## SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION
## INDEX TO FINANCIAL STATEMENTS

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders
of Select Medical Holdings Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Select Medical Holdings Corporation and its subsidiaries at December 31, 2015 and December 31, 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded Concentra Inc. ("Concentra") from its assessment of internal control over financial reporting as of December 31, 2015 because it was acquired by the Company in a purchase business combination during 2015. We have also excluded Concentra from our audit of internal control over financial reporting. Concentra is a subsidiary whose total assets and total revenues represent 9.8% and 15.6%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2015.

/s/ PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
February 26, 2016

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholder
of Select Medical Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Select Medical Corporation and its subsidiaries at December 31, 2015 and December 31, 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded Concentra Inc. ("Concentra") from its assessment of internal control over financial reporting as of December 31, 2015 because it was acquired by the Company in a purchase business combination during 2015. We have also excluded Concentra from our audit of internal control over financial reporting. Concentra is a subsidiary whose total assets and total revenues represent 9.8% and 15.6%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2015.

/s/ PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
February 26, 2016

## PART I FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

### Consolidated Balance Sheets

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

| | Select Medical Holdings Corporation | | Select Medical Corporation | |
|---|---|---|---|---|
| | December 31, 2014 | December 31, 2015 | December 31, 2014 | December 31, 2015 |
| **ASSETS** | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | $ 3,354 | $ 14,435 | $ 3,354 | $ 14,435 |
| Accounts receivable, net of allowance for doubtful accounts of $46,425 and $61,133 at 2014 and 2015, respectively | 444,269 | 603,558 | 444,269 | 603,558 |
| Current deferred tax asset | 15,991 | 28,688 | 15,991 | 28,688 |
| Prepaid income taxes | 17,888 | 16,694 | 17,888 | 16,694 |
| Other current assets | 46,142 | 85,779 | 46,142 | 85,779 |
| Total Current Assets | 527,644 | 749,154 | 527,644 | 749,154 |
| Property and equipment, net | 542,310 | 864,124 | 542,310 | 864,124 |
| Goodwill | 1,642,083 | 2,314,624 | 1,642,083 | 2,314,624 |
| Other identifiable intangibles, net | 72,519 | 318,675 | 72,519 | 318,675 |
| Other assets | 140,253 | 180,089 | 140,253 | 180,089 |
| **Total Assets** | $2,924,809 | $4,426,666 | $2,924,809 | $4,426,666 |
| **LIABILITIES AND EQUITY** | | | | |
| Current Liabilities: | | | | |
| Bank overdrafts | $ 21,746 | $ 28,615 | $ 21,746 | $ 28,615 |
| Current portion of long-term debt and notes payable | 10,874 | 233,570 | 10,874 | 233,570 |
| Accounts payable | 108,532 | 137,409 | 108,532 | 137,409 |
| Accrued payroll | 97,090 | 120,989 | 97,090 | 120,989 |
| Accrued vacation | 63,132 | 73,977 | 63,132 | 73,977 |
| Accrued interest | 10,674 | 9,401 | 10,674 | 9,401 |
| Accrued other | 82,376 | 133,728 | 82,376 | 133,728 |
| Total Current Liabilities | 394,424 | 737,689 | 394,424 | 737,689 |
| Long-term debt, net of current portion | 1,542,102 | 2,190,314 | 1,542,102 | 2,190,314 |
| Non-current deferred tax liability | 109,203 | 218,705 | 109,203 | 218,705 |
| Other non-current liabilities | 92,855 | 133,220 | 92,855 | 133,220 |
| Total Liabilities | 2,138,584 | 3,279,928 | 2,138,584 | 3,279,928 |
| Commitments and contingencies (Note 15) | | | | |
| Redeemable non-controlling interests | 10,985 | 238,221 | 10,985 | 238,221 |
| Stockholders' Equity: | | | | |
| Common stock of Holdings, $0.001 par value, 700,000,000 shares authorized, 131,233,308 and 131,282,798 shares issued and outstanding at 2014 and 2015, respectively | 131 | 131 | — | — |
| Common stock of Select, $0.01 par value, 100 shares issued and outstanding | — | — | 0 | 0 |
| Capital in excess of par | 413,706 | 424,506 | 885,407 | 904,375 |
| Retained earnings (accumulated deficit) | 325,678 | 434,616 | (145,892) | (45,122) |
| Total Select Medical Holdings Corporation and Select Medical Corporation Stockholders' Equity | 739,515 | 859,253 | 739,515 | 859,253 |
| Non-controlling interest | 35,725 | 49,264 | 35,725 | 49,264 |
| Total Equity | 775,240 | 908,517 | 775,240 | 908,517 |
| **Total Liabilities and Equity** | $2,924,809 | $4,426,666 | $2,924,809 | $4,426,666 |

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

## Select Medical Holdings Corporation

## Consolidated Statements of Operations and Comprehensive Income

## (in thousands, except per share amounts)

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| Net operating revenues | $2,975,648 | $3,065,017 | $3,742,736 |
| Costs and expenses: | | | |
| Cost of services | 2,495,476 | 2,582,340 | 3,211,541 |
| General and administrative | 76,921 | 85,247 | 92,052 |
| Bad debt expense | 37,423 | 44,600 | 59,372 |
| Depreciation and amortization | 64,392 | 68,354 | 104,981 |
| Total costs and expenses | 2,674,212 | 2,780,541 | 3,467,946 |
| Income from operations | 301,436 | 284,476 | 274,790 |
| Other income and expense: | | | |
| Loss on early retirement of debt | (18,747) | (2,277) | — |
| Equity in earnings of unconsolidated subsidiaries | 2,476 | 7,044 | 16,811 |
| Gain on sale of equity investment | — | — | 29,647 |
| Interest expense | (87,364) | (85,446) | (112,816) |
| Income before income taxes | 197,801 | 203,797 | 208,432 |
| Income tax expense | 74,792 | 75,622 | 72,436 |
| Net income | 123,009 | 128,175 | 135,996 |
| Less: Net income attributable to non-controlling interests | 8,619 | 7,548 | 5,260 |
| Net income attributable to Select Medical Holdings Corporation | $ 114,390 | $ 120,627 | $ 130,736 |
| Basic | $ 0.82 | $ 0.91 | $ 1.00 |
| Diluted | $ 0.82 | $ 0.91 | $ 0.99 |
| Dividends paid per share | $ 0.30 | $ 0.40 | $ 0.10 |
| Weighted average shares outstanding: | | | |
| Basic | 136,879 | 129,026 | 127,478 |
| Diluted | 137,047 | 129,465 | 127,752 |

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

## Select Medical Corporation

### Consolidated Statements of Operations and Comprehensive Income

(in thousands)

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| Net operating revenues | $2,975,648 | $3,065,017 | $3,742,736 |
| Costs and expenses: | | | |
| Cost of services | 2,495,476 | 2,582,340 | 3,211,541 |
| General and administrative | 76,921 | 85,247 | 92,052 |
| Bad debt expense | 37,423 | 44,600 | 59,372 |
| Depreciation and amortization | 64,392 | 68,354 | 104,981 |
| Total costs and expenses | 2,674,212 | 2,780,541 | 3,467,946 |
| Income from operations | 301,436 | 284,476 | 274,790 |
| Other income and expense: | | | |
| Loss on early retirement of debt | (17,788) | (2,277) | — |
| Equity in earnings of unconsolidated subsidiaries | 2,476 | 7,044 | 16,811 |
| Gain on sale of equity investment | — | — | 29,647 |
| Interest expense | (84,954) | (85,446) | (112,816) |
| Income before income taxes | 201,170 | 203,797 | 208,432 |
| Income tax expense | 75,971 | 75,622 | 72,436 |
| Net income | 125,199 | 128,175 | 135,996 |
| Less: Net income attributable to non-controlling interests | 8,619 | 7,548 | 5,260 |
| Net income attributable to Select Medical Corporation | $ 116,580 | $ 120,627 | $ 130,736 |

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

## Select Medical Holdings Corporation

## Consolidated Statement of Changes in Equity and Income

## (in thousands)

| | Comprehensive Income | Total | Select Medical Holdings Corporation Stockholders: Common Stock Issued | Common Stock Par Value | Capital in Excess of Par | Retained Earnings | Non-controlling Interests |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2012 | | $ 745,478 | 140,589 | $141 | $473,697 | $243,210 | $28,430 |
| Net income | $119,946 | 119,946 | | | | 114,390 | 5,556 |
| Net income—attributable to redeemable non-controlling interests | 3,063 | | | | | | |
| Total comprehensive income | $123,009 | $ 119,946 | | | | | |
| Dividends paid to common stockholders | | (41,961) | | | | (41,961) | |
| Issuance and vesting of restricted stock | | 6,220 | 953 | | 6,220 | | |
| Repurchase of common shares | | (11,781) | (1,447) | (1) | (7,524) | (4,256) | |
| Stock option expense | | 811 | | | 811 | | |
| Exercise of stock options | | 1,525 | 166 | | 1,525 | | |
| Distributions to non-controlling interests | | (1,839) | | | | | (1,839) |
| Purchase of non-controlling interests | | 261 | | | | | 261 |
| Other | | (18) | | | | (18) | |
| Balance at December 31, 2013 | | $ 818,642 | 140,261 | $140 | $474,729 | $311,365 | $32,408 |
| Net income | $126,765 | 126,765 | | | | 120,627 | 6,138 |
| Net income—attributable to redeemable non-controlling interests | 1,410 | | | | | | |
| Total comprehensive income | $128,175 | $ 126,765 | | | | | |
| Dividends paid to common stockholders | | (53,366) | | | | (53,366) | |
| Issuance and vesting of restricted stock | | 12,080 | 1,586 | 2 | 12,078 | | |
| Tax benefit from stock based awards | | 3,119 | | | 3,119 | | |
| Repurchase of common shares | | (130,734) | (11,589) | (12) | (76,851) | (53,871) | |
| Stock option expense | | 698 | | | 698 | | |
| Exercise of stock options | | 7,355 | 975 | 1 | 7,354 | | |
| Distributions to non-controlling interests | | (2,893) | | | | | (2,893) |
| Issuance of non-controlling interest | | 1,693 | | | | | 1,693 |
| Purchase of non-controlling interests | | (8,781) | | | (7,421) | | (1,360) |
| Other | | 662 | | | | 923 | (261) |
| Balance at December 31, 2014 | | $ 775,240 | 131,233 | $131 | $413,706 | $325,678 | $35,725 |
| Net income | $138,186 | 138,186 | | | | 130,736 | 7,450 |
| Net loss—attributable to redeemable non-controlling interests | (2,190) | | | | | | |
| Total comprehensive income | $135,996 | $ 138,186 | | | | | |
| Dividends paid to common stockholders | | (13,129) | | | | (13,129) | |
| Issuance and vesting of restricted stock | | 13,916 | 1,385 | — | 13,916 | | |
| Tax benefit from stock based awards | | 1,846 | | | 1,846 | | |
| Repurchase of common shares | | (15,827) | (1,441) | 0 | (8,168) | (7,659) | |
| Stock option expense | | 53 | | | 53 | | |
| Exercise of stock options | | 1,649 | 183 | 0 | 1,649 | | |
| Non-controlling interests acquired in business combination | | 2,888 | | | | | 2,888 |
| Distributions to non-controlling interests | | (9,732) | | | | | (9,732) |
| Issuance of non-controlling interests | | 14,569 | | | 1,689 | | 12,880 |
| Purchase of non-controlling interests | | (219) | | | (194) | | (25) |
| Other | | (923) | | 0 | 9 | (1,010) | 78 |
| Balance at December 31, 2015 | | $ 908,517 | 131,360 | $131 | $424,506 | $434,616 | $49,264 |

