# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the Quarterly Period Ended September 30, 2016**

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the Transition Period From to .**

**Commission File Number: 001 34465 and 001 31441**

# SELECT MEDICAL HOLDINGS CORPORATION

# SELECT MEDICAL CORPORATION

(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **20-1764048** |
| **Delaware** | **23-2872718** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. employer identification number) |

**4714 Gettysburg Road, P.O. Box 2034, Mechanicsburg, Pennsylvania 17055**

(Address of principal executive offices and zip code)

**(717) 972-1100**

(Registrants telephone number, including area code)

Indicate by check mark whether the Registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods as such Registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. YES x NO o

Indicate by check mark whether the Registrants have submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrants were required to submit and post such files). YES x NO o

Indicate by check mark whether the registrant, Select Medical Holdings Corporation, is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|---|---|
| Large accelerated filer x | Accelerated filer o |
| Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

Indicate by check mark whether the registrant, Select Medical Corporation, is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|---|---|
| Large accelerated filer o | Accelerated filer o |
| Non-accelerated filer x<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

Indicate by check mark whether the Registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act). YES o NO x

As of October 31, 2016, Select Medical Holdings Corporation had outstanding 132,329,220 shares of common stock.

This Form 10-Q is a combined quarterly report being filed separately by two Registrants: Select Medical Holdings Corporation and Select Medical Corporation. Unless the context indicates otherwise, any reference in this report to Holdings refers to Select Medical Holdings Corporation and any reference to Select refers to Select Medical Corporation, the wholly owned operating subsidiary of Holdings, and any of Select s subsidiaries. Any reference to Concentra refers to Concentra Inc., the indirect operating subsidiary of Concentra Group Holdings, LLC ( Group Holdings ), and its subsidiaries. References to the Company, we, us and our refer collectively to Holdings, Select, and Group Holdings and its subsidiaries.

Table of Contents

**TABLE OF CONTENTS**

Table of Contents

## PART I FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Condensed Consolidated Balance Sheets**

**(unaudited)**

**(in thousands, except share and per share amounts)**

| | Select Medical Holdings Corporation | | Select Medical Corporation | |
|---|---|---|---|---|
| | December 31, 2015 | September 30, 2016 | December 31, 2015 | September 30, 2016 |
| **ASSETS** | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | $ 14,435 | $ 68,223 | $ 14,435 | $ 68,223 |
| Accounts receivable, net of allowance for doubtful accounts of $61,133 and $61,084 at 2015 and 2016, respectively | 603,558 | 592,711 | 603,558 | 592,711 |
| Current deferred tax asset | 28,688 | 50,647 | 28,688 | 50,647 |
| Prepaid income taxes | 16,694 | 11,474 | 16,694 | 11,474 |
| Other current assets | 85,779 | 82,680 | 85,779 | 82,680 |
| Total Current Assets | 749,154 | 805,735 | 749,154 | 805,735 |
| | | | | |
| Property and equipment, net | 864,124 | 863,485 | 864,124 | 863,485 |
| Goodwill | 2,314,624 | 2,674,623 | 2,314,624 | 2,674,623 |
| Other identifiable intangibles, net | 318,675 | 338,220 | 318,675 | 338,220 |
| Other assets | 142,101 | 163,342 | 142,101 | 163,342 |
| | | | | |
| **Total Assets** | $ 4,388,678 | $ 4,845,405 | $ 4,388,678 | $ 4,845,405 |
| | | | | |
| Current Liabilities: | | | | |
| Bank overdrafts | $ 28,615 | $ 20,151 | $ 28,615 | $ 20,151 |
| Current portion of long-term debt and notes payable | 225,166 | 12,690 | 225,166 | 12,690 |
| Accounts payable | 137,409 | 114,181 | 137,409 | 114,181 |
| Accrued payroll | 120,989 | 138,090 | 120,989 | 138,090 |
| Accrued vacation | 73,977 | 78,776 | 73,977 | 78,776 |
| Accrued interest | 9,401 | 32,964 | 9,401 | 32,964 |
| Accrued other | 133,728 | 142,431 | 133,728 | 142,431 |
| Due to third party payors | | 11,065 | | 11,065 |
| Total Current Liabilities | 729,285 | 550,348 | 729,285 | 550,348 |
| | | | | |
| Long-term debt, net of current portion | 2,160,730 | 2,642,115 | 2,160,730 | 2,642,115 |
| Non-current deferred tax liability | 218,705 | 210,000 | 218,705 | 210,000 |
| Other non-current liabilities | 133,220 | 136,527 | 133,220 | 136,527 |
| | | | | |
| Total Liabilities | 3,241,940 | 3,538,990 | 3,241,940 | 3,538,990 |
| | | | | |
| Commitments and contingencies (Note 11) | | | | |

| | | | | |
|---|---|---|---|---|
| Redeemable non-controlling interests | 238,221 | 246,429 | 238,221 | 246,429 |
| | | | | |
| Stockholders Equity: | | | | |
| Common stock of Holdings, $0.001 par value, 700,000,000 shares authorized, 131,282,798 and 132,395,317 shares issued and outstanding at 2015 and 2016, respectively | 131 | 132 | | |
| Common stock of Select, $0.01 par value, 100 shares issued and outstanding | | | 0 | 0 |
| Capital in excess of par | 424,506 | 440,316 | 904,375 | 921,069 |
| Retained earnings (accumulated deficit) | 434,616 | 528,593 | (45,122) | 47,972 |
| Total Select Medical Holdings Corporation and Select Medical Corporation Stockholders Equity | 859,253 | 969,041 | 859,253 | 969,041 |
| Non-controlling interest | 49,264 | 90,945 | 49,264 | 90,945 |
| Total Equity | 908,517 | 1,059,986 | 908,517 | 1,059,986 |
| | | | | |
| **Total Liabilities and Equity** | $ 4,388,678 | $ 4,845,405 | $ 4,388,678 | $ 4,845,405 |

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

Table of Contents

**Condensed Consolidated Statements of Operations**

**(unaudited)**

**(in thousands, except per share amounts)**

| | Select Medical Holdings Corporation For the Three Months Ended September 30, 2015 | Select Medical Holdings Corporation For the Three Months Ended September 30, 2016 | Select Medical Corporation For the Three Months Ended September 30, 2015 | Select Medical Corporation For the Three Months Ended September 30, 2016 |
|---|---|---|---|---|
| Net operating revenues | $ 1,021,123 | $ 1,053,795 | $ 1,021,123 | $ 1,053,795 |
| Costs and expenses: | | | | |
| Cost of services | 900,949 | 915,703 | 900,949 | 915,703 |
| General and administrative | 22,201 | 27,088 | 22,201 | 27,088 |
| Bad debt expense | 18,287 | 17,677 | 18,287 | 17,677 |
| Depreciation and amortization | 31,472 | 37,165 | 31,472 | 37,165 |
| Total costs and expenses | 972,909 | 997,633 | 972,909 | 997,633 |
| Income from operations | 48,214 | 56,162 | 48,214 | 56,162 |
| Other income and expense: | | | | |
| Loss on early retirement of debt | | (10,853) | | (10,853) |
| Equity in earnings of unconsolidated subsidiaries | 6,348 | 5,268 | 6,348 | 5,268 |
| Non-operating gain (loss) | 29,647 | (1,028) | 29,647 | (1,028) |
| Interest expense | (33,052) | (44,482) | (33,052) | (44,482) |
| Income before income taxes | 51,157 | 5,067 | 51,157 | 5,067 |
| Income tax expense | 18,347 | 1,075 | 18,347 | 1,075 |
| Net income | 32,810 | 3,992 | 32,810 | 3,992 |
| Less: Net income (loss) attributable to non-controlling interests | 3,404 | (2,479) | 3,404 | (2,479) |
| Net income attributable to Select Medical Holdings Corporation and Select Medical Corporation | $ 29,406 | $ 6,471 | $ 29,406 | $ 6,471 |
| Basic | $ 0.22 | $ 0.05 | | |
| Diluted | $ 0.22 | $ 0.05 | | |
| Weighted average shares outstanding: | | | | |
| Basic | 127,386 | 127,848 | | |
| Diluted | 127,649 | 127,989 | | |

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

Table of Contents

**Condensed Consolidated Statements of Operations**

**(unaudited)**

**(in thousands, except per share amounts)**

| | Select Medical Holdings Corporation For the Nine Months Ended September 30, 2015 | Select Medical Holdings Corporation For the Nine Months Ended September 30, 2016 | Select Medical Corporation For the Nine Months Ended September 30, 2015 | Select Medical Corporation For the Nine Months Ended September 30, 2016 |
|---|---|---|---|---|
| Net operating revenues | $ 2,703,531 | $ 3,239,756 | $ 2,703,531 | $ 3,239,756 |
| Costs and expenses: | | | | |
| Cost of services | 2,309,213 | 2,754,950 | 2,309,213 | 2,754,950 |
| General and administrative | 67,917 | 81,226 | 67,917 | 81,226 |
| Bad debt expense | 43,243 | 51,591 | 43,243 | 51,591 |
| Depreciation and amortization | 70,668 | 107,887 | 70,668 | 107,887 |
| Total costs and expenses | 2,491,041 | 2,995,654 | 2,491,041 | 2,995,654 |
| Income from operations | 212,490 | 244,102 | 212,490 | 244,102 |
| Other income and expense: | | | | |
| Loss on early retirement of debt | | (11,626) | | (11,626) |
| Equity in earnings of unconsolidated subsidiaries | 12,788 | 14,466 | 12,788 | 14,466 |
| Non-operating gain | 29,647 | 37,094 | 29,647 | 37,094 |
| Interest expense | (79,728) | (127,662) | (79,728) | (127,662) |
| Income before income taxes | 175,197 | 156,374 | 175,197 | 156,374 |
| Income tax expense | 65,048 | 51,585 | 65,048 | 51,585 |
| Net income | 110,149 | 104,789 | 110,149 | 104,789 |
| Less: Net income attributable to non-controlling interests | 8,740 | 9,550 | 8,740 | 9,550 |
| Net income attributable to Select Medical Holdings Corporation and Select Medical Corporation | $ 101,409 | $ 95,239 | $ 101,409 | $ 95,239 |
| Basic | $ 0.77 | $ 0.72 | | |
| Diluted | $ 0.77 | $ 0.72 | | |
| Dividends paid per share | $ 0.10 | $ | | |
| Weighted average shares outstanding: | | | | |
| Basic | 127,541 | 127,659 | | |
| Diluted | 127,844 | 127,804 | | |

