	—	2,731
Cost of services	139	617	464	4,794
Rent	76	96	225	792
Depreciation and amortization	9	16	23	86
Total Non-GAAP adjustment	\$ 224	\$ 468	\$ 712	\$ 5,598

(d) Losses related to Hurricane Harvey on impacted operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	\$ —	\$ (232)	\$ —	\$ (232)
Cost of services	—	733	—	733
Rent	—	50	—	50
Depreciation and amortization	—	7	—	7
Total Non-GAAP adjustment	\$ —	\$ 558	\$ —	\$ 558

(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) Business interruption recoveries received in Q2 2018 related to insurance claims of the California fires that occurred in the fourth quarter of 2017.

(h) Impairment charges to goodwill and intangible assets for one of our other ancillary operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Cost of services	3,653	—	3,653	—
Non-controlling interest	(476)	—	(476)	—
Total Non-GAAP adjustment	\$ 3,177	\$ —	\$ 3,177	\$ —

(i) Represents an adjustment to the provision for income tax to our historical year to date effective tax rate of 25.0%, resulting from the adoption of the Tax Cuts and Jobs Act, for the three and nine months ended September 30, 2018 and 35.5% for the three and nine months ended September 30, 2017.