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

## Select Medical Corporation

## Consolidated Statement of Changes in Equity and Income

### (in thousands)

| | | | 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, 2012 | | $ 909,747 | 0 | $0 | $859,839 | $ 21,478 | $28,430 |
| Net income | $122,136 | 122,136 | | | | 116,580 | 5,556 |
| Net income—attributable to redeemable non-controlling interests | 3,063 | | | | | | |
| Total comprehensive income | $125,199 | $ 122,136 | | | | | |
| Federal tax benefit of losses contributed by Holdings | | 1,179 | | | 1,179 | | |
| Net change in dividends payable to Holdings | | 5,239 | | | | 5,239 | |
| Additional investment by Holdings | | 1,525 | | | 1,525 | | |
| Dividends declared and paid to Holdings | | (226,621) | | | | (226,621) | |
| Contribution related to restricted stock awards and stock option issuances by Holdings | | 7,033 | | | 7,033 | | |
| Distributions to non-controlling interests | | (1,839) | | | | | (1,839) |
| Purchase of non-controlling interests | | 261 | | | | | 261 |
| Other | | (18) | | | | (18) | |
| Balance at December 31, 2013 | | $ 818,642 | 0 | $0 | $869,576 | $ (83,342) | $32,408 |
| Net income | $126,765 | 126,765 | | | | 120,627 | 6,138 |
| Net income—attributable to redeemable non-controlling interests | 1,410 | | | | | | |
| Total comprehensive income | $128,175 | $ 126,765 | | | | | |
| Additional investment by Holdings | | 7,355 | | | 7,355 | | |
| Dividends declared and paid to Holdings | | (184,100) | | | | (184,100) | |
| Contribution related to restricted stock awards and stock option issuances by Holdings | | 12,778 | | | 12,778 | | |
| Tax benefit from stock based awards | | 3,119 | | | 3,119 | | |
| Distributions to non-controlling interests | | (2,893) | | | | | (2,893) |
| Issuance of non-controlling interests | | 1,693 | | | | | 1,693 |
| Purchase of non-controlling interests | | (8,781) | | | (7,421) | | (1,360) |
| Other | | 662 | | | | 923 | (261) |
| Balance at December 31, 2014 | | $ 775,240 | 0 | $0 | $885,407 | $(145,892) | $35,725 |
| Net income | $138,186 | 138,186 | | | | 130,736 | 7,450 |
| Net loss—attributable to redeemable non-controlling interests | (2,190) | | | | | | |
| Total comprehensive income | $135,996 | $ 138,186 | | | | | |
| Additional investment by Holdings | | 1,649 | | | 1,649 | | |
| Dividends declared and paid to Holdings | | (28,956) | | | | (28,956) | |
| Contribution related to restricted stock awards and stock option issuances by Holdings | | 13,969 | | | 13,969 | | |
| Tax benefit from stock based awards | | 1,846 | | | 1,846 | | |
| Non-controlling interests acquired in business combination | | 2,888 | | | | | 2,888 |
| Distributions to non-controlling interests | | (9,732) | | | | | (9,732) |
| Issuance of non-controlling interests | | 14,569 | | | 1,689 | | 12,880 |
| Purchase of non-controlling interests | | (219) | | | (194) | | (25) |
| Other | | (923) | | | 9 | (1,010) | 78 |
| Balance at December 31, 2015 | | $ 908,517 | 0 | $0 | $904,375 | $ (45,122) | $49,264 |

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

## Select Medical Holdings Corporation

## Consolidated Statements of Cash Flows

## (in thousands)

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| **Operating activities** | | | |
| Net income | $ 123,009 | $ 128,175 | $ 135,996 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Distributions from unconsolidated subsidiaries | — | 11,954 | 13,969 |
| Depreciation and amortization | 64,392 | 68,354 | 104,981 |
| Provision for bad debts | 37,423 | 44,600 | 59,372 |
| Equity in earnings of unconsolidated subsidiaries | (2,476) | (7,044) | (16,811) |
| Loss on early retirement of debt | 18,747 | 2,277 | — |
| Gain on sale of assets and businesses | (581) | (1,048) | (1,098) |
| Gain on sale of equity investment | — | — | (29,647) |
| Stock compensation expense | 7,033 | 11,186 | 14,985 |
| Amortization of debt discount, premium and issuance costs | 8,433 | 7,553 | 9,543 |
| Deferred income taxes | 7,032 | 14,311 | (2,058) |
| Changes in operating assets and liabilities, net of effects from acquisition of businesses: | | | |
| Accounts receivable | (67,145) | (97,802) | (92,572) |
| Other current assets | (8,167) | (1,729) | (2,503) |
| Other assets | (3,484) | (103) | 4,713 |
| Accounts payable | (1,283) | 5,997 | 2,345 |
| Accrued expenses | 9,590 | (16,039) | 7,200 |
| Net cash provided by operating activities | 192,523 | 170,642 | 208,415 |
| **Investing activities** | | | |
| Purchases of property and equipment | (73,660) | (95,246) | (182,642) |
| Proceeds from sale of assets | 2,912 | — | 1,767 |
| Investment in businesses | (34,893) | (4,634) | (2,347) |
| Proceeds from sale of equity investment | — | — | 33,096 |
| Acquisition of businesses, net of cash acquired | (1,665) | (1,211) | (1,061,628) |
| Net cash used in investing activities | (107,306) | (101,091) | (1,211,754) |
| **Financing activities** | | | |
| Borrowings on revolving facilities | 690,000 | 910,000 | 1,135,000 |
| Payments on revolving facilities | (800,000) | (870,000) | (895,000) |
| Proceeds from term loans, net of discount | 298,500 | — | 646,875 |
| Payments on term loans | (596,720) | (33,994) | (29,134) |
| Issuance of 6.375% senior notes, includes premium | 600,000 | 111,650 | — |
| Repurchase of senior floating rate notes | (167,300) | — | — |
| Repurchase of 7⅝% senior subordinated notes | (70,000) | — | — |
| Borrowings of other debt | 15,310 | 9,076 | 13,374 |
| Principal payments on other debt | (10,834) | (14,673) | (18,136) |
| Debt issuance costs | (18,914) | (4,434) | (23,300) |
| Proceeds from (repayment of) bank overdrafts | (5,330) | 9,240 | 6,869 |
| Purchase of non-controlling interests | — | (9,961) | (1,095) |
| Proceeds from issuance of non-controlling interests | — | 185 | 217,065 |
| Dividends paid to common stockholders | (41,961) | (53,366) | (13,129) |
| Tax benefit from stock based awards | — | 3,119 | 1,846 |
| Repurchase of common stock | (11,781) | (130,734) | (15,827) |
| Proceeds from issuance of common stock | 1,525 | 7,355 | 1,649 |
| Distributions to non-controlling interests | (3,537) | (3,979) | (12,637) |
| Net cash provided by (used in) financing activities | (121,042) | (70,516) | 1,014,420 |
| Net increase (decrease) in cash and cash equivalents | (35,825) | (965) | 11,081 |
| Cash and cash equivalents at beginning of period | 40,144 | 4,319 | 3,354 |
| Cash and cash equivalents at end of period | $ 4,319 | $ 3,354 | $ 14,435 |
| **Supplemental Cash Flow Information** | | | |
| Cash paid for interest | $ 89,061 | $ 78,812 | $ 103,166 |
| Cash paid for taxes | $ 64,963 | $ 77,771 | $ 79,420 |

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

## Select Medical Corporation

## Consolidated Statements of Cash Flows

## (in thousands)

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| **Operating activities** | | | |
| Net income | $ 125,199 | $ 128,175 | $ 135,996 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Distributions from unconsolidated subsidiaries | — | 11,954 | 13,969 |
| Depreciation and amortization | 64,392 | 68,354 | 104,981 |
| Provision for bad debts | 37,423 | 44,600 | 59,372 |
| Equity in earnings of unconsolidated subsidiaries | (2,476) | (7,044) | (16,811) |
| Loss on early retirement of debt | 17,788 | 2,277 | — |
| Gain on sale of assets and businesses | (581) | (1,048) | (1,098) |
| Gain on sale of equity investment | — | — | (29,647) |
| Stock compensation expense | 7,033 | 11,186 | 14,985 |
| Amortization of debt discount, premium and issuance costs | 8,344 | 7,553 | 9,543 |
| Deferred income taxes | 7,032 | 14,311 | (2,058) |
| Changes in operating assets and liabilities, net of effects from acquisition of businesses: | | | |
| Accounts receivable | (67,145) | (97,802) | (92,572) |
| Other current assets | (8,167) | (1,729) | (2,503) |
| Other assets | (3,484) | (103) | 4,713 |
| Accounts payable | (1,283) | 5,997 | 2,345 |
| Accrued expenses | 14,027 | (16,039) | 7,200 |
| Net cash provided by operating activities | 198,102 | 170,642 | 208,415 |
| **Investing activities** | | | |
| Purchases of property and equipment | (73,660) | (95,246) | (182,642) |
| Proceeds from sale of assets | 2,912 | — | 1,767 |
| Investment in businesses | (34,893) | (4,634) | (2,347) |
| Proceeds from sale of equity investment | — | — | 33,096 |
| Acquisition of businesses, net of cash acquired | (1,665) | (1,211) | (1,061,628) |
| Net cash used in investing activities | (107,306) | (101,091) | (1,211,754) |
| **Financing activities** | | | |
| Borrowings on revolving facilities | 690,000 | 910,000 | 1,135,000 |
| Payments on revolving facilities | (800,000) | (870,000) | (895,000) |
| Proceeds on term loans, net of discount | 298,500 | — | 646,875 |
| Payments on term loans | (596,720) | (33,994) | (29,134) |
| Issuance of 6.375% senior notes, includes premium | 600,000 | 111,650 | — |
| Repurchase of 7⅝% senior subordinated notes | (70,000) | — | — |
| Borrowings of other debt | 15,310 | 9,076 | 13,374 |
| Principal payments on other debt | (10,834) | (14,673) | (18,136) |
| Debt issuance costs | (18,914) | (4,434) | (23,300) |
| Proceeds from (repayment of) bank overdrafts | (5,330) | 9,240 | 6,869 |
| Purchase of non-controlling interest | — | (9,961) | (1,095) |
| Proceeds from issuance of non-controlling interest | — | 185 | 217,065 |
| Equity investment by Holdings | 1,525 | 7,355 | 1,649 |
| Dividends paid to Holdings | (226,621) | (184,100) | (28,956) |
| Tax benefit from stock based awards | — | 3,119 | 1,846 |
| Distributions to non-controlling interests | (3,537) | (3,979) | (12,637) |
| Net cash provided by (used in) financing activities | (126,621) | (70,516) | 1,014,420 |
| Net increase (decrease) in cash and cash equivalents | (35,825) | (965) | 11,081 |
| Cash and cash equivalents at beginning of period | 40,144 | 4,319 | 3,354 |
| Cash and cash equivalents at end of period | $ 4,319 | $ 3,354 | $ 14,435 |
| **Supplemental Cash Flow Information** | | | |
| Cash paid for interest | $ 83,482 | $ 78,812 | $ 103,166 |
| Cash paid for taxes | $ 64,963 | $ 77,771 | $ 79,420 |

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

# SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION
# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Organization and Significant Accounting Policies

### *Business Description*

Select Medical Corporation ("Select") was formed in December 1996 and commenced operations during February 1997 upon the completion of its first acquisition. Select Medical Holdings Corporation ("Holdings") was formed in October 2004 for the purpose of affecting a leveraged buyout of Select, which was a publicly traded entity. On February 24, 2005, Select merged with a subsidiary of Holdings, which resulted in Select becoming a wholly owned subsidiary of Holdings (the "Merger"). On September 30, 2009 Holdings completed its initial public offering of common stock. At the time of the transaction, generally accepted accounting principles ("GAAP") required that any amounts recorded or incurred (such as goodwill and compensation expense) by the parent as a result of the Merger or for the benefit of the subsidiary be "pushed down" and recorded in Select's consolidated financial statements. Holdings and Select and their subsidiaries are collectively referred to as the "Company." The 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.

The Company is managed through three business segments; specialty hospitals, outpatient rehabilitation, and, as of June 1, 2015, the Concentra segment. Through the specialty hospitals segment, the Company provides long term acute care hospital services and inpatient acute rehabilitative hospital care. The specialty hospitals segment consists of hospitals designed to serve the needs of long term stay acute patients and hospitals designed to serve patients that require intensive medical rehabilitation care. Patients are typically admitted to the Company's specialty hospitals from general acute care hospitals. These patients have specialized needs, and serious and often complex medical conditions such as respiratory failure, neuromuscular disorders, traumatic brain and spinal cord injuries, strokes, non-healing wounds, cardiac disorders, renal disorders, and cancer. The Company operated 123, 129, and 127 specialty hospitals at December 31, 2013, 2014 and 2015, respectively. The Company's outpatient rehabilitation segment consists of clinics and contract services that provide physical, occupational, and speech rehabilitation services. The Company's outpatient rehabilitation patients are typically diagnosed with musculoskeletal impairments that restrict their ability to perform normal activities of daily living. At December 31, 2013, 2014 and 2015, the Company operated 1,006, 1,023, and 1,038 outpatient clinics, respectively. The Company's Concentra segment consists of medical centers and contract services provided at employer worksites and Department of Veterans Affairs community-based outpatient clinics, or "CBOCs", that deliver occupational medicine, consumer health, physical therapy, and veteran's healthcare services. At December 31, 2015, the Company operated 300 medical centers, 138 medical facilities located at the workplaces of Concentra's employer customers, and 33 Department of Veterans Affairs CBOCs. At December 31, 2015, the Company had operations in 46 states and the District of Columbia.

### *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company, its majority owned subsidiaries, limited liability companies, and limited partnerships the Company and its subsidiaries control through ownership of general and limited partnership or membership interests. All intercompany balances and transactions are eliminated in consolidation.

### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and

**1. Organization and Significant Accounting Policies (Continued)**

liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and amounts of revenue and expenses recognized during the period. Actual results could differ materially from those estimates.

*Cash and Cash Equivalents*

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents are stated at cost which approximates market value.