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

Table of Contents

**Condensed Consolidated Statement of Changes in Equity and Income**

**(unaudited)**

**(in thousands)**

| | | | Select Medical Holdings Corporation Stockholders | | | | |
|---|---|---|---|---|---|---|---|
| | Comprehensive Income | Total | Common Stock Issued | Common Stock Par Value | Capital in Excess of Par | Retained Earnings | Non-controlling Interests |
| Balance at December 31, 2015 | | $ 908,517 | 131,283 | $ 131 | $ 424,506 | $ 434,616 | $ 49,264 |
| Net income | $ 93,037 | 93,037 | | | | 95,239 | (2,202) |
| Net income - attributable to redeemable non-controlling interests | 11,752 | | | | | | |
| Total comprehensive income | $ 104,789 | | | | | | |
| Issuance and vesting of restricted stock | | 12,344 | 1,089 | 1 | 12,343 | | |
| Tax benefit from stock based awards | | 514 | | | 514 | | |
| Repurchase of common shares | | (1,939) | (155) | 0 | (883) | (1,056) | |
| Stock option expense | | 4 | | | 4 | | |
| Exercise of stock options | | 1,488 | 178 | 0 | 1,488 | | |
| Non-controlling interests acquired in business combination | | 2,514 | | | | | 2,514 |
| Distributions to non-controlling interests | | (6,939) | | | | | (6,939) |
| Issuance of non-controlling interests | | 50,178 | | | 2,377 | | 47,801 |
| Purchase of redeemable non-controlling interests | | 466 | | | | 466 | |
| Other | | (198) | | | (33) | (672) | 507 |
| Balance at September 30, 2016 | | $ 1,059,986 | 132,395 | $ 132 | $ 440,316 | $ 528,593 | $ 90,945 |

| | | | Select Medical Corporation Stockholders | | | | |
|---|---|---|---|---|---|---|---|
| | Comprehensive Income | Total | Common Stock Issued | Common Stock Par Value | Capital in Excess of Par | Retained Earnings (Accumulated Deficit) | Non-controlling Interests |
| Balance at December 31, 2015 | | $ 908,517 | 0 | $ 0 | $ 904,375 | $ (45,122) | $ 49,264 |
| Net income | $ 93,037 | 93,037 | | | | 95,239 | (2,202) |
| Net income - attributable to redeemable non-controlling interests | 11,752 | | | | | | |
| Total comprehensive income | $ 104,789 | | | | | | |
| | | 1,488 | | | 1,488 | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Additional investment by Holdings | | | | | | |
| Dividends declared and paid to Holdings | (1,939) | | | | (1,939) | |
| Contribution related to restricted stock awards and stock option issuances by Holdings | 12,348 | | | 12,348 | | |
| Tax benefit from stock based awards | 514 | | | 514 | | |
| Non-controlling interests acquired in business combination | 2,514 | | | | | 2,514 |
| Distributions to non-controlling interests | (6,939) | | | | | (6,939) |
| Issuance of non-controlling interests | 50,178 | | | 2,377 | | 47,801 |
| Purchase of redeemable non-controlling interests | 466 | | | | 466 | |
| Other | (198) | | | (33) | (672) | 507 |
| Balance at September 30, 2016 | $ 1,059,986 | 0 | $ 0 | $ 921,069 | $ 47,972 | $ 90,945 |

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

Table of Contents

**Condensed Consolidated Statements of Cash Flows**

**(unaudited)**

**(in thousands)**

| | Select Medical Holdings Corporation For the Nine Months Ended September 30, 2015 | Select Medical Holdings Corporation For the Nine Months Ended September 30, 2016 | Select Medical Corporation For the Nine Months Ended September 30, 2015 | Select Medical Corporation For the Nine Months Ended September 30, 2016 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net income | $ 110,149 | $ 104,789 | $ 110,149 | $ 104,789 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Distributions from unconsolidated subsidiaries | 11,814 | 16,145 | 11,814 | 16,145 |
| Depreciation and amortization | 70,668 | 107,887 | 70,668 | 107,887 |
| Amortization of leasehold interests | | 457 | | 457 |
| Provision for bad debts | 43,243 | 51,591 | 43,243 | 51,591 |
| Equity in earnings of unconsolidated subsidiaries | (12,788) | (14,466) | (12,788) | (14,466) |
| Loss on early retirement of debt | | 11,626 | | 11,626 |
| Loss on disposal of assets | | 282 | | 282 |
| Gain on sale of assets and businesses | (1,264) | (42,192) | (1,264) | (42,192) |
| Gain on sale of equity investment | (29,647) | (241) | (29,647) | (241) |
| Impairment of equity investment | | 5,339 | | 5,339 |
| Stock compensation expense | 9,244 | 12,924 | 9,244 | 12,924 |
| Amortization of debt discount, premium and issuance costs | 6,746 | 11,845 | 6,746 | 11,845 |
| Deferred income taxes | (6,925) | (13,088) | (6,925) | (13,088) |
| Changes in operating assets and liabilities, net of effects from acquisition of businesses: | | | | |
| Accounts receivable | (48,778) | (40,776) | (48,778) | (40,776) |
| Other current assets | (4,580) | 12,094 | (4,580) | 12,094 |
| Other assets | 4,540 | 4,689 | 4,540 | 4,689 |
| Accounts payable | 3,047 | (17,752) | 3,047 | (17,752) |
| Accrued expenses | 32,716 | 52,996 | 32,716 | 52,996 |
| Due to third party payors | | 11,065 | | 11,065 |
| Income taxes | 15,246 | 5,033 | 15,246 | 5,033 |
| Net cash provided by operating activities | 203,431 | 280,247 | 203,431 | 280,247 |
| | | | | |
| **Investing activities** | | | | |
| Purchases of property and equipment | (113,992) | (118,260) | (113,992) | (118,260) |
| Proceeds from sale of assets and businesses | 1,542 | 71,388 | 1,542 | 71,388 |
| Investment in businesses | (1,703) | (3,140) | (1,703) | (3,140) |
| Proceeds from sale of equity investment | 33,096 | 1,241 | 33,096 | 1,241 |
| Acquisition of businesses, net of cash acquired | (1,049,872) | (414,231) | (1,049,872) | (414,231) |
| Net cash used in investing activities | (1,130,929) | (463,002) | (1,130,929) | (463,002) |
| | | | | |
| **Financing activities** | | | | |
| Borrowings on revolving facilities | 840,000 | 420,000 | 840,000 | 420,000 |
| Payments on revolving facilities | (675,000) | (545,000) | (675,000) | (545,000) |
| Net proceeds from term loans | 623,575 | 795,344 | 623,575 | 795,344 |
| Payments on term loans | (26,884) | (434,842) | (26,884) | (434,842) |
| Borrowings of other debt | 11,041 | 23,801 | 11,041 | 23,801 |

| | | | | |
|---|---|---|---|---|
| Principal payments on other debt | (13,167) | (15,477) | (13,167) | (15,477) |
| Dividends paid to common stockholders | (13,129) | | | |
| Dividends paid to Holdings | | | (26,751) | (1,939) |
| Repurchase of common stock | (13,622) | (1,939) | | |
| Proceeds from issuance of common stock | 1,604 | 1,488 | | |
| Equity investment by Holdings | | | 1,604 | 1,488 |
| Proceeds from issuance of non-controlling interest | 217,065 | 11,846 | 217,065 | 11,846 |
| Proceeds from (repayments of) bank overdrafts | 2,353 | (8,464) | 2,353 | (8,464) |
| Tax benefit from stock based awards | 383 | 514 | 383 | 514 |
| Purchase of non-controlling interests | | (1,530) | | (1,530) |
| Distributions to non-controlling interests | (7,440) | (9,198) | (7,440) | (9,198) |
| Net cash provided by financing activities | 946,779 | 236,543 | 946,779 | 236,543 |
| | | | | |
| Net increase in cash and cash equivalents | 19,281 | 53,788 | 19,281 | 53,788 |
| | | | | |
| Cash and cash equivalents at beginning of period | 3,354 | 14,435 | 3,354 | 14,435 |
| Cash and cash equivalents at end of period | $ 22,635 | $ 68,223 | $ 22,635 | $ 68,223 |
| | | | | |
| **Supplemental Cash Flow Information** | | | | |
| Cash paid for interest | $ 59,937 | $ 92,928 | $ 59,937 | $ 92,928 |
| Cash paid for taxes | $ 55,905 | $ 59,937 | $ 55,905 | $ 59,937 |

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

Table of Contents

**SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

## 1. Basis of Presentation

The unaudited condensed consolidated financial statements of Select Medical Holdings Corporation ( Holdings ) and Select Medical Corporation ( Select ) as of September 30, 2016, and for the three and nine month periods ended September 30, 2015 and 2016, have been prepared in accordance with generally accepted accounting principles ( GAAP ). In the opinion of management, such information contains all adjustments, which are normal and recurring in nature, necessary for a fair statement of the financial position, results of operations and cash flow for such periods. All significant intercompany transactions and balances have been eliminated. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2016. Holdings and Select and their subsidiaries are collectively referred to as the Company. The condensed consolidated financial statements of Holdings include the accounts of its wholly owned subsidiary, Select. Holdings conducts substantially all of its business through Select and its subsidiaries.

Certain information and disclosures normally included in the notes to consolidated financial statements have been condensed or omitted consistent with the rules and regulations of the Securities and Exchange Commission (the SEC ), although the Company believes the disclosure is adequate to make the information presented not misleading. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2015 contained in the Company s Annual Report on Form 10-K filed with the SEC on February 26, 2016.

## 2. Accounting Policies

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

**Recent Accounting Pronouncements**

In August 2016, the Financial Accounting Standards Board (the FASB ) issued Accounting Standards Update ( ASU ) 2016-15*, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments,* which addresses the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The standard will be effective for fiscal years beginning after December 15, 2017. The Company is currently evaluating the standard to determine the impact it will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation*, which simplifies various aspects of accounting for share-based payments to employees. The areas for simplification involve several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The standard will be effective for fiscal years beginning after December 15, 2016. The Company is currently evaluating the standard to determine the impact it will have on its consolidated financial statements.

Table of Contents

In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU includes a lessee accounting model that recognizes two types of leases; finance and operating. This ASU requires that a lessee recognize on the balance sheet assets and liabilities for all leases with lease terms of more than twelve months. Lessees will need to recognize almost all leases on the balance sheet as a right-of-use asset and a lease liability. For income statement purposes, the FASB retained the dual model, requiring leases to be classified as either operating or finance. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as finance or operating lease. For short-term leases of twelve months or less, lessees are permitted to make an accounting election by class of underlying asset not to recognize right-of-use assets or lease liabilities. If the alternative is elected, lease expense would be recognized generally on the straight-line basis over the respective lease term.

The amendments in ASU 2016-02 will take effect for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Earlier application is permitted as of the beginning of an interim or annual reporting period. A modified retrospective approach is required for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is currently evaluating the standard to determine the impact it will have on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which changes the presentation of deferred income taxes. The intent is to simplify the presentation of deferred income taxes through the requirement that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The revised guidance is effective for annual fiscal periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the standard to determine the impact it will have on its consolidated financial statements.

In May 2014, March 2016, and April 2016 the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, ASU 2016-08, *Revenue from Contracts with Customers, Principal versus Agent Considerations*, ASU 2016-10, *Revenue from Contracts with Customers, Identifying Performance Obligations and Licensing*, and ASU 2016-12, *Revenue from Contracts with Customers, Narrow Scope Improvements and Practical Expedients*, respectively, which supersede most of the current revenue recognition requirements. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. New disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers are also required. The original standards were effective for fiscal years beginning after December 15, 2016; however, in July 2015, the FASB approved a one-year deferral of these standards, with a new effective date for fiscal years beginning after December 15, 2017. The standards require the selection of a modified retrospective or cumulative effect transition method for retrospective application. The Company is currently evaluating the standards to determine the impact they will have on its consolidated financial statements.

**Recently Adopted Accounting Pronouncements**

In April and August 2015, the FASB issued ASU 2015-03 and ASU 2015-15, each titled *Interest- Imputation of Interest*, to simplify the presentation of debt issuance costs. The standard requires debt issuance costs be presented in the balance sheet as a direct deduction from the carrying value of the debt liability. The FASB clarified that debt issuance costs related to line-of-credit arrangements can be presented as an asset and amortized over the term of the arrangement. The Company adopted the standard at the beginning of the first quarter of 2016. The balance sheet as of December 31, 2015 was retrospectively conformed to reflect the

Table of Contents

adoption of the standard and approximately $38.0 million of unamortized debt issuance costs were reclassified to be a direct reduction of debt, rather than a component of other assets.

## 3. Acquisitions

***Physiotherapy Acquisition***

On March 4, 2016, Select acquired 100% of the issued and outstanding equity securities of Physiotherapy Associates Holdings, Inc. ( Physiotherapy ) for $406.3 million, net of $12.3 million of cash acquired. Select financed the acquisition using a combination of cash on hand and proceeds from an incremental term loan facility under the Select credit facilities, as defined below (see Note 7 for more details). During the nine months ended September 30, 2016, $3.2 million of Physiotherapy acquisition costs were recognized in general and administrative expense.

Physiotherapy is a national provider of outpatient physical rehabilitation care offering a wide range of services, including general orthopedics, spinal care and neurological rehabilitation, as well as orthotics and prosthetics services.

The Physiotherapy acquisition is being accounted for under the provisions of Accounting Standards Codification ( ASC ) 805, Business Combinations. The Company has prepared a preliminary allocation of the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The Company is in the process of completing its assessment of fair values for identifiable tangible and intangible assets, and liabilities assumed; therefore, the values set forth below are subject to adjustment during the measurement period for such activities as estimating useful lives of long-lived assets and finite lived intangibles and completing assessment of fair values by obtaining appraisals. The amount of these potential adjustments could be significant. The Company expects to complete its purchase price allocation activities by December 31, 2016.

The following table summarizes the preliminary allocation of the purchase price to the fair value of identifiable assets acquired and liabilities assumed, in accordance with the acquisition method of accounting (in thousands):

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 12,340 |
| Identifiable tangible assets, excluding cash and cash equivalents | | 92,981 |
| Identifiable intangible assets | | 32,484 |
| Goodwill | | 319,145 |
| Total assets | | 456,950 |
| Total liabilities | | 35,792 |
| Acquired non-controlling interests | | 2,514 |
| Net assets acquired | | 418,644 |
| Less: Cash and cash equivalents acquired | | (12,340) |
| Net cash paid | $ | 406,304 |

Table of Contents

Goodwill of $319.1 million has been recognized in the transaction, representing the excess of the purchase price over the value of the tangible and intangible assets acquired and liabilities assumed. The factors considered in determining the goodwill that resulted from the Physiotherapy purchase price included Physiotherapy s future earnings potential and the value of the assembled workforce. The goodwill has been allocated to the outpatient rehabilitation segment and is not deductible for tax purposes. However, prior to its acquisition by the Company, Physiotherapy completed certain acquisitions that resulted in goodwill with an estimated value of $8.8 million that is deductible for tax purposes, which the Company will deduct through 2030.

Due to the integrated nature of our operations, it is not practicable to separately identify net revenue and earnings of Physiotherapy on a stand-alone basis.

***Concentra Acquisition***

On June 1, 2015, MJ Acquisition Corporation, a joint venture that Select created with Welsh, Carson, Anderson & Stowe XII, L.P., consummated the acquisition of Concentra, Inc. ( Concentra ), the indirect operating subsidiary of Concentra Group Holdings, LLC, and its subsidiaries. Pursuant to the terms of the stock purchase agreement, dated as of March 22, 2015, by and among MJ Acquisition Corporation, Concentra and Humana Inc., MJ Acquisition Corporation acquired 100% of the issued and outstanding equity securities of Concentra from Humana, Inc. for $1,047.2 million, net of $3.8 million of cash acquired.

During the year ended December 31, 2015, the Company finalized the purchase price allocation to identifiable intangible assets, fixed assets, non-controlling interests, and certain pre-acquisition contingencies. During the quarter ended June 30, 2016, the Company completed the accounting for certain deferred tax matters.

Table of Contents

The following table summarizes the allocation of the purchase price to the fair value of identifiable assets acquired and liabilities assumed, in accordance with the acquisition method of accounting (in thousands):

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 3,772 |
| Identifiable tangible assets, excluding cash and cash equivalents | | 406,926 |
| Identifiable intangible assets | | 254,990 |
| Goodwill | | 651,152 |
| Total assets | | 1,316,840 |
| Total liabilities | | 248,797 |
| Acquired non-controlling interests | | 17,084 |
| Net assets acquired | | 1,050,959 |
| Less: Cash and cash equivalents acquired | | (3,772) |
| Net cash paid | $ | 1,047,187 |

Goodwill of $651.2 million was recognized in the transaction, representing the excess of the purchase price over the value of the tangible and intangible assets acquired and liabilities assumed. The factors considered in determining the goodwill that resulted from the Concentra purchase price included Concentra s future earnings potential and the value of Concentra s assembled workforce. The goodwill is allocated to the Concentra segment and is not deductible for tax purposes. However, prior to its acquisition by MJ Acquisition Corporation, Concentra completed certain acquisitions that resulted in goodwill with an estimated value of $23.9 million that is deductible for tax purposes, which the Company will deduct through 2025.

For the three months ended September 30, 2016, Concentra contributed net revenue of $258.5 million and net income of approximately $0.9 million, which are reflected in the Company s consolidated statements of operations. For the nine months ended September 30, 2016, Concentra contributed net revenue of $764.3 million and net income of approximately $7.9 million, which are reflected in the Company s consolidated statements of operations.

***Pro Forma Results***

The following pro forma unaudited results of operations have been prepared assuming the acquisitions of Concentra and Physiotherapy occurred January 1, 2014 and 2015, respectively. These results are not necessarily indicative of results of future operations nor of the results that would have actually occurred had the acquisitions been consummated on the aforementioned dates. The Company s results of operations for the three months ended September 30, 2016 include both Concentra and Physiotherapy for the entire period and there are no pro forma adjustments; therefore, no pro forma information is presented for the period.

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|
| | 2015 | | 2015 | | 2016 | |
| | (in thousands, except per share amounts) | | | | | |
| Net revenue | $ | 1,099,857 | $ | 3,350,131 | $ | 3,293,286 |
| Net income attributable to Holdings | | 26,277 | | 88,502 | | 93,407 |
| Income per common share: | | | | | | |
| Basic | $ | 0.20 | $ | 0.67 | $ | 0.71 |
| Diluted | $ | 0.20 | $ | 0.67 | $ | 0.71 |

Table of Contents

The pro forma financial information is based on the preliminary allocation of the purchase price of the Physiotherapy acquisition, and is therefore subject to adjustment upon finalizing the purchase price allocation, as described above, during the measurement period. The net income tax impact was calculated at a statutory rate, as if Concentra and Physiotherapy had been subsidiaries of the Company as of January 1, 2014 and 2015, respectively.

Pro forma results for the nine months ended September 30, 2015 were adjusted to include $3.2 million of Physiotherapy acquisition costs and exclude $4.7 million of Concentra acquisition costs. Pro forma results for the nine months ended September 30, 2016 were adjusted to exclude approximately $3.2 million of Physiotherapy acquisition costs.

***Other Acquisitions***

In addition to the acquisition of Physiotherapy, the Company completed other acquisitions consisting of hospital, clinic, and center businesses during the nine months ended September 30, 2016. The specialty hospital transactions were conducted principally through either the exchange of nonmonetary assets or issuance of equity interests. Assets transferred and equity interests issued for these acquisitions consisted of $7.6 million in cash payments, net of cash received, $17.7 million for specialty hospitals exchanged, and issuance of $38.3 million of equity interests. The specialty hospital exchange transaction resulted in a non-operating gain totaling $6.5 million due, in part, to a bargain purchase because the fair values of the identifiable assets received in the exchange transaction exceeded the fair values of the transferred hospitals. The assets received in these acquisitions consisted principally of cash, real property, and goodwill, of which $46.2 million, $0.9 million, and $4.1 million of goodwill was recognized in our specialty hospital, outpatient rehabilitation, and Concentra reporting units, respectively.

## 4. Sale of Businesses

The Company recognized non-operating gains totaling $42.1 million for the nine months ended September 30, 2016, principally as the result of the sale of its contract therapy businesses for $65.0 million, resulting in a non-operating gain of $33.9 million. Additionally, the Company sold nine outpatient rehabilitation clinics to an entity in which the Company holds a non-controlling interest, resulting in a non-operating gain of $1.7 million.

## 5. Equity Investment Events

During the nine months ended September 30, 2016, an entity in which the Company owned a non-controlling interest was sold, which resulted in a non-operating loss of $5.1 million.

Table of Contents

### 6. Intangible Assets

The net carrying value of the Company s goodwill and identifiable intangible assets consist of the following:

| | December 31, 2015 | September 30, 2016 |
|---|---|---|
| | (in thousands) | |
| Goodwill | $ 2,314,624 | $ 2,674,623 |
| Identifiable intangibles Indefinite lived assets: | | |
| Trademarks | 162,609 | 166,698 |
| Certificates of need | 13,022 | 13,070 |
| Accreditations | 2,045 | 2,045 |
| Identifiable intangibles Finite lived assets: | | |
| Customer relationships | 132,751 | 122,095 |
| Favorable leasehold interests | 8,248 | 11,227 |
| Non-compete agreements | | 23,085 |
| Total identifiable intangibles | $ 2,633,299 | $ 3,012,843 |

The Company s customer relationships and non-compete agreement assets amortize over their estimated useful lives. Amortization expense was $4.1 million and $3.0 million for the three months ended September 30, 2016 and 2015, respectively. Amortization expense was $12.2 million and $4.4 million for the nine months ended September 30, 2016 and 2015, respectively. Estimated amortization expense of the Company s customer relationships and non-compete agreements for each of the five succeeding years is $16.3 million.

In addition, the Company has recognized unfavorable leasehold interests which are recorded as liabilities. The net carrying value of unfavorable leasehold interests was $4.0 million and $3.0 million as of September 30, 2016 and December 31, 2015, respectively.

The Company s favorable leasehold assets and unfavorable leasehold liabilities are amortized to rent expense over the remaining term of their respective leases to reflect a market rent per period based upon the market conditions present at the acquisition date. The net effect of this amortization increased rent expense by $0.2 million for the three months ended September 30, 2016 and $0.5 million for the nine months ended September 30, 2016.

The Company s accreditations and trademarks have renewal terms. The costs to renew these intangibles are expensed as incurred. At September 30, 2016, the accreditations and trademarks have a weighted average time until next renewal of 1.5 years and 3.1 years, respectively.