*Accounts Receivable and Allowance for Doubtful Accounts*

The Company reports accounts receivable at estimated net realizable values. Substantially all of the Company's accounts receivable are related to providing healthcare services to patients whose costs are primarily paid by federal and state governmental authorities, managed care health plans, commercial insurance companies, and workers' compensation programs. Collection of these accounts receivable is the Company's primary source of cash and is critical to its operating performance. The Company's primary collection risks relate to non-governmental payors who insure these patients and deductibles, co-payments, and amounts owed by the patient. Deductibles, co-payments, and amounts owed by the patient are an immaterial portion of the Company's net accounts receivable balance and accounted for approximately 0.2% and 1.2% of the net accounts receivable balance before doubtful accounts at December 31, 2014 and 2015, respectively. The Company's general policy is to verify insurance coverage prior to the date of admission for a patient admitted to the Company's hospitals, or in the case of the Company's outpatient rehabilitation clinics and Concentra medical centers, the Company verifies insurance coverage prior to their first visit. The Company's estimate for the allowance for doubtful accounts is calculated by providing a reserve allowance based upon the age of an account balance. Generally the Company has reserved as uncollectible all governmental accounts over 365 days and non-governmental accounts over 180 days from discharge. This method is monitored based on historical cash collections experience. Collections are impacted by the effectiveness of the Company's collection efforts with non-governmental payors and regulatory or administrative disruptions with the fiscal intermediaries that pay the Company's governmental receivables. Uncollected accounts are written off the balance sheet when they are turned over to an outside collection agency, or when management determines that the balance is uncollectible, whichever occurs first.

*Property and Equipment*

Property and equipment are stated at cost, net of accumulated depreciation. Direct internal and external costs of developing software for internal use, including programming and enhancements, are capitalized and depreciated over the estimated useful lives once the software is placed in service. Capitalized software costs are included within furniture and equipment. Software training costs, maintenance, and repairs are expensed as incurred. Depreciation and amortization are computed using the

**1. Organization and Significant Accounting Policies (Continued)**

straight-line method over the estimated useful lives of the assets or the term of the lease, as appropriate. The general range of useful lives is as follows:

| | |
|---|---|
| Leasehold improvements | 5 - 15 years |
| Furniture and equipment | 3 - 20 years |
| Buildings | 40 years |
| Building improvements | 5 - 25 years |
| Land improvements | 2 - 25 years |

The Company reviews the realizability of long-lived assets whenever events or circumstances occur which indicate recorded costs may not be recoverable. Gains or losses related to the retirement or disposal of property and equipment are reported as a component of income from operations.

*Concentration of Credit Risk*

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash balances and trade receivables. The Company invests its excess cash with large financial institutions. The Company grants unsecured credit to its patients, most of who reside in the service area of the Company's facilities and are insured under third-party payor agreements. Because of the geographic diversity of the Company's facilities and non-governmental third-party payors, Medicare represents the Company's only significant concentration of credit risk.

*Income Taxes*

Deferred tax assets and liabilities are recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. As part of the process of preparing its consolidated financial statements, the Company estimates income taxes based on its actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for book and tax purposes. The Company also recognizes as deferred tax assets the future tax benefits from net operating loss carry forwards. The Company evaluates the realizability of these deferred tax assets by assessing their valuation allowances and by adjusting the amount of such allowances, if necessary. Among the factors used to assess the likelihood of realization are projections of future taxable income streams, the expected timing of the reversals of existing temporary differences, and the impact of tax planning strategies that could be implemented to avoid the potential loss of future tax benefits.

Reserves for uncertain tax positions are established for exposure items related to various federal and state tax matters. Income tax reserves are recorded when an exposure is identified and when, in the opinion of management, it is more likely than not that a tax position will not be sustained and the amount of the liability can be estimated.

*Intangible Assets and Liabilities*

Finite-lived intangible assets and liabilities are amortized based on the pattern in which the economic benefits are consumed or otherwise depleted. If such a pattern cannot be reliably determined, other intangible assets are amortized on a straight-line basis over their estimated lives. Goodwill and certain other indefinite-lived intangible assets are not amortized, but instead are subject to periodic impairment

**1. Organization and Significant Accounting Policies (Continued)**

evaluations. In performing the quantitative periodic impairment tests, the fair value of the reporting unit is compared to its carrying value, including goodwill and other intangible assets. If the carrying value exceeds the fair value and an impairment condition exists, an impairment loss would be recognized.

To determine the fair value of its reporting units, the Company uses a discounted cash flow approach. Included in this analysis are assumptions regarding revenue growth rate, future Adjusted EBITDA margin estimates, future general and administrative expense rates, and the industry's weighted average cost of capital and industry specific market comparable Adjusted EBITDA multiples. The Company also must estimate residual values at the end of the forecast period and future capital expenditure requirements. Each of these assumptions requires the Company to use its knowledge of (1) its industry, (2) its recent transactions, and (3) reasonable performance expectations for its operations. If any one of the above assumptions changes or fails to materialize, the resulting decline in the Company's estimated fair value could result in a material impairment charge to the goodwill associated with any one of the reporting units.

Impairment tests are required to be conducted at least annually, or when events or conditions occur that might suggest a possible impairment. These events or conditions include, but are not limited to, a significant adverse change in the business environment, regulatory environment or legal factors; a current period operating or cash flow loss combined with a history of such losses or a projection of continuing losses; or a sale or disposition of a significant portion of a reporting unit. The occurrence of one of these events or conditions could significantly impact an impairment assessment, necessitating an impairment charge. For purposes of goodwill impairment assessment, the Company has defined its reporting units as specialty hospitals, Concentra, outpatient rehabilitation clinics, and contract therapy. Goodwill has been allocated among reporting units based on the relative fair value of those divisions when the Merger occurred in 2005 and based on subsequent acquisitions and dispositions. The Company's most recent impairment assessment was completed during the fourth quarter of 2015 utilizing financial information as of October 1, 2015 and indicated that there was no impairment with respect to goodwill or other recorded intangible assets.

Identifiable assets and liabilities acquired in connection with business combinations accounted for under the purchase method are recorded at their respective fair values. Deferred income taxes have been recorded to the extent of differences between the fair value and the tax basis of the assets acquired and liabilities assumed. Company management has allocated the intangible assets between identifiable intangibles and goodwill. At December 31, 2015, intangible assets other than goodwill consist of the values assigned to trademarks, certificates of need, accreditations, customer relationships, and leasehold interests. Management believes that the estimated useful lives established are reasonable based on the economic factors applicable to each of the intangible assets.

The approximate useful life of each class of intangible assets and liabilities is as follows:

| | |
|---|---|
| Trademarks | Indefinite |
| Certificates of need | Indefinite |
| Accreditations | Indefinite |
| Customer relationships | 9 - 17 years |
| Leasehold interests | 2 - 10 years |

The Company reviews the realizability of intangible assets whenever events or circumstances occur which indicate recorded amounts may not be recoverable.

**1. Organization and Significant Accounting Policies (Continued)**

If the expected future cash flows (undiscounted) are less than the carrying amount of such assets, the Company recognizes an impairment loss for the difference between the carrying amount of the assets and their estimated fair value.

***Deferred Financing Costs***

The Company has incurred debt issuance costs related to indebtedness which are recognized as other assets in the consolidated balance sheet. Debt issuance costs are subsequently amortized and recognized as interest expense using the effective interest method over the term of the related indebtedness. Whenever indebtedness is modified from its original terms an evaluation is made whether an accounting modification or accounting extinguishment has occurred in order to determine the accounting treatment.

***Due to Third-Party Payors***

Due to third-party payors represents the difference between amounts received under interim payment plans from Medicare and Medicaid for services rendered and amounts estimated to be reimbursed by those third-party payors upon settlement of cost reports.

***Insurance Risk Programs***

Under a number of the Company's insurance programs, which include the Company's employee health insurance program, its workers' compensation and professional malpractice liability insurance programs, the Company is liable for a portion of its losses. In these situations the Company accrues for its losses under an occurrence-based approach whereby the Company estimates the losses that will be incurred in a respective accounting period and accrues that estimated liability using actuarial methods. These programs are monitored quarterly and estimates are revised as necessary to take into account additional information. Provisions for losses for professional liability risks retained by the Company at December 31, 2014 and 2015 have been discounted at 3%. At December 31, 2014 and 2015, respectively, the Company had recorded a liability of $101.9 million and $157.4 million related to these programs. If the Company did not discount the provisions for losses for professional liability risks, the aggregate liability for all of the insurance risk programs would be approximately $105.5 million and $165.8 million at December 31, 2014 and 2015, respectively.

***Equity Method Investments***

Investments in equity method investees are accounted for using the equity method based upon the level of ownership and/or the Company's ability to exercise significant influence over the operating and financial policies of the investee. Investments of this nature are recorded at original cost and adjusted periodically to recognize the Company's proportionate share of the investees' net income or losses after the date of investment. When net losses from an investment accounted for under the equity method exceeds its carrying amount, the investment balance is reduced to zero. The Company resumes accounting for the investment under the equity method if the entity subsequently reports net income and the Company's share of that net income exceeds the share of the net losses not recognized during the period the equity method was suspended. Investments are written down only when there is clear evidence that a decline in value that is other than temporary has occurred. The Company evaluates its investments in companies accounted for using the equity method for impairment when there is evidence or indicators that a decrease in value may be other than temporary. The Company's Other Assets are primarily composed of

## 1. Organization and Significant Accounting Policies (Continued)

equity method investments of $99.6 million and $101.4 million as of December 31, 2014 and 2015, respectively. The Company's equity method investments consist principally of non-consolidating interests in inpatient and outpatient rehabilitation businesses. These rehabilitation businesses include a 49.0% interest in BIR, JV, LLP; a 49.0% interest in OHRH, LLC, a 49.0% interest in GlobalRehab—Scottsdale, LLC, a 50.0% interest in Rehabilitation Institute of Denton, LLC, and a 49.0% interest in ES Rehabilitation, LLC as of December 31, 2014 and 2015. The Company's equity method investments had equity in earnings of unconsolidated subsidiaries of $2.5 million, $7.0 million and $16.8 million for the years ended December 31, 2013, 2014 and 2015, respectively.

*Non-Controlling Interests*

The ownership interests held by other parties in subsidiaries, limited liability companies and limited partnerships controlled by the Company are classified as non-controlling interests. Non-controlling interests' which are reported in the stockholders' equity section of the Company's consolidated balance sheets, were $35.7 million and $49.3 million as of December 31, 2014 and 2015, respectively.

Some of our non-controlling ownership interests consist of outside parties that have certain redemption rights that, if exercised, require the Company to purchase the parties ownership interest. These interests are classified and reported as redeemable non-controlling interests and they have been adjusted to their approximate redemption values. The redeemable non-controlling interests' balances reported on the Company's consolidated balance sheets were $11.0 million and $238.2 million as of December 31, 2014 and 2015, respectively. As of December 31, 2014 and 2015, the Company believes the redemption amounts of these ownership interests approximates the fair value of those interests. The changes in the redeemable non-controlling interests amounts for the years ended December 31, 2014 and 2015 are as follows:

| | |
|---|---|
| Balance at January 1, 2014 | $ 11,584 |
| Changes in the redemption amounts | (923) |
| Net income | 1,410 |
| Distributions | (1,086) |
| Balance at December 31, 2014 | $ 10,985 |
| Issuance of ownership interests in Concentra | 218,005 |
| Ownership interests acquired in business combination | 14,196 |
| Repurchase of ownership interests | (876) |
| Changes in the redemption amounts | 1,010 |
| Net loss | (2,190) |
| Distributions | (2,909) |
| Balance at December 31, 2015 | $238,221 |

Net income (loss) of entities controlled by the Company that are less than wholly owned require attribution of net income (loss) amounts to each non-controlling ownership interest and to the Company in

## 1. Organization and Significant Accounting Policies (Continued)

the consolidated statement of operations and comprehensive income. The net income (loss) attributable to non controlling interests for the years ended December 31, 2013, 2014, and 2015 are as follows:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | (in thousands) | | |
| Net income (loss) attributable to non-controlling interests classified as redeemable non-controlling interests | $3,063 | $1,410 | $(2,190) |
| Net income attributable to non-controlling interests classified as equity | 5,556 | 6,138 | 7,450 |
| Net income attributable to non-controlling interests | $8,619 | $7,548 | $ 5,260 |

### *Revenue Recognition*

Net operating revenues consists primarily of patient service revenues and revenues generated from therapy services provided to healthcare institutions under contractual arrangements and are recognized as services are rendered.

Patient service revenue is reported net of provisions for contractual allowances from third-party payors and patients. The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established billing rates. The differences between the estimated program reimbursement rates and the standard billing rates are accounted for as contractual adjustments, which are deducted from gross revenues to arrive at net operating revenues. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem, and per visit payments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Accounts receivable resulting from such payment arrangements are recorded net of contractual allowances.

A significant portion of the Company's net operating revenues are generated directly from the Medicare program. Net operating revenues generated directly from the Medicare program represented approximately 46%, 45% and 36% of the Company's net operating revenues for the years ended December 31, 2013, 2014 and 2015, respectively. Approximately 32% and 24% of the Company's accounts receivable (after allowances for contractual adjustments but before doubtful accounts) are from Medicare at December 31, 2014 and 2015. As a provider of services to the Medicare program, the Company is subject to extensive regulations. The inability of any of the Company's specialty hospitals or outpatient clinics to comply with regulations can result in significant changes in that specialty hospital's or outpatient clinic's net operating revenues generated from the Medicare program.