Table of Contents

The changes in the carrying amount of goodwill for the Company s reportable segments for the nine months ended September 30, 2016 are as follows:

| | Specialty Hospitals | Outpatient Rehabilitation | Concentra | Total |
|---|---|---|---|---|
| | | (in thousands) | | |
| Balance as of December 31, 2015 | $ 1,357,379 | $ 306,595 | $ 650,650 | $ 2,314,624 |
| Acquired | 46,205 | 358,153 | 4,115 | 408,473 |
| Measurement period adjustment | | (38,148) | 4,825 | (33,323) |
| Disposed | (6,758) | (8,393) | | (15,151) |
| Balance as of September 30, 2016 | $ 1,396,826 | $ 618,207 | $ 659,590 | $ 2,674,623 |

See Note 3 for details of the goodwill acquired during the period.

**7. Indebtedness**

For purposes of this indebtedness footnote, references to Select exclude Concentra, because the Concentra credit facilities are non-recourse to Holdings and Select.

The components of long-term debt and notes payable are shown in the following tables:

| | December 31, 2015 | September 30, 2016 |
|---|---|---|
| | (in thousands) | |
| Select 6.375% senior notes(1) | $ 700,867 | $ 702,124 |
| Select credit facilities: | | |
| Select revolving facility | 295,000 | 175,000 |
| Select term loans(2) | 743,071 | 1,121,655 |
| Other Select | 11,987 | 22,802 |
| Total Select debt | 1,750,925 | 2,021,581 |
| Less: Select current maturities | 222,905 | 7,268 |
| Select long-term debt maturities | $ 1,528,020 | $ 2,014,313 |
| | | |
| Concentra credit facilities: | | |
| Concentra revolving facility | $ 5,000 | $ |
| Concentra term loans(3) | 624,659 | 627,262 |
| Other Concentra | 5,312 | 5,962 |
| Total Concentra debt | 634,971 | 633,224 |
| Less: Concentra current maturities | 2,261 | 5,422 |
| Concentra long-term debt maturities | $ 632,710 | $ 627,802 |
| | | |
| Total current maturities | $ 225,166 | $ 12,690 |
| Total long-term debt maturities | 2,160,730 | 2,642,115 |

| | | | | |
|---|---|---|---|---|
| Total debt | $ | 2,385,896 | $ | 2,654,805 |

(1) Includes unamortized premium of $1.2 million and $1.1 million at December 31, 2015 and September 30, 2016, respectively. Includes unamortized debt issuance costs of $10.4 million and $8.9 million at December 31, 2015 and September 30, 2016, respectively.

Table of Contents

(2) Includes unamortized discounts of $2.8 million and $12.9 million at December 31, 2015 and September 30, 2016, respectively. Includes unamortized debt issuance costs of $7.4 million and $14.8 million at December 31, 2015 and September 30, 2016, respectively.

(3) Includes unamortized discounts of $2.9 million at both December 31, 2015 and September 30, 2016. Includes unamortized debt issuance costs of $20.2 million and $13.7 million at December 31, 2015 and September 30, 2016, respectively.

**Maturities of Long-Term Debt and Notes Payable**

Maturities of the Company s long-term debt for the period from October 1, 2016 through December 31, 2016 and the years after 2016 are approximately as follows:

| | Select | Concentra (in thousands) | Total |
|---|---|---|---|
| October 1, 2016 December 31, 2016 | $ 4,236 | $ 2,160 | $ 6,396 |
| 2017 | 16,731 | 7,890 | 24,621 |
| 2018 | 706,426 | 6,617 | 713,043 |
| 2019 | 18,084 | 6,636 | 24,720 |
| 2020 | 6,303 | 6,656 | 12,959 |
| 2021 and beyond | 1,305,337 | 619,873 | 1,925,210 |
| Total principal | 2,057,117 | 649,832 | 2,706,949 |
| Unamortized discounts and premiums | (11,811) | (2,905) | (14,716) |
| Unamortized debt issuance costs | (23,725) | (13,703) | (37,428) |
| Total | $ 2,021,581 | $ 633,224 | $ 2,654,805 |

**Excess Cash Flow Payment**

On March 2, 2016, Select made a principal prepayment of $10.2 million associated with its term loans (the Select term loans ) in accordance with the provision in the Select credit facilities that requires mandatory prepayments of term loans as a result of annual excess cash flow as defined in the Select credit facilities.

**Select Credit Facilities**

On March 4, 2016, Select entered into an Additional Credit Extension Amendment (the Additional Credit Extension Amendment ) to Select s senior secured credit facility with JPMorgan Chase Bank, N.A., as administrative agent, collateral agent and lender, and the additional lenders named therein (the Select credit facilities ). The Additional Credit Extension Amendment (i) provided for the lenders named therein to make available an aggregate of $625.0 million of Series F Tranche B Term Loans, (ii) extended the financial covenants through March 3, 2021, (iii) added a 1.00% prepayment premium for prepayments made with new term loans on or prior to March 4, 2017 if such new term loans have a lower yield than the Series F Tranche B Term Loans, and (iv) made certain other technical amendments to the Select credit facilities. The Series F Tranche B Term Loans bear interest at a rate per annum equal to the Adjusted LIBO Rate (as defined in the Select credit facilities, subject to an Adjusted LIBO Rate floor of 1.00%) plus 5.00% for Eurodollar Loans or the Alternate Base Rate (as defined in the Select credit facilities) plus 4.00% for Alternate Base Rate Loans (as defined in the Select credit facilities). Select is required to make principal payments on the Series F Tranche B Term Loans in quarterly installments on the last day of each of March, June, September and December, beginning June 30, 2016, in amounts equal to 0.25% of the aggregate principal amount of the Series F Tranche B Term Loans outstanding as of the date of the Additional Credit Extension Amendment. The balance of the

Table of Contents

Series F Tranche B Term Loans is payable on March 3, 2021. Except as specifically set forth in the Additional Credit Extension Amendment, the terms and conditions of the Series F Tranche B Term Loans are identical to the terms of the outstanding Series E Term B Loans under the Select credit facilities and the other loan documents to which Select is party.

Select used the proceeds of the Series F Tranche B Term Loans to (i) refinance in full the Series D Tranche B Term Loans due December 20, 2016, (ii) consummate the acquisition of Physiotherapy, and (iii) pay fees and expenses incurred in connection with the acquisition of Physiotherapy, the refinancing, and the Additional Credit Extension Amendment.

As a result of the Additional Credit Extension Amendment relating to the Series F Tranche B Term Loans, the interest rate payable on the Series E Tranche B Term Loans was increased from Adjusted LIBO plus 4.00% (subject to an Adjusted LIBO rate floor of 1.00%), or Alternative Base Rate plus 3.00%, to Adjusted LIBO plus 5.00% (subject to an Adjusted LIBO rate floor of 1.00%), or Alternative Base Rate plus 4.00%.

During the nine months ended September 30, 2016, the Company recognized a loss on early retirement of debt of $0.8 million relating to the repayment of the Series D Tranche B Term Loans under the Select credit facilities.

**Concentra Credit Facilities**

On September 26, 2016, Concentra entered into Amendment No. 1 (the Concentra Credit Agreement Amendment ) to its first lien credit agreement (the Concentra first lien credit agreement ) dated June 1, 2015. The Concentra first lien credit agreement initially provided for $500.0 million in first lien credit facilities composed of $450.0 million, seven-year term loans ( Concentra first lien term loan ) and a $50.0 million, five-year revolving credit facility ( Concentra revolving facility ).

The Concentra Credit Agreement Amendment provided an additional $200.0 million of first lien term loans due June 1, 2022, the proceeds of which were used to prepay in full Concentra s second lien term loan due June 1, 2023; and also amended certain restrictive covenants to give Concentra greater operational flexibility.

The Concentra first lien term loan continues to bear interest at a rate equal to Adjusted LIBO (as defined in the Concentra first lien credit agreement) plus 3.00% (subject to an Adjusted LIBO floor of 1.00%), or Alternate Base Rate (as defined in the Concentra first lien credit agreement) plus 2.00% (subject to an Alternate Base Rate floor of 2.00%). The Concentra first lien term loan amortizes in equal quarterly installments of $1.6 million through March 31, 2022, with the remaining unamortized aggregate principal due on the maturity date.

The reacquisition price of the second lien term loans was $202.0 million. The premium plus the expensing of unamortized deferred financing costs and original issuance discount resulted in a loss on early retirement of debt of $10.9 million during the three months ended September 30, 2016.

Table of Contents

**8. Fair Value**

Financial instruments include cash and cash equivalents, notes payable, and long-term debt. The carrying amount of cash and cash equivalents approximates fair value because of the short-term maturity of these instruments.

| | December 31, 2015 | | | September 30, 2016 | | |
|---|---|---|---|---|---|---|
| | Face Value | Carrying Value | Fair Value | Face Value | Carrying Value | Fair Value |
| | (in thousands) | | | | | |
| Select 6.375% senior notes(1) | $ 710,000 | $ 700,867 | $ 623,948 | $ 710,000 | $ 702,124 | $ 698,853 |
| Select credit facilities(2) | 1,048,277 | 1,038,071 | 1,023,616 | 1,324,315 | 1,296,655 | 1,318,943 |
| Concentra credit facilities(3) | 652,750 | 629,659 | 645,392 | 643,870 | 627,262 | 642,260 |

(1) The carrying value includes unamortized premium of $1.2 million and $1.1 million at December 31, 2015 and September 30, 2016, respectively, and unamortized debt issuance costs of $10.4 million and $8.9 million at December 31, 2015 and September 30, 2016, respectively.

(2) The carrying value includes unamortized discounts of $2.8 million and $12.9 million at December 31, 2015 and September 30, 2016, respectively, and unamortized debt issuance costs of $7.4 million and $14.8 million at December 31, 2015 and September 30, 2016, respectively.

(3) The carrying value includes unamortized discounts of $2.9 million at both December 31, 2015 and September 30, 2016 and unamortized debt issuance costs of $20.2 million and $13.7 million at December 31, 2015 and September 30, 2016, respectively.

The fair value of the Select credit facilities and the Concentra credit facilities was based on quoted market prices for this debt in the syndicated loan market. The fair value of Select s 6.375% senior notes debt was based on quoted market prices.

The Company considers the inputs in the valuation process to be Level 2 in the fair value hierarchy. Level 2 in the fair value hierarchy is defined as inputs that are observable for the asset or liability, either directly or indirectly, which includes quoted prices for identical assets or liabilities in markets that are not active.

**9. Segment Information**

The Company s reportable segments consist of: (i) specialty hospitals, (ii) outpatient rehabilitation, and (iii) Concentra. Other activities include the Company s corporate shared services and certain other non-consolidating joint ventures and minority investments in other healthcare related businesses. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance of the segments based on Adjusted EBITDA. Adjusted EBITDA is defined as earnings excluding interest, income taxes, depreciation and amortization, gain (loss) on early retirement of debt, stock compensation expense, Concentra acquisition costs, Physiotherapy acquisition costs, non-operating gain (loss), and equity in earnings (losses) of unconsolidated subsidiaries.

Table of Contents

The following tables summarize selected financial data for the Company s reportable segments. The segment results of Holdings are identical to those of Select.

| Three Months Ended September 30, 2015 (in thousands) | Specialty Hospitals | Outpatient Rehabilitation | Concentra | Other | Total |
|---|---|---|---|---|---|
| Net operating revenues | $ 562,328 | $ 199,593 | $ 258,969 | $ 233 | $ 1,021,123 |
| Adjusted EBITDA | 53,656 | 23,807 | 25,584 | (18,536) | 84,511 |
| Total assets | 2,333,049 | 541,435 | 1,332,975 | 106,946 | 4,314,405 |
| Capital expenditures | 27,494 | 4,023 | 9,640 | 3,923 | 45,080 |

| Three Months Ended September 30, 2016 (in thousands) | Specialty Hospitals | Outpatient Rehabilitation(1) | Concentra | Other | Total |
|---|---|---|---|---|---|
| Net operating revenues | $ 544,491 | $ 250,710 | $ 258,507 | $ 87 | $ 1,053,795 |
| Adjusted EBITDA | 48,264 | 31,995 | 40,888 | (23,070) | 98,077 |
| Total assets | 2,461,751 | 977,431 | 1,327,438 | 78,785 | 4,845,405 |
| Capital expenditures | 24,378 | 6,234 | 2,720 | 4,670 | 38,002 |

| Nine Months Ended September 30, 2015 (in thousands) | Specialty Hospitals | Outpatient Rehabilitation | Concentra(2) | Other | Total |
|---|---|---|---|---|---|
| Net operating revenues | $ 1,753,445 | $ 603,831 | $ 345,798 | $ 457 | $ 2,703,531 |
| Adjusted EBITDA | 241,575 | 74,662 | 36,783 | (54,672) | 298,348 |
| Total assets | 2,333,049 | 541,435 | 1,332,975 | 106,946 | 4,314,405 |
| Capital expenditures | 81,329 | 11,048 | 13,494 | 8,121 | 113,992 |

| Nine Months Ended September 30, 2016 (in thousands) | Specialty Hospitals | Outpatient Rehabilitation(1) | Concentra | Other | Total |
|---|---|---|---|---|---|
| Net operating revenues | $ 1,729,261 | $ 745,720 | $ 764,252 | $ 523 | $ 3,239,756 |
| Adjusted EBITDA | 217,759 | 99,006 | 118,080 | (66,696) | 368,149 |
| Total assets | 2,461,751 | 977,431 | 1,327,438 | 78,785 | 4,845,405 |
| Capital expenditures | 79,366 | 15,032 | 10,647 | 13,215 | 118,260 |

Table of Contents

A reconciliation of Adjusted EBITDA to income before income taxes is as follows:

| Three Months Ended September 30, 2015 (in thousands) | Specialty Hospitals | Outpatient Rehabilitation | Concentra | Other | Total |
|---|---|---|---|---|---|
| Adjusted EBITDA | $ 53,656 | $ 23,807 | $ 25,584 | $ (18,536) | |
| Depreciation and amortization | (13,782) | (3,247) | (13,316) | (1,127) | |
| Stock compensation expense | | | (811) | (4,014) | |
| Income (loss) from operations | $ 39,874 | $ 20,560 | $ 11,457 | $ (23,677) | $ 48,214 |
| Non-operating gain | | | | | 29,647 |
| Equity in earnings of unconsolidated subsidiaries | | | | | 6,348 |
| Interest expense | | | | | (33,052) |
| Income before income taxes | | | | | $ 51,157 |

| Three Months Ended September 30, 2016 (in thousands) | Specialty Hospitals | Outpatient Rehabilitation (1) | Concentra | Other | Total |
|---|---|---|---|---|---|
| Adjusted EBITDA | $ 48,264 | $ 31,995 | $ 40,888 | $ (23,070) | |
| Depreciation and amortization | (14,317) | (6,159) | (15,278) | (1,411) | |
| Stock compensation expense | | | (193) | (4,557) | |
| Income (loss) from operations | $ 33,947 | $ 25,836 | $ 25,417 | $ (29,038) | $ 56,162 |
| Non-operating loss | | | | | (1,028) |
| Loss on early retirement of debt | | | | | (10,853) |
| Equity in earnings of unconsolidated subsidiaries | | | | | 5,268 |
| Interest expense | | | | | (44,482) |
| Income before income taxes | | | | | $ 5,067 |

| Nine Months Ended September 30, 2015 (in thousands) | Specialty Hospitals | Outpatient Rehabilitation | Concentra(2) | Other | Total |
|---|---|---|---|---|---|
| Adjusted EBITDA | $ 241,575 | $ 74,662 | $ 36,783 | $ (54,672) | |
| Depreciation and amortization | (40,409) | (9,564) | (17,510) | (3,185) | |
| Stock compensation expense | | | (811) | (9,664) | |
| Concentra acquisition costs | | | (4,715) | | |
| Income (loss) from operations | $ 201,166 | $ 65,098 | $ 13,747 | $ (67,521) | $ 212,490 |
| Non-operating gain | | | | | 29,647 |
| Equity in earnings of unconsolidated subsidiaries | | | | | 12,788 |
| Interest expense | | | | | (79,728) |
| Income before income taxes | | | | | $ 175,197 |

Table of Contents

| | Nine Months Ended September 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Specialty Hospitals | Outpatient Rehabilitation(1) | Concentra (in thousands) | Other | Total |
| Adjusted EBITDA | $ 217,759 | $ 99,006 | $ 118,080 | $ (66,696) | |
| Depreciation and amortization | (42,022) | (16,397) | (45,570) | (3,898) | |
| Stock compensation expense | | | (577) | (12,347) | |
| Physiotherapy acquisition costs | | | | (3,236) | |
| Income (loss) from operations | $ 175,737 | $ 82,609 | $ 71,933 | $ (86,177) | $ 244,102 |
| Non-operating gain | | | | | 37,094 |
| Loss on early retirement of debt | | | | | (11,626) |
| Equity in earnings of unconsolidated subsidiaries | | | | | 14,466 |
| Interest expense | | | | | (127,662) |
| Income before income taxes | | | | | $ 156,374 |

(1) The outpatient rehabilitation segment includes the operating results of contract therapy businesses through March 31, 2016 and Physiotherapy beginning March 4, 2016.

(2) The selected financial data for the Company s Concentra segment for the periods presented begins as of June 1, 2015, which is the date the Concentra acquisition was consummated.

**10. Income per Common Share**

Holdings applies the two-class method for calculating and presenting income per common share. The two-class method is an earnings allocation formula that determines earnings per share for each class of stock participation rights in undistributed earnings. The following table sets forth for the periods indicated the calculation of income per common share in Holdings consolidated statements of operations and the differences between basic weighted average shares outstanding and diluted weighted average shares outstanding used to compute basic and diluted income per common share, respectively:

Table of Contents

| | For the Three Months Ended September 30, 2015 | For the Three Months Ended September 30, 2016 | For the Nine Months Ended September 30, 2015 | For the Nine Months Ended September 30, 2016 |
|---|---|---|---|---|
| | (in thousands, except per share amounts) | | | |
| Numerator: | | | | |
| Net income attributable to Select Medical Holdings Corporation | $ 29,406 | $ 6,471 | $ 101,409 | $ 95,239 |
| Less: Earnings allocated to unvested restricted stockholders | 923 | 209 | 2,925 | 2,852 |
| Net income available to common stockholders | $ 28,483 | $ 6,262 | $ 98,484 | $ 92,387 |
| | | | | |
| Denominator: | | | | |
| Weighted average shares basic | 127,386 | 127,848 | 127,541 | 127,659 |
| Effect of dilutive securities: | | | | |
| Stock options | 263 | 141 | 303 | 145 |
| Weighted average shares diluted | 127,649 | 127,989 | 127,844 | 127,804 |
| | | | | |
| Basic income per common share | $ 0.22 | $ 0.05 | $ 0.77 | $ 0.72 |
| Diluted income per common share | $ 0.22 | $ 0.05 | $ 0.77 | $ 0.72 |

**11. Commitments and Contingencies**

**Litigation**

The Company is a party to various legal actions, proceedings and claims (some of which are not insured), and regulatory and other governmental audits and investigations in the ordinary course of its business. The Company cannot predict the ultimate outcome of pending litigation, proceedings and regulatory and other governmental audits and investigations. These matters could potentially subject the Company to sanctions, damages, recoupments, fines and other penalties. The Department of Justice, Centers for Medicare & Medicaid Services ( CMS ) or other federal and state enforcement and regulatory agencies may conduct additional investigations related to the Company s businesses in the future that may, either individually or in the aggregate, have a material adverse effect on the Company s business, financial position, results of operations and liquidity.

To address claims arising out of the Company s operations, the Company maintains professional malpractice liability insurance and general liability insurance, subject to self-insured retention of $2.0 million per medical incident for professional liability claims and $2.0 million per occurrence for general liability claims. The Company also maintains umbrella liability insurance covering claims which, due to their nature or amount, are not covered by or not fully covered by the Company s other insurance policies. These insurance policies also do not generally cover punitive damages and are subject to various deductibles and policy limits. Significant legal actions, as well as the cost and possible lack of available insurance, could subject the Company to substantial uninsured liabilities. In the Company s opinion, the outcome of these actions, individually or in the aggregate, will not have a material adverse effect on its financial position, results of operations, or cash flows.

Table of Contents

Healthcare providers are subject to lawsuits under the qui tam provisions of the federal False Claims Act. Qui tam lawsuits typically remain under seal (hence, usually unknown to the defendant) for some time while the government decides whether or not to intervene on behalf of a private qui tam plaintiff (known as a relator) and take the lead in the litigation. These lawsuits can involve significant monetary damages and penalties and award bounties to private plaintiffs who successfully bring the suits. The Company is and has been a defendant in these cases in the past, and may be named as a defendant in similar cases from time to time in the future.

*Evansville Litigation*. On October 19, 2015, the plaintiff-relators filed a Second Amended Complaint in United States of America, ex rel. Tracy Conroy, Pamela Schenk and Lisa Wilson v. Select Medical Corporation, Select Specialty Hospital Evansville, LLC ( SSH-Evansville ), Select Employment Services, Inc., and Dr. Richard Sloan. The case is a civil action filed in the United States District Court for the Southern District of Indiana by private plaintiff-relators on behalf of the United States under the federal False Claims Act. The plaintiff-relators are the former CEO and two former case managers at SSH-Evansville, and the defendants currently include the Company, SSH-Evansville, a subsidiary of the Company serving as common paymaster for its employees, and a physician who practices at SSH-Evansville. The plaintiff-relators allege that, from 2006 until April 2012, SSH-Evansville discharged patients too early or held patients too long, improperly discharged patients to and readmitted them from short stay hospitals, up-coded diagnoses at admission, and admitted patients for whom long-term acute care was not medically necessary. They also allege that the defendants engaged in retaliation in violation of federal and state law. The Second Amended Complaint replaces a prior complaint that was filed under seal on September 28, 2012 and served on the Company on February 15, 2013, after a federal magistrate judge unsealed it on January 8, 2013. All deadlines in the case had been stayed after the seal was lifted in order to allow the government time to complete its investigation and to decide whether or not to intervene. On June 19, 2015, the U.S. Department of Justice notified the District Court of its decision not to intervene in the case, and the District Court thereafter approved a case management plan imposing certain deadlines.