Revenues generated under contractual arrangements are comprised primarily of billings for services rendered to nursing homes, hospitals, schools and other third parties.

### *Stock Based Compensation*

The Company measures the compensation costs of share-based compensation arrangements based on the grant-date fair value and recognizes the costs in the financial statements over the period during which employees are required to provide services. Share-based compensation arrangements comprise both stock

**1. Organization and Significant Accounting Policies (Continued)**

options and restricted share plans. Employee stock options are valued using the Black-Scholes option valuation method which uses assumptions that relate to the expected volatility of the Company's common stock, the expected dividend yield of the Company's stock, the expected life of the options and the risk free interest rate. Such compensation amounts are amortized over the respective vesting periods or periods of service of the option grant. The Company values restricted stock grants by using the closing market price of its stock on the date of grant.

*Recent Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which supersedes 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 standard was effective for fiscal years beginning after December 15, 2016; however, in July 2015, the FASB approved a one-year deferral of this standard, with a new effective date 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 April and August 2015, the FASB issued ASU No. 2015-03 and ASU No. 2015-15, *Interest—Imputation of Interest*, respectively, 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 guidance is effective for annual fiscal periods beginning after December 15, 2015. The Company will adopt the standard in 2016. As of December 31, 2015, we had approximately $38.0 million in debt issuance costs included in other assets that would be a direct deduction of the debt liability under the new standard.

In September 2015, the FASB issued ASU No. 2015-16, *Simplifying the Accounting for Measurement—Period Adjustments,* which changes the reporting requirement for retrospective adjustments to provisional amounts in the measurement period. The amendments in this update require an entity to present separately on the face of the income statement or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The revised guidance is effective for annual fiscal periods beginning after December 15, 2015. Early adoption is permitted and the Company intends to prospectively adopt ASU No. 2015-16.

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.

## 2. Acquisitions

*Concentra Acquistion*

On June 1, 2015, MJ Acquisition Corporation, a joint venture that Select created with Welsh, Carson, Anderson & Stowe XII, L.P. ("WCAS"), consummated the acquisition of Concentra, the indirect operating subsidiary of Concentra Group Holdings, LLC ("Group Holdings"), 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. ("Humana"), MJ Acquisition Corporation acquired 100% of the issued and outstanding equity securities of Concentra from Humana for $1,047.2 million, net of $3.8 million of cash acquired.

MJ Acquisition Corporation entered into the Concentra credit facilities, see Note 6, to fund a portion of the purchase price for all of the issued and outstanding stock of Concentra. Concentra, as the surviving entity of the merger between MJ Acquisition Corporation and Concentra, became the borrower under the Concentra credit facilities.

Select entered into a Subscription Agreement (the "Subscription Agreement"), by and among Select, WCAS, Group Holdings and the other members of Group Holdings. Pursuant to the Subscription Agreement, Select purchased Class A equity interests of Group Holdings for an aggregate purchase price of $217.9 million, representing a majority (50.1%) of the voting equity interests in Group Holdings. WCAS and the other members purchased redeemable non-controlling Class A interests of Group Holdings for an aggregate purchase price of $217.1 million, representing a 49.9% share of the voting equity interests of Group Holdings.

Group Holdings contributed cash of $435.0 million, to MJ Acquisition Corporation. MJ Acquisition Corporation used the cash, together with $650.0 million in borrowings under the Concentra credit facilities, to pay the purchase price, and fees and expenses.

Concentra, formed in 1979, is one of the largest providers of occupational medicine, consumer health, physical therapy and veteran's healthcare services in the United States based on the number of facilities. As of December 31, 2015, Concentra operated 300 medical centers in 38 states, 138 medical facilities located at the workplaces of Concentra's employer customers and 33 Department of Veterans Affairs CBOCs. Concentra's financial results are consolidated with Select's as of June 1, 2015.

The Concentra acquisition was accounted for under the provisions of Accounting Standards Codification ("ASC") 805, Business Combinations. The Company allocated the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values.

During the fourth quarter of 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. The Company is in the process of completing the accounting for certain deferred tax matters. The Company expects to complete the purchase price allocation during the second quarter of 2016.

**2. Acquisitions (Continued)**

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 | 405,428 |
| Identifiable intangible assets | 254,990 |
| Goodwill | 646,466 |
| Total assets | 1,310,656 |
| Total current liabilities | 90,188 |
| Total non-current liabilities | 152,425 |
| Total liabilities | 242,613 |
| 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 |

The fair value assigned to intangible assets were determined through the use of the income approach, specifically the relief from royalty and the multi-period excess earnings methods. Both valuation methods rely on management judgment, including expected future cash flows resulting from existing customer relationships, customer attrition rates, contributory effects of other assets utilized in the business, peer group cost of capital and royalty rates, and other factors. Useful lives for intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to contribute directly or indirectly to future cash flows. The valuation of tangible assets was derived using a combination of the income, market, and cost approaches. Significant judgments used in valuing tangible assets include estimated reproduction or replacement cost, useful lives of assets, estimated selling prices, costs to complete, and reasonable profit. The fair value assigned to non-controlling interests were determined through the use of a market multiple approach.

Intangible assets acquired consisted of the following:

| | Amount (in thousands) | Weighted Average Amortization Period (in years) |
|---|---|---|
| Trademarks | $104,900 | Indefinite |
| Customer relationships | 141,265 | 10.2 |
| Leasehold interests | 8,825 | 6.3 |
| Total | $254,990 | |

Intangible liabilities acquired included unfavorable leasehold interests of $3.3 million with a weighted average amortization period of 4.4 years. The customer relationships are being amortized on a straight-line basis over their expected useful lives. Leasehold interests are being amortized over their remaining lease terms at time of acquisition.

**2. Acquisitions (Continued)**

Goodwill of $646.5 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 period of June 1, 2015 through December 31, 2015, Concentra contributed net revenue of $585.2 million and a net loss of approximately $12.2 million which is reflected in the Company's consolidated statement of operations. The Company incurred $4.7 million of acquisition costs in the year ended December 31, 2015. Acquisition costs consisted of legal, advisory, and due diligence fees and expenses.

The following pro forma unaudited results of operations have been prepared assuming the acquisition of Concentra occurred January 1, 2014. These results are not necessarily indicative of results of future operations nor of the results that would have actually occurred had the acquisition been consummated January 1, 2014.

| | December 31, | |
|---|---|---|
| | 2014 | 2015 |
| | (in thousands, except per share amounts) | |
| Net revenue | $4,063,218 | $4,154,941 |
| Net income | 106,945 | 129,737 |
| Income per common share: | | |
| Basic | $ 0.81 | $ 1.00 |
| Diluted | $ 0.80 | $ 0.99 |

The pro forma financial information is based on the allocation of the purchase price and 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 had been a subsidiary of the Company as of January 1, 2014.

Pro forma results for the year ended December 31, 2015 were adjusted to include approximately $19.8 million of interest expense, an income tax benefit of approximately $11.4 million, approximately $4.8 million in net income attributable to non-controlling interests, approximately $1.8 million of rent expense, and approximately $1.2 million of depreciation expense. Results for the same period were also adjusted to exclude seller costs of $6.0 million, Concentra acquisition costs of $4.7 million, and amortization expense of approximately $0.8 million.

Pro forma results for the year ended December 31, 2014 were adjusted to include approximately $48.1 million of interest expense, an income tax benefit of approximately $15.5 million, approximately $8.3 million of net loss attributable to non-controlling interests, $4.7 million of Concentra acquisition costs, approximately $4.0 million of rent expense, and approximately $3.0 million of depreciation expense. Results for the same period were also adjusted to exclude amortization expense of approximately $2.3 million.

**2. Acquisitions (Continued)**

*Other Acquistions*

For the year ended December 31, 2013, the Company provided total consideration of $5.6 million to acquire businesses, consisting of cash amounting to $1.7 million (net of cash acquired) and the issuance of non controlling interests, for identifiable tangible net assets consisting principally of accounts receivable, and property and equipment with an aggregate fair value of $3.5 million and goodwill of $2.1 million.

For the year ended December 31, 2014, the Company provided total consideration of $3.2 million to acquire businesses, consisting of cash amounting to $1.1 million (net of cash acquired) and non controlling interests, for identifiable tangible net assets consisting principally of accounts receivable, and property and equipment with an aggregate fair value of $1.3 million and goodwill of $1.9 million.

In addition to the acquisition of Concentra, during the year ended December 31, 2015, the Company acquired interests in several businesses, consisting principally of inpatient and outpatient rehabilitation businesses. The Company provided total consideration of $30.2 million, consisting of cash amounting to $14.4 million (net of cash acquired) and the issuance of non controlling interests in the amount of $14.7 million, for identifiable tangible net assets consisting principally of accounts receivable, and property and equipment with an aggregate fair value of $4.1 million. These acquisitions resulted in recognition of goodwill of $21.9 million and $4.2 million in the specialty hospitals segment and Concentra segment, respectively.

**3. Property and Equipment**

Property and equipment consists of the following:

| | December 31, | |
|---|---|---|
| | 2014 | 2015 |
| | (in thousands) | |
| Land | $ 71,635 | $ 76,118 |
| Leasehold improvements | 155,648 | 295,647 |
| Buildings | 396,228 | 411,376 |
| Furniture and equipment | 272,919 | 382,838 |
| Construction-in-progress | 41,230 | 146,868 |
| Total property and equipment | 937,660 | 1,312,847 |
| Accumulated depreciation | (395,350) | (448,723) |
| Property and equipment, net | $ 542,310 | $ 864,124 |

Depreciation expense was $63.9 million, $67.9 million, and $96.1 million for the years ended December 31, 2013, 2014 and 2015, respectively.

**4. Intangible Assets and Liabilities**

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

| | December 31, 2014 | December 31, 2015 |
|---|---|---|
| | (in thousands) | |
| Goodwill | $1,642,083 | $2,314,624 |
| Identifiable intangibles—Indefinite lived assets: | | |
| Trademarks | 57,709 | 162,609 |
| Certificates of need | 12,727 | 13,022 |
| Accreditations | 2,083 | 2,045 |
| Identifiable intangibles—Finite lived assets: | | |
| Customer relationships | — | 132,751 |
| Favorable leasehold interests | — | 8,248 |
| Total identifiable intangibles | $1,714,602 | $2,633,299 |

The Company's customer relationship assets amortize over their estimated useful lives. Amortization expense for the Company's customer relationships was $8.5 million for the year ended December 31, 2015. Estimated amortization expense of the Company's customer relationships for each of the five succeeding years is $14.6 million.

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

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 effect of this amortization increased rent expense by $0.3 million for the year ended December 31, 2015.

The Company's accreditations and trademarks have renewal terms. The costs to renew these intangibles are expensed as incurred. At December 31, 2015, the accreditations and trademarks have a weighted average time until next renewal of 1.5 years and 3.8 years, respectively.

The changes in the carrying amount of goodwill for the Company's reportable segments for the years ended December 31, 2014 and 2015 are as follows:

| | Specialty Hospitals | Outpatient Rehabilitation | Concentra | Total |
|---|---|---|---|---|
| | (in thousands) | | | |
| Balance as of January 1, 2014 | $1,334,615 | $308,018 | | $1,642,633 |
| Goodwill acquired during year | 855 | 1,011 | | 1,866 |
| Goodwill allocated to contributed business | — | (2,406) | | (2,406) |
| Purchase accounting adjustment | (10) | — | | (10) |
| Balance as of December 31, 2014 | $1,335,460 | $306,623 | $ — | $1,642,083 |
| Goodwill acquired during year | 21,972 | — | 702,023 | 723,995 |
| Measurement period adjustment | (53) | — | (51,373) | (51,426) |
| Disposal of business | — | (28) | — | (28) |
| Balance as of December 31, 2015 | $1,357,379 | $306,595 | $650,650 | $2,314,624 |

See Note 2 for details of the goodwill acquired during the period.

### 5. Investments in Unconsolidated Subsidiaries

During the year ended December 31, 2015, the Company sold an equity investment in an unconsolidated subsidiary of a start-up healthcare company for $33.1 million, which resulted in a gain on the sale of an equity investment of $29.6 million. The gain on sale of the equity investment was classified as non-operating income in the condensed consolidated statements of operations for the year ended December 31, 2015. The proceeds of $33.1 million were classified as cash provided from an investing activity in the condensed consolidated statements of cash flows for the year ended December 31, 2015.

### 6. Long-Term Debt and Notes Payable

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, | |
|---|---|---|
| | 2014 | 2015 |
| | (in thousands) | |
| Select 6.375% senior notes(1) | $ 711,465 | $ 711,235 |
| Select credit facilities: | | |
| Select revolving facility | 60,000 | 295,000 |
| Select term loans(2) | 775,996 | 750,485 |
| Other—Select | 5,515 | 11,987 |
| Total Select debt | 1,552,976 | 1,768,707 |
| Less: Select current maturities | 10,874 | 228,316 |
| Select long-term debt maturities | $1,542,102 | $1,540,391 |
| Concentra credit facilities: | | |
| Concentra revolving facility | | $ 5,000 |
| Concentra term loans(3) | | 644,865 |
| Other—Concentra | | 5,312 |
| Total Concentra debt | | 655,177 |
| Less: Concentra current maturities | | 5,254 |
| Concentra long-term debt maturities | | $ 649,923 |
| Total current maturities | $ 10,874 | $ 233,570 |
| Total long-term debt maturities | 1,542,102 | 2,190,314 |
| Total debt | $1,552,976 | $2,423,884 |

(1) Includes unamortized premium of $1.5 million and $1.2 million at December 31, 2014 and 2015, respectively.

(2) Includes unamortized discounts of $4.2 million and $2.8 million at December 31, 2014 and 2015, respectively.

(3) Includes unamortized discounts of $2.9 million at December 31, 2015.

## 6. Long-Term Debt and Notes Payable (Continued)

*Select Credit Facilities*

On June 1, 2011, Select entered into its existing senior secured credit agreement that originally provided for $1.15 billion in senior secured credit facilities. The following discussion summarizes amendments and significant transactions affecting the term loan facilities (collectively, the "Select term loans") and the revolving credit facility (the "Select revolving facility" and together with the Select term loans, the "Select credit facilities").

On August 13, 2012, Select entered into an additional credit extension amendment to the Select credit facilities providing for a $275.0 million series A term loan at the same interest rate and with the same term as the original term loan.

On February 20, 2013, Select entered into a credit extension amendment to the Select credit facilities providing for a $300.0 million series B term loan. Select used the borrowings under the series B term loan to redeem all of its outstanding 7⅝% senior subordinated notes due 2015 on March 22, 2013, to finance Holdings' redemption of all of its senior floating rate notes due 2015 on March 22, 2013 and to repay a portion of the balance outstanding under the Select revolving facility.

On May 28, 2013, Select issued and sold $600.0 million aggregate principal amount of 6.375% senior notes due June 1, 2021. Select used the proceeds of the 6.375% senior notes to pay a portion of the amounts then outstanding on the original term loan and the series A term loan and to pay related fees and expenses.

On June 3, 2013, Select amended the Select credit facilities in order to, among other things: (i) extend the maturity date on $293.3 million of its $300.0 million revolving facility from June 1, 2016 to March 1, 2018; (ii) convert the remaining original term loan and series A term loan to a new series C term loan, and lower the interest rate payable on the series C term loan from Adjusted LIBO plus 3.75%, or Alternate Base Rate plus 2.75%, to Adjusted LIBO plus 3.00%, or Alternate Base Rate plus 2.00%, and amend the provision of the series C term loan from providing that Adjusted LIBO will at no time be less than 1.75% to providing that Adjusted LIBO will at no time be less than 1.00%; (iii) lower the interest rate payable on the series B term loan from Adjusted LIBO plus 3.75%, or Alternate Base Rate plus 2.75%, to Adjusted LIBO plus 3.25%, or Alternate Base Rate plus 2.25%; (iv) amend the restrictive covenants governing the Select credit facilities in order to allow for unlimited restricted payments so long as there is no event of default under the credit facilities and the total pro forma ratio of total indebtedness to Consolidated EBITDA (as defined in the credit facilities) is less than or equal to 2.75 to 1.00; and (v) amend the definition of "Available Amount" in a manner the effect of which was to increase the amount available for investments, restricted payments and payment of specified indebtedness.

On March 4, 2014, Select made a principal prepayment of $34.0 million associated with the Select term loans in accordance with the provision in the Select credit facilities that requires mandatory prepayments of term loans resulting from excess cash flow as defined in the Select credit facilities.

On March 4, 2014, Select amended the Select credit facilities in order to, among other things: (i) convert the remaining series B term loan to a new series D term loan, and lower the interest rate payable on the series D term loan from Adjusted LIBO plus 3.25%, or Alternate Base Rate plus 2.25%, to Adjusted LIBO plus 2.75%, or Alternate Base Rate plus 1.75%; (ii) set the maturity date of the series D term loan at December 20, 2016; (iii) convert the remaining series C term loan to a new series E term loan, and lower the interest rate payable on the series E term loan from Adjusted LIBO plus 3.00% (subject to an Adjusted LIBO rate floor of 1.00%), or Alternate Base Rate plus 2.00%, to Adjusted LIBO plus 2.75%

**6. Long-Term Debt and Notes Payable (Continued)**

(subject to an Adjusted LIBO rate floor of 1.00%), or Alternate Base Rate plus 1.75%; (iv) set the maturity date of the series E term loan at June 1, 2018; (v) beginning with the quarter ending March 31, 2014, increase the quarterly compliance threshold set forth in the leverage ratio financial maintenance covenant to a level of 5.00 to 1.00 from 4.50 to 1.00; (vi) provide for a prepayment premium of 1.00% if the Select credit facilities are amended at any time prior to March 4, 2015 in the case of the series E term loans and such amendment reduces the yield applicable to such loans; and (vii) amend the definition of "Available Amount" in a manner the effect of which was to increase the amount available for investments, restricted payments and the payment of specified indebtedness.

On October 23, 2014, Select entered into two additional credit extension amendments, one of which extended the maturity date on $6.75 million in aggregate principal of revolving commitments from June 1, 2016 to March 1, 2018, the second of which added $50.0 million in incremental revolving commitments that mature on March 1, 2018.

On March 4, 2015, Select made a principal prepayment of $26.9 million associated with the series D term loan and series E term loan 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.

On May 20, 2015 Select entered into an additional credit extension amendment of the Select revolving facility to obtain $100.0 million of incremental revolving commitments. The revolving commitments mature on March 1, 2018.

On December 11, 2015, Select amended the Select credit facilities in order to, among other things: (i) convert $56.2 million of its series D term loan into series E term loan, which have a maturity date of June 1, 2018; (ii) increase the interest rate payable on the series E term loan from Adjusted LIBO plus 2.75% (subject to an Adjusted LIBO rate floor of 1.00%), or Alternative Base Rate plus 1.75%, to Adjusted LIBO plus 4.00% (subject to an Adjusted LIBO rate floor of 1.00%), or Alternative Base Rate plus 3.00%; (iii) beginning with the quarter ending December 31, 2015, increase the quarterly compliance threshold set forth in the leverage ratio financial maintenance covenant to a level of 5.75 to 1.00 from 5.00 to 1.00; (iv) increase the capacity for incremental extensions of credit to $450.0 million; and (v) amend the definition of "Consolidated EBITDA" to add back certain specialty hospital start-up losses.

At December 31, 2015, Select's credit facilities provided for senior secured financing consisting of a $450.0 million revolving facility which matures on March 1, 2018, including a $75.0 million sublimit for the issuance of standby letters of credit and a $25.0 million sublimit for swingline loans; a $218.6 million series D term loan, maturing on December 20, 2016; and $534.7 million series E term loan, maturing on June 1, 2018.

The Select term loans amortize quarterly in the amount of 0.25% of the aggregate principal amount, subject to mandatory prepayment provisions.

All borrowings under Select's credit facilities are subject to the satisfaction of required conditions, including the absence of a default at the time of and after giving effect to such borrowing and the accuracy of the representations and warranties of the borrowers.

The interest rates per annum applicable to borrowings under Select's credit facilities are, at its option, equal to either an Alternate Base Rate or an Adjusted LIBO rate for a one, two, three or six month interest period, or a nine or twelve month period if available, in each case, plus an applicable margin percentage. The Alternate Base Rate is the greatest of (i) JPMorgan Chase Bank, N.A.'s prime rate,

**6. Long-Term Debt and Notes Payable (Continued)**

(ii) one-half of 1% over the weighted average of rates on overnight Federal funds as published by the Federal Reserve Bank of New York and (iii) the Adjusted LIBO rate from time to time for an interest period of one month, plus 1.00%. The Adjusted LIBO rate is, with respect to any interest period, the London interbank offered rate for such interest period, adjusted for any applicable statutory reserve requirements.

Borrowings under the series D term loan bear interest at a rate equal to Adjusted LIBO plus 2.75%, or Alternate Base Rate plus 1.75%. Borrowings under the series E term loan bear interest at a rate equal to Adjusted LIBO plus 4.00%, or Alternate Base Rate plus 3.00%. The Adjusted LIBO for the series E term loan will at no time be less than 1.00%.

Borrowings under the revolving facility bear interest at a rate equal to Adjusted LIBO plus a percentage ranging from 2.75% to 3.75%, or Alternate Base Rate plus a percentage ranging from 1.75% to 2.75%, in each case based on Select's ratio of total indebtedness to Consolidated EBITDA (as defined in the Select credit facilities).

On the last day of each calendar quarter Select is required to pay each lender a commitment fee in respect of any unused commitments under the revolving facility, which is currently 0.50% per annum subject to adjustment based upon the ratio of Select's total indebtedness to Consolidated EBITDA (as defined in the Select credit facilities).

Subject to exceptions, the Select credit facilities require mandatory prepayments of Select term loans in amounts equal to:

- 50% (as may be reduced based on Select's ratio of total indebtedness to Consolidated EBITDA (as defined in the Select credit facilities)) of Select's annual excess cash flow;
- 100% of the net cash proceeds from non-ordinary course asset sales or other dispositions, or as a result of a casualty or condemnation event, subject to reinvestment rights and certain other exceptions; and
- 100% of the net cash proceeds from certain incurrences of debt.

Select's credit facilities are guaranteed by Holdings, Select and substantially all of its current wholly owned subsidiaries, and will be guaranteed by substantially all of Select's future subsidiaries and secured by substantially all of Select's existing and future property and assets and by a pledge of its capital stock and the capital stock of its subsidiaries.

Select's credit facilities require that it comply on a quarterly basis with certain financial covenants, including a maximum leverage ratio test.

In addition, Select's credit facilities include negative covenants, subject to significant exceptions, restricting or limiting its ability and the ability of Holdings and Select's restricted subsidiaries, to, among other things:

- incur, assume, permit to exist or guarantee additional debt and issue or sell or permit any subsidiary to issue or sell preferred stock;
- amend, modify or waiver any rights under the certificate of indebtedness, credit agreements, certificate of incorporation, bylaws or other organizational documents which would be materially adverse to the creditors;
- pay dividends or other distributions on, redeem, repurchase, retire or cancel capital stock;

**6. Long-Term Debt and Notes Payable (Continued)**

- purchase or acquire any debt or equity securities of, make any loans or advances to, guarantee any obligation of, or make any other investment in, any other company;
- incur or permit to exist certain liens on property or assets owned or accrued or assign or sell any income or revenues with respect to such property or assets;
- sell or otherwise transfer property or assets to, purchase or otherwise receive property or assets from, or otherwise enter into transactions with affiliates;
- merge, consolidate or amalgamate with another company or permit any subsidiary to merge, consolidate or amalgamate with another company;
- sell, transfer, lease or otherwise dispose of assets, including any equity interests;
- repay, redeem, repurchase, retire or cancel any subordinated debt;
- incur capital expenditures;
- engage to any material extent in any business other than business of the type currently conducted by Select or reasonably related businesses; and
- incur obligations that restrict the ability of its subsidiaries to incur or permit to exist any liens on Select's property or assets or to make dividends or other payments to Select.

The Select credit facilities also contain certain representations and warranties, affirmative covenants and events of default. The events of default include payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to certain indebtedness, certain events of bankruptcy, certain events under ERISA, material judgments, actual or asserted failure of any guaranty or security document supporting Select's credit facilities to be in full force and effect and any change of control. If such an event of default occurs, the lenders under the Select credit facilities will be entitled to take various actions, including the acceleration of amounts due under the Select credit facilities and all actions permitted to be taken by a secured creditor.

At December 31, 2015, Select had outstanding borrowings under the Select credit facilities of $753.3 million of the Select term loans (excluding unamortized original issue discounts of $2.8 million) and borrowings of $295.0 million (excluding letters of credit) under the Select revolving facility. Select had $116.1 million of availability under the Select revolving facility (after giving effect to $38.9 million of outstanding letters of credit) at December 31, 2015.

The applicable margin percentage for borrowings under the Select revolving facility is subject to change based upon the ratio of Select's leverage ratio (as defined in the Select credit facilities). The applicable interest rate for revolving loans as of December 31, 2015 was (1) Alternate Base plus 2.75% for alternate base rate loans and (2) LIBO plus 3.75% for adjusted LIBO rate loans.

The Select credit facilities require it to maintain certain leverage ratios (as defined in the Select credit facilities). For the three fiscal quarters ended March 31, 2015, June 30, 2015, and September 30, 2015, Select was required to maintain its leverage ratio (its ratio of total indebtedness to consolidated EBITDA) at less than 5.00 to 1.00. For the quarter ended December 31, 2015, Select was required to maintain its leverage ratio at less than 5.75 to 1.00. Select's leverage ratio was 4.78 to 1.00 as of December 31, 2015. Additionally, the Select credit facilities will require a prepayment of borrowings of 50% of excess cash flow, which will result in a prepayment of approximately $10.2 million. Select expects to have the borrowing

**6. Long-Term Debt and Notes Payable (Continued)**

capacity and intends to use borrowings under its revolving facility to make the required prepayment during the first quarter ended March 31, 2016.