In December 2015, the defendants filed a Motion to Dismiss the Second Amended Complaint on multiple grounds. One basis for the Motion to Dismiss was the False Claims Act s public disclosure bar, which disqualifies qui tam actions that are based on fraud already publicly disclosed through enumerated sources, unless the relator is an original source. The Affordable Care Act, enacted on March 23, 2010, altered the public disclosure bar language of the False Claims Act by, among other things, giving the United States the right to oppose dismissal of a case based on the public disclosure bar. In their Motion to Dismiss, the defendants contended that the public disclosure bar applies because substantially the same conduct as the plaintiff-relators have alleged had previously been publicly disclosed, including in a New York Times article and a prior qui tam case. A second basis for the defendants Motion to Dismiss was that the plaintiff-relators did not plead their claims with sufficient particularity, as required by the Federal Rules of Civil Procedure.

Then, based on the Affordable Care Act s changes to the public disclosure bar language of the False Claims Act, the United States filed a notice asserting a veto of the defendants use of the public disclosure bar for claims arising from conduct from and after March 23, 2010. The defendants filed briefs challenging the United States contention that the statutory changes gives it an unfettered right to veto the applicability of the public disclosure bar. On September 30, 2016, the District Court partially granted and partially denied the defendants Motion to Dismiss. It ruled that the plaintiff-relators alleged substantially the same conduct as had been publicly disclosed and that the plaintiff relators are not original sources, so that the public disclosure bar requires dismissal of all non-retaliation claims arising from conduct before March 23, 2010. The District Court also ruled that the statutory changes to the public disclosure bar gave the United States the power to veto its applicability to claims arising from conduct on and after March 23, 2010, and therefore did not dismiss those claims based on the public disclosure bar. However, the District Court ruled that the plaintiff-relators did not

Table of Contents

plead certain of their claims relating to interrupted stay manipulation and premature discharging of patients with the requisite particularity, and dismissed those claims. The District Court declined to dismiss the plaintiff-relators claims arising from conduct from and after March 23, 2010 relating to delayed discharging of patients and upcoding and the plaintiff-relators retaliation claims.

On October 17, 2016, the defendants filed a Motion seeking certification to file an interlocutory appeal with the United States Court of Appeals for the Seventh Circuit of the District Court s ruling that the United States has the power to veto the application of the public disclosure bar to the defendants conduct from and after March 23, 2010. The Company intends to vigorously defend this action, but at this time the Company is unable to predict the timing and outcome of this matter.

*Knoxville Litigation*. On July 13, 2015, the federal District Court for the Eastern District of Tennessee unsealed a qui tam Complaint in Armes v. Garman, et al, No. 3:14-cv-00172-TAV-CCS, which named as defendants Select, Select Specialty Hospital Knoxville, Inc. ( SSH-Knoxville ), Select Specialty Hospital North Knoxville, Inc. and ten current or former employees of these facilities. The Complaint was unsealed after the United States and the State of Tennessee notified the court on July 13, 2015 that each had decided not to intervene in the case. The Complaint is a civil action that was filed under seal on April 29, 2014 by a respiratory therapist formerly employed at SSH-Knoxville. The Complaint alleges violations of the federal False Claims Act and the Tennessee Medicaid False Claims Act based on extending patient stays to increase reimbursement and to increase average length of stay; artificially prolonging the lives of patients to increase Medicare reimbursements and decrease inspections; admitting patients who do not require medically necessary care; performing unnecessary procedures and services; and delaying performance of procedures to increase billing. The Complaint was served on some of the defendants during October 2015.

In November 2015, the defendants filed a Motion to Dismiss the Complaint on multiple grounds. The defendants first argued that False Claims Act s first-to-file bar required dismissal of plaintiff-relator s claims. Under the first-to-file bar, if a qui tam case is pending, no person may bring a related action based on the facts underlying the first action. The defendants asserted that the plaintiff-relator s claims were based on the same underlying facts as were asserted in the Evansville litigation, discussed above. The defendants also argued that the plaintiff-relator s claims must be dismissed under the public disclosure bar, and because the plaintiff-relator did not plead his claims with sufficient particularity.

In June 2016, the District Court granted the defendants Motion to Dismiss and dismissed the plaintiff-relator s lawsuit in its entirety. The District Court ruled that the first-to-file bar precludes all but one of the plaintiff-relator s claims, and that the remaining claim must also be dismissed because the plaintiff-relator failed to plead it with sufficient particularity. In July 2016, the plaintiff-relator filed a Notice of Appeal to the United States Court of Appeals for the Sixth Circuit. Then, on October 11, 2016, the plaintiff-relator filed a Motion to Remand the case to the District Court for further proceedings, arguing that the September 30, 2016 decision in the Evansville litigation, discussed above, undermines the basis for the District Court s dismissal. The Company intends to vigorously defend this action, but at this time the Company is unable to predict the timing and outcome of this matter.

**Construction Commitments**

At September 30, 2016, the Company had outstanding commitments under construction contracts related to new construction, improvements and renovations at the Company s long term acute care properties, inpatient rehabilitation facilities, and Concentra centers totaling approximately

$16.2 million.

Table of Contents

**12. Financial Information for Subsidiary Guarantors and Non-Guarantor Subsidiaries under Select s 6.375% Senior Notes**

Select s 6.375% senior notes are fully and unconditionally guaranteed, except for customary limitations, on a senior basis by all of Select s wholly owned subsidiaries (the Subsidiary Guarantors ) which is defined as a subsidiary where Select or a subsidiary of Select holds all of the outstanding ownership interests. Certain of Select s subsidiaries did not guarantee the 6.375% senior notes (the Non-Guarantor Subsidiaries, including Group Holdings and its subsidiaries, which were designated as Non-Guarantor subsidiaries by Select s board of directors at the closing of the Concentra acquisition, the Non-Guarantor Concentra ).

Select conducts a significant portion of its business through its subsidiaries. Presented below is condensed consolidating financial information for Select, the Subsidiary Guarantors, the Non-Guarantor Subsidiaries, and Non-Guarantor Concentra at December 31, 2015 and September 30, 2016 and for the three and nine months ended September 30, 2015 and 2016.

The equity method has been used by Select with respect to investments in subsidiaries. The equity method has been used by Subsidiary Guarantors with respect to investments in Non-Guarantor Subsidiaries. Separate financial statements for Subsidiary Guarantors are not presented.

Certain reclassifications have been made to prior reported amounts in order to conform to the current year guarantor structure.

Table of Contents

**Select Medical Corporation**

**Condensed Consolidating Balance Sheet**

**September 30, 2016**

**(unaudited)**

| | Select (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Non-Guarantor Concentra | Eliminations | Consolidated Select Medical Corporation |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| **Assets** | | | | | | |
| Current Assets: | | | | | | |
| Cash and cash equivalents | $ 71 | $ 4,692 | $ 4,140 | $ 59,320 | $ | $ 68,223 |
| Accounts receivable, net | | 385,135 | 91,629 | 120,516 | (4,569)(e) | 592,711 |
| Current deferred tax asset | 13,208 | 23,273 | 4,023 | 10,143 | | 50,647 |
| Intercompany receivables | | 2,177,863 | 175,638 | | (2,353,501)(a) | |
| Prepaid income taxes | 5,076 | | | 6,398 | | 11,474 |
| Other current assets | 11,674 | 34,134 | 11,784 | 25,088 | | 82,680 |
| Total Current Assets | 30,029 | 2,625,097 | 287,214 | 221,465 | (2,358,070) | 805,735 |
| | | | | | | |
| Property and equipment, net | 45,241 | 580,519 | 45,701 | 192,024 | | 863,485 |
| Investment in affiliates | 4,587,985 | 90,815 | | | (4,678,800)(b) (c) | |
| Goodwill | | 2,015,033 | | 659,590 | | 2,674,623 |
| Other identifiable intangibles, net | | 103,511 | | 234,709 | | 338,220 |
| Non-current deferred tax asset | 15,215 | | | | (15,215)(d) | |
| Other assets | 7,723 | 81,266 | 54,703 | 19,650 | | 163,342 |
| | | | | | | |
| **Total Assets** | $ 4,686,193 | $ 5,496,241 | $ 387,618 | $ 1,327,438 | $ (7,052,085) | $ 4,845,405 |
| | | | | | | |
| **Liabilities and Equity** | | | | | | |
| Current Liabilities: | | | | | | |
| Bank overdrafts | $ 20,151 | $ | $ | $ | $ | $ 20,151 |
| Current portion of long-term debt and notes payable | 4,836 | 469 | 1,963 | 5,422 | | 12,690 |
| Accounts payable | 10,206 | 72,890 | 17,329 | 13,756 | | 114,181 |
| Intercompany payables | 2,177,863 | 175,638 | | | (2,353,501)(a) | |
| Accrued payroll | 13,877 | 75,189 | 11,502 | 37,522 | | 138,090 |
| Accrued vacation | 3,286 | 46,583 | 15,809 | 13,098 | | 78,776 |
| Accrued interest | 31,387 | 4 | 4 | 1,569 | | 32,964 |
| Accrued other | 44,347 | 55,704 | 9,671 | 32,709 | | 142,431 |
| Due to third party payors | | 15,634 | | | (4,569)(e) | 11,065 |
| Total Current Liabilities | 2,305,953 | 442,111 | 56,278 | 104,076 | (2,358,070) | 550,348 |
| | | | | | | |
| Long-term debt, net of current portion | 2,004,106 | 599 | 9,607 | 627,803 | | 2,642,115 |
| Subordinate debt | (641,466) | 524,292 | 117,174 | | | |
| Non-current deferred tax liability | | 110,989 | 9,852 | 104,374 | (15,215)(d) | 210,000 |
| Other non-current liabilities | 48,559 | 51,248 | 4,563 | 32,157 | | 136,527 |
| | | | | | | |
| Total Liabilities | 3,717,152 | 1,129,239 | 197,474 | 868,410 | (2,373,285) | 3,538,990 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Redeemable non-controlling interests | | | 10,639 | 235,790 | | 246,429 |
| | | | | | | |
| Stockholder s Equity: | | | | | | |
| Common stock | 0 | | | | | 0 |
| Capital in excess of par | 921,069 | | | | | 921,069 |
| Retained earnings (accumulated deficit) | 47,972 | 1,290,294 | (37,700) | 1,730 | (1,254,324)(c) | 47,972 |
| Subsidiary investment | | 3,076,708 | 129,833 | 217,935 | (3,424,476)(b) | |
| Total Select Medical Corporation Stockholder s Equity | 969,041 | 4,367,002 | 92,133 | 219,665 | (4,678,800) | 969,041 |
| | | | | | | |
| Non-controlling interest | | | 87,372 | 3,573 | | 90,945 |
| Total Equity | 969,041 | 4,367,002 | 179,505 | 223,238 | (4,678,800) | 1,059,986 |
| | | | | | | |
| **Total Liabilities and Equity** | $ 4,686,193 | $ 5,496,241 | $ 387,618 | $ 1,327,438 | $ (7,052,085) | $ 4,845,405 |

(a) Elimination of intercompany.

(b) Elimination of investments in consolidated subsidiaries.

(c) Elimination of investments in consolidated subsidiaries earnings.

(d) Reclass of non-current deferred tax asset to report net non-current deferred tax liability in consolidation.