*Senior Notes*

On March 11, 2014, Select issued and sold $110.0 million aggregate principal amount of additional 6.375% senior notes due June 1, 2021 (the "Additional Notes"), at 101.50% of the aggregate principal amount resulting in gross proceeds of $111.7 million. The notes were issued as additional notes under the indenture pursuant to which it previously issued $600.0 million of 6.375% senior notes due June 1, 2021 (the "Existing Notes" and, together with the Additional Notes, the "Notes"). The Additional Notes are treated as a single series with the Existing Notes and have the same terms as those of the Existing Notes.

Interest on the Notes accrues at the rate of 6.375% per annum and is payable semi-annually in cash in arrears on June 1 and December 1 of each year. The Notes are Select's senior unsecured obligations and rank equally in right of payment with all of its other existing and future senior unsecured indebtedness and senior in right of payment to all of its existing and future subordinated indebtedness. The Notes are fully and unconditionally guaranteed by all of Select's wholly owned subsidiaries. The Notes are guaranteed, jointly and severally, by Select's direct or indirect existing and future domestic restricted subsidiaries other than certain non-guarantor subsidiaries.

Select may redeem some or all of the Notes prior to June 1, 2016 by paying a "make-whole" premium. Select may redeem some or all of the Notes on or after June 1, 2016 at specified redemption prices. In addition, prior to June 1, 2016, Select may redeem up to 35% of the Notes with the net proceeds of certain equity offerings at a price of 106.375% plus accrued and unpaid interest, if any. Select is obligated to offer to repurchase the Notes at a price of 101% of their principal amount plus accrued and unpaid interest, if any, as a result of certain change of control events. These restrictions and prohibitions are subject to certain qualifications and exceptions.

The indenture relating to the Notes contains covenants that, among other things, limit Select's ability and the ability of certain of its subsidiaries to (i) grant liens on its assets, (ii) make dividend payments, other distributions or other restricted payments, (iii) incur restrictions on the ability of Select's restricted subsidiaries to pay dividends or make other payments, (iv) enter into sale and leaseback transactions, (v) merge, consolidate, transfer or dispose of substantially all of their assets, (vi) incur additional indebtedness, (vii) make investments, (viii) sell assets, including capital stock of subsidiaries, (ix) use the proceeds from sales of assets, including capital stock of restricted subsidiaries, and (x) enter into transactions with affiliates. In addition, the Indenture requires, among other things, Select to provide financial and current reports to holders of the Notes or file such reports electronically with the SEC. These covenants are subject to a number of exceptions, limitations and qualifications set forth in the Indenture.

*Concentra credit facilities*

*Concentra first lien credit agreement*

On June 1, 2015, MJ Acquisition Corporation, as the initial borrower, entered into a first lien credit agreement (the "Concentra first lien credit agreement"). Concentra, as the surviving entity of the merger between MJ Acquisition Corporation and Concentra, became the borrower. The Concentra first lien credit agreement provides for $500.0 million in first lien loans comprised of a $450.0 million, seven-year term loan ("Concentra first lien term loan") and a $50.0 million, five-year revolving credit facility ("Concentra revolving facility"). The borrowings under the Concentra first lien credit agreement are guaranteed, on a

**6. Long-Term Debt and Notes Payable (Continued)**

first lien basis, by Concentra Holdings, Inc., the direct parent of Concentra. Select and Holdings are not parties to the Concentra first lien credit agreement and are not obligors with respect to Concentra's debt under such agreement.

Borrowings under the Concentra first lien credit agreement bear interest at a rate equal to: (i) in the case of the Concentra first lien term loan, 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%); and (ii) in the case of the Concentra revolving facility, Adjusted LIBO plus a percentage ranging from 2.75% to 3.00%, or Alternate Base Rate plus a percentage ranging from 1.75% to 2.00%, in each case based on Concentra's leverage ratio.

The Concentra first lien term loan amortizes in equal quarterly installments, in aggregate annual amounts equal to 0.25% of the original principal amount of the first lien term loan commencing on September 30, 2015. The balance of the Concentra first lien term loan will be payable on June 1, 2022. The Concentra revolving facility matures on June 1, 2020.

*Concentra second lien credit agreement*

On June 1, 2015, MJ Acquisition Corporation, as the initial borrower, entered into a second lien credit agreement (the "Concentra second lien credit agreement" and, together with the Concentra first lien credit agreement, the "Concentra credit facilities"). Concentra, as the surviving entity of the merger between MJ Acquisition Corporation and Concentra, became the borrower. The Concentra second lien credit agreement provides for a $200.0 million eight-year second lien term loan ("Concentra second lien term loan" and, together with the Concentra first lien term loans, the "Concentra term loans"). The borrowings under the Concentra second lien credit agreement are guaranteed, on a second lien basis, by Concentra Holdings, Inc., the direct parent of Concentra. Select and Holdings are not parties to the Concentra second lien credit agreement and are not obligors with respect to Concentra's debt under such agreement.

Borrowings under the Concentra second lien term loan bear interest at a rate equal to Adjusted LIBO Rate (as defined in the Concentra second lien credit agreement) plus 8.00% (subject to an Adjusted LIBO floor of 1.00%), or Alternate Base Rate (as defined in the Concentra second lien credit agreement) plus 7.00% (subject to an Alternate Base Rate floor of 2.00%).

In the event that, on or prior to June 1, 2016, Concentra prepays any of the Concentra second lien term loan, Concentra shall pay a premium of 2.00% of the aggregate principal amount of the Concentra second lien term loan prepaid and if Concentra prepays any of the Concentra second lien term loan on or prior to June 1, 2017, Concentra shall pay a premium of 1.00% of the aggregate principal amount of the Concentra second lien term loan prepaid. The Concentra second lien term loan will be payable on June 1, 2023.

## 6. Long-Term Debt and Notes Payable (Continued)

*Maturities of Long-Term Debt and Notes Payable*

Maturities of the Company's long-term debt for the years after 2015 are approximately as follows and are presented including the discounts on Select term loans and premium on Select's senior notes, and including the discounts on Concentra credit facilities:

| | Select | Concentra | Total |
|---|---|---|---|
| | | (in thousands) | |
| 2016 | $ 228,316 | $ 5,254 | $ 233,570 |
| 2017 | 6,952 | 4,168 | 11,120 |
| 2018 | 820,651 | 4,186 | 824,837 |
| 2019 | 2,465 | 4,206 | 6,671 |
| 2020 | 228 | 9,227 | 9,455 |
| 2021 and beyond | 710,095 | 628,136 | 1,338,231 |
| Total | $1,768,707 | $655,177 | $2,423,884 |

*Loss on Early Retirement of Debt*

On February 20, 2013, Select entered into a credit extension amendment, the proceeds of which were used to redeem all of its outstanding 7⅝% senior subordinated notes, to finance Holdings' redemption of all of its 10% senior floating rate, and to repay a portion of the balance outstanding under Select's revolving facility. Additionally, on May 28, 2013, Select issued and sold $600.0 million aggregate principal amount of its 6.375% senior notes due 2021, the proceeds of which were used to pay a portion of Select term loans then outstanding and to pay related fees and expenses. A loss on early retirement of debt of $18.7 million and $17.8 million for Holdings and Select, respectively, was recognized for the year ended December 31, 2013, which included the write off of unamortized debt issuance costs.

During the year ended December 31, 2014, Select amended the Select term loans under the Select credit facilities and recognized a loss $2.3 million for unamortized debt issuance costs, unamortized original issue discount, and certain fees incurred related to term loan modifications.

## 7. Stockholders' Equity

*Common Stock*

Holdings' board of directors has authorized a common stock repurchase program to repurchase up to $500.0 million worth of shares of its common stock. The program will remain in effect until December 31, 2016, unless extended or earlier terminated by the board of directors. Stock repurchases under this program may be made in the open market or through privately negotiated transactions, and at times and in such amounts as Holdings deems appropriate. Holdings is funding this program with cash on hand and borrowings under the Select revolving facility. For the years ended December 31, 2013, 2014 and 2015, respectively, Holdings repurchased 1,115,691 shares at a cost of $10.0 million, 11,285,714 shares at a cost of $127.5 million, and 1,032,334 shares at a cost of $13.6 million, which includes transaction costs. During the year ended December 31, 2014, the shares were repurchased from Welsh, Carson, Anderson & Stowe IX, L.P. and WCAS Capital Partners IV, L.P. pursuant to stock purchase agreements dated February 26, 2014 and May 5, 2014. Two of the Company's directors are affiliated with these entities. The common stock repurchase program has available capacity of $185.2 million as of December 31, 2015.

**7. Stockholders' Equity (Continued)**

Holdings granted 952,500 shares, 1,585,775 shares, and 1,384,954 shares of restricted stock for the years ended December 31, 2013, 2014 and 2015, respectively and issued 166,600 shares, 974,969 shares, and 183,450 shares of common stock related to the exercise of stock options and for the years ended December 31, 2013, 2014 and 2015, respectively. Also, 331,697 shares, 302,690 shares, and 486,580 shares of stock were forfeited for the years ended December 31, 2013, 2014 and 2015, respectively.

**8. Stock-based Compensation**

On February 25, 2005, Holdings adopted the Select Medical Holdings Corporation 2005 Equity Incentive Plan. On May 13, 2011, the Select Medical Holdings Corporation 2005 Equity Incentive Plan was frozen and Holdings adopted the 2011 Select Medical Holdings Corporation 2011 Equity Incentive Plan. The Select Medical Holdings Corporation 2005 Equity Incentive Plan and the Select Medical Holdings Corporation 2011 Equity Incentive Plan are referred to as the "Plans." The Plans provide for grants of restricted stock and stock options of Holdings. On November 8, 2005 the board of directors of Holdings adopted a director equity incentive plan ("Director Plan") and on August 12, 2009, the board of directors and stockholders of Holdings approved an amendment and restatement of the Director Plan. This amendment authorized Holdings to issue under the Director Plan options to purchase up to 75,000 shares of its common stock and restricted stock awards covering up to 150,000 shares of its common stock. All of the aforementioned equity plans allow for the use of unissued shares or treasury shares to be used to satisfy share-based awards.

The options under the Plans and Director Plan generally vest over five years and have an option term not to exceed ten years. The fair value of the options granted was estimated using the Black-Scholes option pricing model. There were no options granted under the Plans or Director Plan during the year ended December 31, 2015.

Transactions and other information related to restricted stock awards are as follows:

| | Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| | (share amounts in thousands) | |
| Unvested Balance, January 1, 2015 | 3,728 | $10.82 |
| Granted | 1,385 | 13.94 |
| Vested | (992) | 9.07 |
| Forfeited | (304) | 12.28 |
| Unvested Balance, December 31, 2015 | 3,817 | $12.29 |

The weighted average grant date fair value of restricted stock awards granted for the years ended December 31, 2013, 2014, and 2015 was $8.48, $13.61, and $13.94, respectively. The total weighted average grant date fair value of restricted stock awards vested for the years ended December 31, 2013, 2014, and 2015 was $4.6 million, $7.4 million, and $9.0 million, respectively.

As of December 31, 2015 there were 743,000 stock options outstanding and 728,000 stock options exercisable under the Plans and Director Plans. The outstanding and exercisable shares have a weighted average exercise price of $8.85 and a weighted average remaining contractual life of 2.87 years.

**8. Stock-based Compensation (Continued)**

The total intrinsic value of options exercised under the Plans and Director Plans for the years ended December 31, 2013, 2014, and 2015 was \$0.2 million, \$6.0 million, and \$1.0 million, respectively. The aggregate intrinsic value of options outstanding and options exercisable under the Plans and Director Plans at December 31, 2015 was \$2.3 million.

Stock compensation expense recognized by the Company was as follows:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | (in thousands) | | |
| Stock compensation expense: | | | |
| Included in general and administrative | \$5,276 | \$ 9,027 | \$11,633 |
| Included in cost of services | 1,757 | 2,015 | 3,046 |
| Total | \$7,033 | \$11,042 | \$14,679 |

Stock compensation expense based on current share-based awards for each of the next five years is estimated to be as follows:

| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| | (in thousands) | | | | |
| Stock compensation expense | \$15,532 | \$10,610 | \$5,204 | \$1,406 | \$324 |

**9. Income Taxes**

Significant components of the Company's tax provision for the years ended December 31, 2013, 2014, and 2015 are as follows:

| | Holdings | | | Select | | |
|---|---|---|---|---|---|---|
| | For the Year Ended December 31, | | | For the Year Ended December 31, | | |
| | 2013 | 2014 | 2015 | 2013 | 2014 | 2015 |
| | (in thousands) | | | (in thousands) | | |
| Current: | | | | | | |
| Federal | \$55,847 | \$52,063 | \$63,626 | \$57,026 | \$52,063 | \$63,626 |
| State and local | 11,913 | 9,248 | 10,868 | 11,913 | 9,248 | 10,868 |
| Total current | 67,760 | 61,311 | 74,494 | 68,939 | 61,311 | 74,494 |
| Deferred | 7,032 | 14,311 | (2,058) | 7,032 | 14,311 | (2,058) |
| Total income tax provision | \$74,792 | \$75,622 | \$72,436 | \$75,971 | \$75,622 | \$72,436 |

**9. Income Taxes (Continued)**

The differences between the expected income tax provision and income taxes computed at the federal statutory rate of 35% were as follows:

| | Holdings | | | Select | | |
|---|---|---|---|---|---|---|
| | For the Year Ended December 31, | | | For the Year Ended December 31, | | |
| | 2013 | 2014 | 2015 | 2013 | 2014 | 2015 |
| Expected federal tax rate | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% |
| State and local taxes, net of federal benefit | 4.6 | 4.2 | 4.0 | 4.5 | 4.2 | 4.0 |
| Other permanent differences | 1.1 | 0.8 | 1.4 | 1.1 | 0.8 | 1.4 |
| Valuation allowance | (0.7) | (0.4) | (0.9) | (0.6) | (0.4) | (0.9) |
| Uncertain tax positions | (0.6) | (0.3) | (2.3) | (0.6) | (0.3) | (2.3) |
| IRS audit settlements | — | (0.4) | (0.1) | — | (0.4) | (0.1) |
| Non-controlling interest | (1.7) | (1.5) | (2.0) | (1.7) | (1.5) | (2.0) |
| Other | 0.1 | (0.3) | (0.3) | 0.1 | (0.3) | (0.3) |
| Total | 37.8% | 37.1% | 34.8% | 37.8% | 37.1% | 34.8% |

During 2015, the Company settled with the Internal Revenue Service a tax liability relating to the 2011 settlement of a lawsuit under the qui tam provisions of the federal False Claims Act and reversed through the income tax provision the remaining excess tax reserves.

During 2009, the Company settled with the Internal Revenue Service a refund of previously paid federal income taxes that resulted from the acceleration of tax amortization in years prior to the Merger. Tax reserves related to this dispute were released in 2014 resulting in the abatement of penalties and interest.

**9. Income Taxes (Continued)**

A summary of the components of deferred tax assets and liabilities is as follows:

| | December 31, 2014 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Total | Current | Non-Current | Total | Current | Non-Current |
| | (in thousands) | | | | | |
| Deferred tax assets | | | | | | |
| Allowance for doubtful accounts | $ 701 | $ 701 | $ — | $ 9,153 | $ 9,153 | $ — |
| Compensation and benefit related accruals | 49,373 | 38,722 | 10,651 | 61,111 | 50,303 | 10,808 |
| Professional malpractice liability insurance | 17,934 | 4,732 | 13,202 | 19,654 | 4,642 | 15,012 |
| Restructuring reserve | 333 | 333 | — | — | — | — |
| Deferred revenue | (829) | (829) | — | (1,009) | (1,009) | — |
| State net operating loss carryforwards | 21,555 | 436 | 21,119 | 21,591 | 445 | 21,146 |
| Other | 552 | 552 | — | 1,273 | 357 | 916 |
| Stock options | 5,336 | — | 5,336 | 6,061 | — | 6,061 |
| Equity investments | 3,475 | — | 3,475 | 3,939 | — | 3,939 |
| Uncertain tax positions | 1,632 | — | 1,632 | 641 | — | 641 |
| Total deferred tax assets | 100,062 | 44,647 | 55,415 | 122,414 | 63,891 | 58,523 |
| Deferred tax liabilities | | | | | | |
| Deferred income | (31,190) | (25,651) | (5,539) | (31,375) | (27,221) | (4,154) |
| Investment in unconsolidated affiliates | (3,659) | — | (3,659) | (4,302) | — | (4,302) |
| Other | (1,587) | (1,093) | (494) | (8,444) | (6,072) | (2,372) |
| Depreciation and amortization | (147,197) | — | (147,197) | (260,724) | — | (260,724) |
| Total deferred tax liabilities | (183,633) | (26,744) | (156,889) | (304,845) | (33,293) | (271,552) |
| Net deferred taxes before valuation allowance | (83,571) | 17,903 | (101,474) | (182,431) | 30,598 | (213,029) |
| Valuation allowance | (9,641) | (1,912) | (7,729) | (7,586) | (1,910) | (5,676) |
| Net deferred taxes | $ (93,212) | $ 15,991 | $(109,203) | $(190,017) | $ 28,688 | $(218,705) |

The valuation allowance as of December 31, 2015 is primarily attributable to the uncertainty regarding the realization of state net operating losses and other net deferred tax assets of loss entities. The state net deferred tax assets have a full valuation allowance recorded for entities that have a cumulative history of pre-tax losses (current year in addition to the two prior years). The net deferred tax liabilities at December 31, 2014 and 2015 of approximately $93.2 million and $190.0 million, respectively, consist of items which have been recognized for tax reporting purposes, but which will increase tax on returns to be filed in the future, and include the use of net operating loss carryforwards. The Company has performed the required assessment of positive and negative evidence regarding the realization of the net deferred tax assets. This assessment included a review of legal entities with three years of cumulative losses, estimates of projected future taxable income, generation of income from the turning of existing deferred tax liabilities and the impact of tax planning strategies that management would and could implement in order to keep deferred tax assets from expiring unused. Although realization is not assured, based on the

**9. Income Taxes (Continued)**

Company's assessment, it has concluded that it is more likely than not that such assets, net of the determined valuation allowance, will be realized.

The total state net operating losses are approximately $465.6 million. State net operating loss carry forwards expire and are subject to valuation allowances as follows:

| | State Net Operating Losses | Gross Valuation Allowance |
|---|---|---|
| | (in thousands) | |
| 2016 | $ 6,479 | $ 5,891 |
| 2017 | 10,818 | 9,828 |
| 2018 | 7,319 | 4,574 |
| 2019 | 7,948 | 7,927 |
| Thereafter through 2035 | 433,068 | 333,817 |

***Reserves for Uncertain Tax Positions:***

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. Significant judgment is required in evaluating the Company's tax positions and determining its provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. The Company establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when it is believed that certain positions might be challenged despite the Company's belief that its tax return positions are fully supportable. The Company adjusts these reserves in light of changing facts and circumstances, such as the outcome of a tax audit. The provision for income taxes includes the impact of reserve provisions and changes to reserves that have resulted from resolution of the tax position or expirations of statutes of limitations.

The reconciliation of the Company's unrecognized tax benefits is as follows (in thousands):

| | |
|---|---|
| Gross tax contingencies—January 1, 2013 | $13,890 |
| Reductions for tax positions taken in prior periods due primarily to statute expiration | (2,299) |
| Additions for existing tax positions taken | 435 |
| Gross tax contingencies—December 31, 2013 | 12,026 |
| Reductions for tax positions taken in prior periods due primarily to statute expiration | (1,632) |
| Additions for existing tax positions taken | 273 |
| Gross tax contingencies—December 31, 2014 | 10,667 |
| Reductions for tax positions taken in prior periods due primarily to statute expiration | (3,309) |
| Reductions for settlements with taxing authorities | (770) |
| Additions for existing tax positions taken | 373 |
| Reductions for existing tax positions taken | (1,395) |
| Gross tax contingencies—December 31, 2015 | $ 5,566 |

**9. Income Taxes (Continued)**

As of December 31, 2014 and 2015, the Company had $10.7 million and $5.6 million of unrecognized tax benefits, respectively, all of which, if fully recognized, would affect the Company's effective income tax rate.

As of December 31, 2015, approximately $2.6 million of gross unrecognized tax benefits, including interest, will be eligible for release in the next 12 months due to the expiration of statutes of limitations. The Company's policy is to include interest related to income taxes in income tax expense. As of December 31, 2014 and December 31, 2015, the Company has accrued interest related to income taxes of $1.9 million and $0.6 million, net of federal income taxes, respectively. Interest recognized for each of the years ended December 31, 2013, 2014 and 2015 was $0.5 million, $0.5 million, and $0.3 million, net of federal income tax benefits, respectively.

The federal statute of limitations remains open for tax years 2013 through 2015.

State jurisdictions generally have statutes of limitations for tax returns ranging from three to five years. The state impact of any federal income tax changes remains subject to examination for a period of up to one year after formal notification to the states. Currently, the Company has one state income tax return under examination.

**10. Retirement Savings Plan**

Select sponsors a defined contribution retirement savings plan for substantially all of its employees. Employees who are not classified as HCE's (highly compensated employees) may contribute up to 30% of their salary; HCE's may contribute up to 7% of their salary. The plan provides a discretionary company match which is determined annually. Currently, Select matches 25% of the first 6% of compensation employees contribute to the plan. The employees vest in the employer contributions over a three-year period beginning on the employee's hire date. The expense incurred by Select related to this plan was $8.7 million, $9.3 million and $10.0 million during the years ended December 31, 2013, 2014 and 2015, respectively.

Concentra sponsored a separate defined contribution retirement savings plan and incurred expenses related to this plan of $8.8 million for the period June 1, 2015 through December 31, 2015. Beginning in January 2016, Concentra's employees will participate in the defined contribution retirement savings plan sponsored by Select.

**11. 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 services and certain other non-consolidating joint ventures and minority investments in other healthcare related businesses. The outpatient rehabilitation reportable segment has two operating segments: outpatient rehabilitation clinics and contract therapy. These operating segments are aggregated for reporting purposes as they have common economic characteristics and provide a similar service to a similar patient base. 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 net income before interest, income taxes, depreciation and amortization, gain (loss) on early retirement of debt, stock compensation expense, Concentra acquisition costs, equity in earnings (losses) of unconsolidated subsidiaries, and gain on sale of equity investment.

**11. Segment Information (Continued)**

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

| | Year Ended December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Specialty Hospitals | Outpatient Rehabilitation | Concentra[2] | Other | Total |
| | | | (in thousands) | | |
| Net revenue | $2,198,121 | $777,177 | | $ 350 | $2,975,648 |
| Adjusted EBITDA | 353,843 | 90,313 | | (71,295) | 372,861 |
| Total assets[1]: | 2,205,921 | 512,539 | | 99,162 | 2,817,622 |
| Capital expenditures | 56,523 | 14,113 | | 3,024 | 73,660 |

| | Year Ended December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Specialty Hospitals | Outpatient Rehabilitation | Concentra[2] | Other | Total |
| | | | (in thousands) | | |
| Net revenue | $2,244,899 | $819,397 | | $ 721 | $3,065,017 |
| Adjusted EBITDA | 341,787 | 97,584 | | (75,499) | 363,872 |
| Total assets[1]: | 2,279,665 | 532,685 | | 112,459 | 2,924,809 |
| Capital expenditures | 77,742 | 12,506 | | 4,998 | 95,246 |

| | Year Ended December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Specialty Hospitals | Outpatient Rehabilitation | Concentra[2] | Other | Total |
| | | | (in thousands) | | |
| Net revenue | $2,346,781 | $810,009 | $ 585,222 | $ 724 | $3,742,736 |
| Adjusted EBITDA | 327,623 | 98,220 | 48,301 | (74,979) | 399,165 |
| Total assets[1]: | 2,425,113 | 548,242 | 1,331,837 | 121,474 | 4,426,666 |
| Capital expenditures | 126,014 | 17,768 | 26,771 | 12,089 | 182,642 |

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

| | Year Ended December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Specialty Hospitals | Outpatient Rehabilitation | Concentra | Other | | |
| | | | (in thousands) | | | |
| Adjusted EBITDA | $353,843 | $ 90,313 | | $(71,295) | | |
| Depreciation and amortization | (48,621) | (12,024) | | (3,747) | | |
| Stock compensation expense | — | — | | (7,033) | | |
| | | | | | Holdings | Select |
| Income (loss) from operations | $305,222 | $ 78,289 | | $(82,075) | $301,436 | $301,436 |
| Loss on early retirement of debt | | | | | (18,747) | (17,788) |
| Equity in earnings of unconsolidated subsidiaries | | | | | 2,476 | 2,476 |
| Interest expense | | | | | (87,364) | (84,954) |
| Income before income taxes | | | | | $197,801 | $201,170 |

## 11. Segment Information (Continued)

| | Year Ended December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Specialty Hospitals | Outpatient Rehabilitation | Concentra | Other | Holdings | Select |
| | | | (in thousands) | | | |
| Adjusted EBITDA | $341,787 | $ 97,584 | | $(75,499) | | |
| Depreciation and amortization | (51,786) | (12,845) | | (3,723) | | |
| Stock compensation expense | — | — | | (11,042) | | |
| Income (loss) from operations | $290,001 | $ 84,739 | | $(90,264) | $284,476 | $284,476 |
| Loss on early retirement of debt | | | | | (2,277) | (2,277) |
| Equity in earnings of unconsolidated subsidiaries | | | | | 7,044 | 7,044 |
| Interest expense | | | | | (85,446) | (85,446) |
| Income before income taxes | | | | | $203,797 | $203,797 |

| | Year Ended December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Specialty Hospitals | Outpatient Rehabilitation | Concentra[(2)] | Other | Holdings | Select |
| | | | (in thousands) | | | |
| Adjusted EBITDA | $327,623 | $ 98,220 | $ 48,301 | $(74,979) | | |
| Depreciation and amortization | (53,992) | (13,053) | (33,644) | (4,292) | | |
| Stock compensation expense | — | — | (1,016) | (13,663) | | |
| Concentra acquisition costs | — | — | (4,715) | — | | |
| Income (loss) from operations | $273,631 | $ 85,167 | $ 8,926 | $(92,934) | $274,790 | $274,790 |
| Gain on sale of equity investment | | | | | 29,647 | 29,647 |
| Equity in earnings of unconsolidated subsidiaries | | | | | 16,811 | 16,811 |
| Interest expense | | | | | (112,816) | (112,816) |
| Income before income taxes | | | | | $208,432 | $208,432 |

(1) The specialty hospitals segment includes $2.7 million in real estate assets held for sale on December 31, 2013, 2014 and 2015.