(e) Reclass of accounts receivable, net to report a net due to third party payor liability in consolidation.

Table of Contents

**Select Medical Corporation**

**Condensed Consolidating Statement of Operations**

**For the Three Months Ended September 30, 2016**

**(unaudited)**

| | Select (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Non-Guarantor Concentra | Eliminations | Consolidated Select Medical Corporation |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Net operating revenues | $ 85 | $ 654,966 | $ 140,237 | $ 258,507 | $ | $ 1,053,795 |
| Costs and expenses: | | | | | | |
| Cost of services | 626 | 540,053 | 162,594 | 212,430 | | 915,703 |
| General and administrative | 26,967 | 121 | | | | 27,088 |
| Bad debt expense | | 9,671 | 2,624 | 5,382 | | 17,677 |
| Depreciation and amortization | 1,411 | 17,363 | 3,113 | 15,278 | | 37,165 |
| Total costs and expenses | 29,004 | 567,208 | 168,331 | 233,090 | | 997,633 |
| Income (loss) from operations | (28,919) | 87,758 | (28,094) | 25,417 | | 56,162 |
| Other income and expense: | | | | | | |
| Intercompany interest and royalty fees | (1,613) | (26,871) | 28,484 | | | |
| Intercompany management fees | 33,693 | (25,728) | (7,965) | | | |
| Loss on early retirement of debt | | | | (10,853) | | (10,853) |
| Equity in earnings of unconsolidated subsidiaries | | 5,238 | 30 | | | 5,268 |
| Non-operating gain (loss) | (6,963) | 5,935 | | | | (1,028) |
| Interest expense | (24,353) | (8,013) | (1,952) | (10,164) | | (44,482) |
| Income (loss) from operations before income taxes | (28,155) | 38,319 | (9,497) | 4,400 | | 5,067 |
| Income tax expense (benefit) | 5,701 | (7,365) | 1,565 | 1,174 | | 1,075 |
| Equity in earnings of subsidiaries | 40,327 | (6,347) | | | (33,980)(a) | |
| Net income (loss) | 6,471 | 39,337 | (11,062) | 3,226 | (33,980) | 3,992 |
| Less: Net income (loss) attributable to non-controlling interests | | | (4,810) | 2,331 | | (2,479) |
| Net income (loss) attributable to Select Medical Corporation | $ 6,471 | $ 39,337 | $ (6,252) | $ 895 | $ (33,980) | $ 6,471 |

(a) Elimination of equity in earnings of subsidiaries.

Table of Contents

**Select Medical Corporation**

**Condensed Consolidating Statement of Operations**

**For the Nine Months Ended September 30, 2016**

**(unaudited)**

| | Select (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Non-Guarantor Concentra | Eliminations | Consolidated Select Medical Corporation |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Net operating revenues | $ 522 | $ 2,086,884 | $ 388,098 | $ 764,252 | $ | $ 3,239,756 |
| Costs and expenses: | | | | | | |
| Cost of services | 1,576 | 1,689,064 | 431,796 | 632,514 | | 2,754,950 |
| General and administrative | 81,198 | 28 | | | | 81,226 |
| Bad debt expense | | 30,634 | 6,722 | 14,235 | | 51,591 |
| Depreciation and amortization | 3,898 | 49,744 | 8,675 | 45,570 | | 107,887 |
| Total costs and expenses | 86,672 | 1,769,470 | 447,193 | 692,319 | | 2,995,654 |
| Income (loss) from operations | (86,150) | 317,414 | (59,095) | 71,933 | | 244,102 |
| Other income and expense: | | | | | | |
| Intercompany interest and royalty fees | (4,203) | (76,817) | 81,020 | | | |
| Intercompany management fees | 127,832 | (107,532) | (20,300) | | | |
| Loss on early retirement of debt | (773) | | | (10,853) | | (11,626) |
| Equity in earnings of unconsolidated subsidiaries | | 14,384 | 82 | | | 14,466 |
| Non-operating gain | 33,932 | 3,162 | | | | 37,094 |
| Interest expense | (70,243) | (21,332) | (5,442) | (30,645) | | (127,662) |
| Income (loss) from operations before income taxes | 395 | 129,279 | (3,735) | 30,435 | | 156,374 |
| Income tax expense | 13,840 | 24,620 | 2,172 | 10,953 | | 51,585 |
| Equity in earnings of subsidiaries | 108,684 | (4,053) | | | (104,631)(a) | |
| Net income (loss) | 95,239 | 100,606 | (5,907) | 19,482 | (104,631) | 104,789 |
| Less: Net income (loss) attributable to non-controlling interests | | | (2,082) | 11,632 | | 9,550 |
| Net income (loss) attributable to Select Medical Corporation | $ 95,239 | $ 100,606 | $ (3,825) | $ 7,850 | $ (104,631) | $ 95,239 |

(a) Elimination of equity in earnings of subsidiaries.

Table of Contents

**Select Medical Corporation**

**Condensed Consolidating Statement of Cash Flows**

**For the Nine Months Ended September 30, 2016**

**(unaudited)**

| | Select (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Non-Guarantor Concentra | Eliminations | Consolidated Select Medical Corporation |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| **Operating activities** | | | | | | |
| Net income (loss) | $ 95,239 | $ 100,606 | $ (5,907) | $ 19,482 | $ (104,631)(a) | $ 104,789 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | | | |
| Distributions from unconsolidated subsidiaries | | 70 | 16,075 | | | 16,145 |
| Depreciation and amortization | 3,898 | 49,744 | 8,675 | 45,570 | | 107,887 |
| Amortization of leasehold interests | | 58 | | 399 | | 457 |
| Provision for bad debts | | 30,634 | 6,722 | 14,235 | | 51,591 |
| Equity in earnings of unconsolidated subsidiaries | | (14,384) | (82) | | | (14,466) |
| Loss on early retirement of debt | 773 | | | 10,853 | | 11,626 |
| Loss (gain) on disposal of assets | 225 | (107) | 185 | (21) | | 282 |
| Gain on sale of assets and businesses | (33,932) | (8,260) | | | | (42,192) |
| Gain on sale of equity method investment | | (241) | | | | (241) |
| Impairment on equity investment | | 5,339 | | | | 5,339 |
| Stock compensation expense | 12,347 | | | 577 | | 12,924 |
| Amortization of debt discount, premium and issuance costs | 9,289 | | | 2,556 | | 11,845 |
| Deferred income taxes | (902) | | | (12,186) | | (13,088) |
| Changes in operating assets and liabilities, net of effects from acquisition of businesses: | | | | | | |
| Equity in earnings of subsidiaries | (108,684) | 4,053 | | | 104,631(a) | |
| Accounts receivable | | 3,772 | (25,450) | (19,098) | | (40,776) |
| Other current assets | (1,153) | 9,685 | (6,053) | 9,615 | | 12,094 |
| Other assets | (3,881) | 53,125 | (54,044) | 9,489 | | 4,689 |
| Accounts payable | (239) | (22,374) | 332 | 4,529 | | (17,752) |
| Accrued expenses | 19,692 | 22,231 | 13,606 | (2,533) | | 52,996 |
| Due to third party payors | | 15,634 | (4,569) | | | 11,065 |
| Income taxes | 2,716 | | | 2,317 | | 5,033 |
| Net cash provided by (used in) operating activities | (4,612) | 249,585 | (50,510) | 85,784 | | 280,247 |
| | | | | | | |
| **Investing activities** | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Purchases of property and equipment | (13,315) | (58,441) | (35,857) | (10,647) | | (118,260) |
| Proceeds from sale of assets and businesses | 63,418 | 7,964 | 6 | | | 71,388 |
| Investment in businesses | | (3,140) | | | | (3,140) |
| Proceeds from sale of equity investment | | 1,241 | | | | 1,241 |
| Acquisition of businesses, net of cash acquired | (406,305) | (3,523) | | (4,403) | | (414,231) |
| Net cash used in investing activities | (356,202) | (55,899) | (35,851) | (15,050) | | (463,002) |
| | | | | | | |
| **Financing activities** | | | | | | |
| Borrowings on revolving facilities | 420,000 | | | | | 420,000 |
| Payments on revolving facilities | (540,000) | | | (5,000) | | (545,000) |
| Net proceeds from term loans | 600,127 | | | 195,217 | | 795,344 |
| Payments on term loans | (228,962) | | | (205,880) | | (434,842) |
| Borrowings of other debt | 8,748 | | 12,237 | 2,816 | | 23,801 |
| Principal payments on other debt | (10,971) | (528) | (1,813) | (2,165) | | (15,477) |
| Dividends paid to Holdings | (1,939) | | | | | (1,939) |
| Equity investment by Holdings | 1,488 | | | | | 1,488 |
| Intercompany | 116,274 | (190,878) | 74,604 | | | |
| Proceeds from issuance of non-controlling interest | | | 11,846 | | | 11,846 |
| Repayments of bank overdrafts | (8,464) | | | | | (8,464) |
| Tax benefit from stock based awards | 514 | | | | | 514 |
| Purchase of non-controlling interests | | (1,294) | (236) | | | (1,530) |
| Distributions to non-controlling interests | | | (6,762) | (2,436) | | (9,198) |
| | | | | | | |
| Net cash provided by (used in) financing activities | 356,815 | (192,700) | 89,876 | (17,448) | | 236,543 |
| | | | | | | |
| Net increase (decrease) in cash and cash equivalents | (3,999) | 986 | 3,515 | 53,286 | | 53,788 |
| | | | | | | |
| Cash and cash equivalents at beginning of period | 4,070 | 3,706 | 625 | 6,034 | | 14,435 |
| Cash and cash equivalents at end of period | $ 71 | $ 4,692 | $ 4,140 | $ 59,320 | $ | $ 68,223 |

(a) Elimination of equity in earnings of consolidated subsidiaries.

Table of Contents

**Select Medical Corporation**

**Condensed Consolidating Balance Sheet**

**December 31, 2015**

| | Select (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Non-Guarantor Concentra | Eliminations | Consolidated Select Medical Corporation |
|---|---|---|---|---|---|---|
| | | | | (in thousands) | | |
| **Assets** | | | | | | |
| Current Assets: | | | | | | |
| Cash and cash equivalents | $ 4,070 | $ 3,706 | $ 625 | $ 6,034 | $ | $ 14,435 |
| Accounts receivable, net | | 419,554 | 68,332 | 115,672 | | 603,558 |
| Current deferred tax asset | 11,556 | 6,733 | 4,761 | 5,638 | | 28,688 |
| Intercompany receivables | | 1,974,229 | 127,373 | | (2,101,602)(a) | |
| Prepaid income taxes | 7,979 | | | 8,715 | | 16,694 |
| Other current assets | 10,521 | 34,887 | 5,731 | 34,640 | | 85,779 |
| Total Current Assets | 34,126 | 2,439,109 | 206,822 | 170,699 | (2,101,602) | 749,154 |
| Property and equipment, net | 38,872 | 548,820 | 61,126 | 215,306 | | 864,124 |
| Investment in affiliates | 4,111,682 | 66,015 | | | (4,177,697)(b) (c) | |
| Goodwill | | 1,663,974 | | 650,650 | | 2,314,624 |
| Other identifiable intangibles, net | | 72,776 | | 245,899 | | 318,675 |
| Non-current deferred tax asset | 12,297 | | | | (12,297)(d) | |
| Other assets | 3,842 | 108,524 | 659 | 29,076 | | 142,101 |
| **Total Assets** | $ 4,200,819 | $ 4,899,218 | $ 268,607 | $ 1,311,630 | $ (6,291,596) | $ 4,388,678 |
| **Liabilities and Equity** | | | | | | |
| Current Liabilities: | | | | | | |
| Bank overdrafts | $ 28,615 | $ | $ | $ | $ | $ 28,615 |
| Current portion of long-term debt and notes payable | 221,769 | 197 | 939 | 2,261 | | 225,166 |
| Accounts payable | 10,445 | 101,156 | 16,997 | 8,811 | | 137,409 |
| Intercompany payables | 1,974,229 | 127,373 | | | (2,101,602)(a) | |
| Accrued payroll | 22,970 | 66,908 | 3,916 | 27,195 | | 120,989 |
| Accrued vacation | 6,406 | 50,254 | 9,363 | 7,954 | | 73,977 |
| Accrued interest | 6,315 | 3 | | 3,083 | | 9,401 |
| Accrued other | 38,883 | 42,939 | 9,866 | 42,040 | | 133,728 |
| Total Current Liabilities | 2,309,632 | 388,830 | 41,081 | 91,344 | (2,101,602) | 729,285 |
| Long-term debt, net of current portion | 984,744 | 452,417 | 90,860 | 632,709 | | 2,160,730 |
| Non-current deferred tax liability | | 114,394 | 9,239 | 107,369 | (12,297)(d) | 218,705 |
| Other non-current liabilities | 47,190 | 41,904 | 4,798 | 39,328 | | 133,220 |
| Total Liabilities | 3,341,566 | 997,545 | 145,978 | 870,750 | (2,113,899) | 3,241,940 |
| Redeemable non-controlling interests | | 870 | 11,224 | 226,127 | | 238,221 |
| Stockholder s Equity: | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Common stock | 0 | | | | | 0 |
| Capital in excess of par | 904,375 | | | | | 904,375 |
| Retained earnings (accumulated deficit) | (45,122) | 1,189,688 | (8,932) | (6,120) | (1,174,636)(c) | (45,122) |
| Subsidiary investment | | 2,711,115 | 74,011 | 217,935 | (3,003,061)(b) | |
| Total Select Medical Corporation Stockholder s Equity | 859,253 | 3,900,803 | 65,079 | 211,815 | (4,177,697) | 859,253 |
| Non-controlling interest | | | 46,326 | 2,938 | | 49,264 |
| Total Equity | 859,253 | 3,900,803 | 111,405 | 214,753 | (4,177,697) | 908,517 |
| **Total Liabilities and Equity** | $ 4,200,819 | $ 4,899,218 | $ 268,607 | $ 1,311,630 | $ (6,291,596) | $ 4,388,678 |

(a) Elimination of intercompany.

(b) Elimination of investments in consolidated subsidiaries.

(c) Elimination of investments in consolidated subsidiaries earnings.

(d) Reclass of non-current deferred tax asset to report net non-current deferred tax liability in consolidation.

Table of Contents

**Select Medical Corporation**

**Condensed Consolidating Statement of Operations**

**For the Three Months Ended September 30, 2015**

**(unaudited)**

| | Select (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Non-Guarantor Concentra | Eliminations | Consolidated Select Medical Corporation |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Net operating revenues | $ 233 | $ 644,458 | $ 117,463 | $ 258,969 | $ | $ 1,021,123 |
| Costs and expenses: | | | | | | |
| Cost of services | 581 | 568,272 | 102,400 | 229,696 | | 900,949 |
| General and administrative | 22,169 | 32 | | | | 22,201 |
| Bad debt expense | | 12,002 | 1,785 | 4,500 | | 18,287 |
| Depreciation and amortization | 1,128 | 14,338 | 2,690 | 13,316 | | 31,472 |
| Total costs and expenses | 23,878 | 594,644 | 106,875 | 247,512 | | 972,909 |
| Income (loss) from operations | (23,645) | 49,814 | 10,588 | 11,457 | | 48,214 |
| Other income and expense: | | | | | | |
| Intercompany interest and royalty fees | (355) | 347 | 8 | | | |
| Intercompany management fees | (1,967) | 7,955 | (5,988) | | | |
| Non-operating gain | | 29,647 | | | | 29,647 |
| Equity in earnings of unconsolidated subsidiaries | | 6,319 | 29 | | | 6,348 |
| Interest expense | (15,029) | (6,091) | (1,577) | (10,355) | | (33,052) |
| Income (loss) from operations before income taxes | (40,996) | 87,991 | 3,060 | 1,102 | | 51,157 |
| Income tax expense (benefit) | (13,708) | 32,841 | (346) | (440) | | 18,347 |
| Equity in earnings of subsidiaries | 56,694 | 1,226 | | | (57,920)(a) | |
| Net income | 29,406 | 56,376 | 3,406 | 1,542 | (57,920) | 32,810 |
| Less: Net income attributable to non-controlling interests | | 10 | 2,121 | 1,273 | | 3,404 |
| Net income attributable to Select Medical Corporation | $ 29,406 | $ 56,366 | $ 1,285 | $ 269 | $ (57,920) | $ 29,406 |

(a) Elimination of equity in earnings of subsidiaries.

Table of Contents

**Select Medical Corporation**

**Condensed Consolidating Statement of Operations**

**For the Nine Months Ended September 30, 2015**

**(unaudited)**

| | Select (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Non-Guarantor Concentra | Eliminations | Consolidated Select Medical Corporation |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Net operating revenues | $ 457 | $ 1,994,703 | $ 362,573 | $ 345,798 | $ | $ 2,703,531 |
| Costs and expenses: | | | | | | |
| Cost of services | 1,591 | 1,693,968 | 309,206 | 304,448 | | 2,309,213 |
| General and administrative | 63,387 | (185) | | 4,715 | | 67,917 |
| Bad debt expense | | 30,737 | 7,128 | 5,378 | | 43,243 |
| Depreciation and amortization | 3,186 | 42,020 | 7,952 | 17,510 | | 70,668 |
| Total costs and expenses | 68,164 | 1,766,540 | 324,286 | 332,051 | | 2,491,041 |
| Income (loss) from operations | (67,707) | 228,163 | 38,287 | 13,747 | | 212,490 |
| Other income and expense: | | | | | | |
| Intercompany interest and royalty fees | (952) | 933 | 19 | | | |
| Intercompany management fees | 37,320 | (18,911) | (18,409) | | | |
| Non-operating gain | | 29,647 | | | | 29,647 |
| Equity in earnings of unconsolidated subsidiaries | | 12,718 | 70 | | | 12,788 |
| Interest expense | (43,210) | (18,177) | (4,617) | (13,724) | | (79,728) |
| Income (loss) from operations before income taxes | (74,549) | 234,373 | 15,350 | 23 | | 175,197 |
| Income tax expense (benefit) | (25,644) | 93,461 | (1,634) | (1,135) | | 65,048 |
| Equity in earnings of subsidiaries | 150,314 | 9,536 | | | (159,850)(a) | |
| Net income | 101,409 | 150,448 | 16,984 | 1,158 | (159,850) | 110,149 |
| Less: Net income attributable to non-controlling interests | | 41 | 7,402 | 1,297 | | 8,740 |
| Net income (loss) attributable to Select Medical Corporation | $ 101,409 | $ 150,407 | $ 9,582 | $ (139) | $ (159,850) | $ 101,409 |

(a) Elimination of equity in earnings of subsidiaries.

32

Table of Contents

**Select Medical Corporation**

**Condensed Consolidating Statement of Cash Flows**

**For the Nine Months Ended September 30, 2015**

**(unaudited)**

| | Select (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Non-Guarantor Concentra | Eliminations | Consolidated Select Medical Corporation |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| **Operating activities** | | | | | | |
| Net income | $ 101,409 | $ 150,448 | $ 16,984 | $ 1,158 | $ (159,850)(a) | $ 110,149 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | | | |
| Distributions from unconsolidated subsidiaries | | 11,737 | 77 | | | 11,814 |
| Depreciation and amortization | 3,186 | 42,020 | 7,952 | 17,510 | | 70,668 |
| Provision for bad debts | | 30,737 | 7,128 | 5,378 | | 43,243 |
| Equity in earnings of unconsolidated subsidiaires | | (12,718) | (70) | | | (12,788) |
| Gain on sale of assets and businesses | | (1,257) | (6) | (1) | | (1,264) |
| Gain on sale of equity investment | | (29,647) | | | | (29,647) |
| Stock compensation expense | 8,433 | | | 811 | | 9,244 |
| Amortization of debt discount, premium and issuance costs | 5,500 | | | 1,246 | | 6,746 |
| Deferred income taxes | (6,925) | | | | | (6,925) |
| Changes in operating assets and liabilities, net of effects from acquisition of businesses: | | | | | | |
| Equity in earnings of subsidiaries | (150,314) | (9,536) | | | 159,850(a) | |
| Accounts receivable | | (35,725) | (6,085) | (6,968) | | (48,778) |
| Other current assets | (2,090) | (2,006) | (12) | (472) | | (4,580) |
| Other assets | 5,833 | (1,546) | 253 | | | 4,540 |
| Accounts payable | (572) | 8,139 | (2,011) | (2,509) | | 3,047 |
| Accrued expenses | 12,541 | 15,433 | 2,713 | 2,029 | | 32,716 |
| Income taxes | 18,410 | | | (3,164) | | 15,246 |
| Net cash provided by (used in) operating activities | (4,589) | 166,079 | 26,923 | 15,018 | | 203,431 |
| | | | | | | |
| **Investing activities** | | | | | | |
| Purchases of property and equipment | (8,119) | (87,070) | (5,309) | (13,494) | | (113,992) |
| Proceeds from sale of assets | | 1,519 | 9 | 14 | | 1,542 |
| Investment in businesses | | (826) | (877) | | | (1,703) |
| Proceeds from sale of equity investment | | 33,096 | | | | 33,096 |
| Acquisition of businesses, net of cash acquired | | | (2,686) | (1,047,186) | | (1,049,872) |
| | (8,119) | (53,281) | (8,863) | (1,060,666) | | (1,130,929) |

| | | | | | |
|---|---|---|---|---|---|
| Net cash used in investing activities | | | | | |
| **Financing activities** | | | | | |
| Borrowings on revolving facilities | 830,000 | | | 10,000 | 840,000 |
| Payments on revolving facilities | (665,000) | | | (10,000) | (675,000) |
| Net proceeds from term loans | | | | 623,575 | 623,575 |
| Payments on term loans | (26,884) | | | | (26,884) |
| Borrowings of other debt | 6,486 | | 1,547 | 3,008 | 11,041 |
| Principal payments on other debt | (8,800) | (1,313) | (796) | (2,258) | (13,167) |
| Dividends paid to Holdings | (26,751) | | | | (26,751) |
| Equity investment by Holdings | 1,604 | | | | 1,604 |
| Proceeds from issuance of non-controlling interests | | | | 217,065 | 217,065 |
| Proceeds from bank overdrafts | 2,353 | | | | |