(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.

## 12. Income per Share

The Company 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. Under the two class method:

(a) Net income attributable to Select Medical Holdings Corporation is reduced by any contractual amount of dividends in the current period for each class of stock. There were no contractual dividends for the years ended December 31, 2013, 2014 and 2015.

(b) The remaining income is allocated to common stock and unvested restricted stock to the extent that each security may share in income, as if all of the earnings for the period had been distributed. The total income allocated to each security is determined by adding together the amount allocated for dividends in (a) above and the amount allocated for participation features.

(c) The income allocated to common stock is then divided by the weighted average number of outstanding shares to which the earnings are allocated to determine the income per share for common stock.

In applying the two-class method, the Company determined that undistributed earnings should be allocated equally on a per share basis between the common stock and unvested restricted stock due to the equal participation rights of the common stock and unvested restricted stock (i.e., the voting conversion rights).

The following table sets forth for the periods indicated the calculation of income per share in the Company's consolidated statement of operations and the differences between basic weighted average shares outstanding and diluted weighted average shares outstanding used to compute basic and diluted earnings per share, respectively:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | (in thousands, except per share amounts) | | |
| Numerator: | | | |
| Net income attributable to Select Medical Holdings Corporation | $114,390 | $120,627 | $130,736 |
| Less: Earnings allocated to unvested restricted stockholders | 2,450 | 3,337 | 3,830 |
| Net income available to common stockholders | $111,940 | $117,290 | $126,906 |
| Denominator: | | | |
| Weighted average shares—basic | 136,879 | 129,026 | 127,478 |
| Effect of dilutive securities: | | | |
| Stock options | 168 | 439 | 274 |
| Weighted average shares—diluted | 137,047 | 129,465 | 127,752 |
| Basic income per common share: | $ 0.82 | $ 0.91 | $ 1.00 |
| Diluted income per common share: | $ 0.82 | $ 0.91 | $ 0.99 |

## 12. Income per Share (Continued)

The following amounts are shown here for informational and comparative purposes only since their inclusion would be anti-dilutive:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | (in thousands) | | |
| Stock options | 1,474 | 6 | — |

## 13. 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.

The carrying value of the Select credit facilities was $836.0 million and $1,045.5 million at December 31, 2014 and 2015, respectively. The fair value of the Select credit facilities was $816.6 million and $1,023.6 million at December 31, 2014 and 2015, respectively. The fair value of the Select credit facilities was based on quoted market prices for this debt in the syndicated loan market.

The carrying value of Select's 6.375% senior notes was $711.5 million and $711.2 million at December 31, 2014 and 2015, respectively. The fair value of Select's 6.375% senior notes was $722.4 million and $623.9 million at December 31, 2014 and 2015, respectively. The fair value of this debt was based on quoted market prices.

The carrying value of the Concentra credit facilities was $649.9 million at December 31, 2015. The fair value of the Concentra credit facilities was $645.4 million at December 31, 2015. The fair value of the Concentra credit facilities was based on quoted market prices for this debt in the syndicated loan market.

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.

## 14. Related Party Transactions

The Company rents its corporate office space from related parties affiliated through common ownership or management. The Company made payments for office rent, leasehold improvements and miscellaneous expenses aggregating $4.2 million, $4.4 million and $4.7 million for the years ended December 31, 2013, 2014 and 2015, respectively, to the affiliated companies.

**14. Related Party Transactions (Continued)**

As of December 31, 2015, future rental commitments under outstanding agreements with the affiliated companies are approximately as follows (in thousands):

| | |
|---|---|
| 2016 | $ 4,174 |
| 2017 | 4,221 |
| 2018 | 4,318 |
| 2019 | 4,421 |
| 2020 | 4,526 |
| Thereafter | 9,385 |
| | $31,045 |

During the year ended December 31, 2014, common shares were repurchased from Welsh, Carson, Anderson & Stowe IX, L.P. and WCAS Capital Partners IV, L.P. pursuant to stock purchase agreements dated February 26, 2014 and May 5, 2014. Two of the Company's directors are affiliated with these entities (Note 7).

The Company provides contracted services, principally employee leasing services and charges management fees to related parties affiliated through its equity investments. Net operating revenues generated from the provision of contracted services and management fees to related parties through equity investments are as follows:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | | (in thousands) | |
| BIR JV, LLP | $ 96,465 | $101,385 | $112,273 |
| Rehabilitation Institute of Denton, LLC | 7,163 | 8,337 | 9,560 |
| OHRH, LLC | 2,069 | 8,280 | 10,010 |
| Global Rehab—Scottsdale, LLC | 4,129 | 10,747 | 12,155 |
| Other | 310 | 518 | 2,035 |
| Total | $110,136 | $129,267 | $146,033 |

### 15. Commitments and Contingencies

*Leases*

The Company leases facilities and equipment from unrelated parties under operating leases. Minimum future lease obligations on long-term non-cancelable operating leases in effect at December 31, 2015 are approximately as follows (in thousands):

| | Select | Concentra | Total |
|---|---|---|---|
| | | (in thousands) | |
| 2016 | $145,185 | $ 59,845 | $ 205,030 |
| 2017 | 122,606 | 53,518 | 176,124 |
| 2018 | 99,873 | 44,688 | 144,561 |
| 2019 | 79,002 | 36,485 | 115,487 |
| 2020 | 61,462 | 30,098 | 91,560 |
| Thereafter | 348,222 | 61,501 | 409,723 |
| | $856,350 | $286,135 | $1,142,485 |

Total rent expense for operating leases, including cancelable leases, for the years ended December 31, 2013, 2014 and 2015 was $164.6 million, $169.1 million, and $212.9 million (including $34. 9 million for Concentra), respectively.

Property rent expense to unrelated parties for the years ended December 31, 2013, 2014 and 2015 was $119.5 million, $124.4 million, and $163.4 million (including $32.9 million for Concentra), respectively.

*Construction Commitments*

At December 31, 2015, the Company had outstanding commitments under construction contracts related to new construction, improvements and renovations at the Company's long term acute care properties and inpatient rehabilitation facilities, and Concentra facilities totaling approximately $15.7 million.

*Other*

A subsidiary of the Company has entered into a naming, promotional and sponsorship agreement with an NFL team for the team's headquarters complex that requires a payment of $3.1 million in 2016. Each successive annual payment increases by 2.3% through 2025. The naming, promotional and sponsorship agreement is in effect until 2025.

*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. 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.

**15. Commitments and Contingencies (Continued)**

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.

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.

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 that 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 court of its decision not to intervene in the case, and the court thereafter approved a case management plan imposing certain deadlines. The plaintiff-relators filed a Second Amended Complaint in October 2015, and defendants filed a Motion to Dismiss such Complaint in December 2015. 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.

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

## 15. Commitments and Contingencies (Continued)

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. The defendants filed a Motion to Dismiss such Complaint in November 2015. The Company intends to vigorously defend this action if the relators pursue it, but at this time the Company is unable to predict the timing and outcome of this matter.

## 16. Supplemental Disclosures of Cash Flow Information

The following table summarizes non cash investing and financing activities for both Holdings and Select at December 31, 2013, 2014, and 2015:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| | | (in thousands) | |
| Notes issued with acquisitions | $3,283 | $ 327 | $ 12 |
| Liabilities assumed with acquisitions | 885 | 122 | 298 |
| Contingent consideration related to acquisitions | 100 | — | — |
| Liability for property and equipment | — | 14,230 | 36,744 |
| Notes issued to acquire non-consolidating interest | 3,399 | — | — |

## 17. Subsequent Events

On January 25, 2016, Select announced that it has entered into an Agreement and Plan of Merger, dated as of January 22, 2016 with Grip Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of Select, Physiotherapy Associates Holdings, Inc., a Delaware corporation ("Physiotherapy"), and KHR Physio, LLC, a Delaware limited liability company, solely in its capacity as the Holder Representative (as defined in the merger agreement). Pursuant to the terms of the merger agreement, Select will acquire Physiotherapy for $400.0 million in cash, subject to certain adjustments in accordance with the terms set forth in the merger agreement, through the merger of Grip Merger Sub, Inc. with and into Physiotherapy, with Physiotherapy continuing as the surviving corporation under its present name as a wholly owned subsidiary of Select.

Select expects to finance the transaction and related expenses using a combination of cash on hand and the proceeds from a proposed $400.0 million senior secured incremental term facility under its existing credit facility, for which JP Morgan Chase, N.A. has provided Select with a debt commitment letter. Should the merger agreement be terminated by Physiotherapy under specified conditions, including circumstances where Select is required to close the transaction under the merger agreement and there is a failure of the debt financing to be funded in accordance with its terms, a reverse termination fee of $24.0 million would be payable by Select to Physiotherapy. The transaction, which is expected to close in the first half of 2016, is subject to a number of closing conditions.

## 18. 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, 2014 and 2015 and for the years ended December 31, 2013, 2014 and 2015.

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

During the year ended December 31, 2014, the Company purchased the remaining outstanding non-controlling interest in a specialty hospital business changing the entity from a non-guarantor subsidiary to a guarantor subsidiary. The year ended and as of December 31, 2013 has been retrospectively revised based on the guarantor structure that existed at December 31, 2014.

## 18. Financial Information for Subsidiary Guarantors and Non-Guarantor Subsidiaries under Select's 6.375% Senior Notes (Continued)

### 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 | — | 419,382 | 68,504 | 115,672 | — | 603,558 |
| Current deferred tax asset | 11,556 | 6,708 | 4,786 | 5,638 | — | 28,688 |
| Intercompany receivables | — | 1,970,477 | 137,512 | — | (2,107,989)(a) | — |
| Prepaid income taxes | 7,979 | — | — | 8,715 | — | 16,694 |
| Other current assets | 10,521 | 34,859 | 5,759 | 34,640 | — | 85,779 |
| Total Current Assets | 34,126 | 2,435,132 | 217,186 | 170,699 | (2,107,989) | 749,154 |
| Property and equipment, net | 38,872 | 548,809 | 61,137 | 215,306 | — | 864,124 |
| Investment in affiliates | 4,107,930 | 75,027 | — | — | (4,182,957)(b)(c) | — |
| Goodwill | — | 1,663,974 | — | 650,650 | — | 2,314,624 |
| Non-current deferred tax asset | 12,297 | — | — | — | (12,297)(d) | — |
| Other identifiable intangibles | — | 72,776 | — | 245,899 | — | 318,675 |
| Other assets | 21,623 | 108,524 | 659 | 49,283 | — | 180,089 |
| **Total Assets** | $4,214,848 | $4,904,242 | $278,982 | $1,331,837 | $(6,303,243) | $4,426,666 |
| **Liabilities and Equity** | | | | | | |
| Current Liabilities: | | | | | | |
| Bank overdrafts | $ 28,615 | $ — | $ — | $ — | $ — | $ 28,615 |
| Current portion of long-term debt and notes payable | 227,180 | 197 | 939 | 5,254 | — | 233,570 |
| Accounts payable | 10,445 | 101,156 | 16,997 | 8,811 | — | 137,409 |
| Intercompany payables | 1,970,477 | 137,512 | — | — | (2,107,989)(a) | — |
| Accrued payroll | 22,970 | 66,892 | 3,932 | 27,195 | — | 120,989 |
| Accrued vacation | 6,406 | 50,194 | 9,423 | 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 | 2,311,291 | 398,893 | 41,157 | 94,337 | (2,107,989) | 737,689 |
| Long-term debt, net of current portion | 997,114 | 452,417 | 90,860 | 649,923 | — | 2,190,314 |
| Non-current deferred tax liability | — | 113,977 | 9,656 | 107,369 | (12,297)(d) | 218,705 |
| Other non-current liabilities | 47,190 | 41,904 | 4,798 | 39,328 | — | 133,220 |
| Total Liabilities | 3,355,595 | 1,007,191 | 146,471 | 890,957 | (2,120,286) | 3,279,928 |
| Redeemable non-controlling interests | — | — | 12,094 | 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) | 1,187,022 | (1,006) | (6,120) | (1,179,896)(c) | (45,122) |
| Subsidiary investment | — | 2,710,029 | 75,097 | 217,935 | (3,003,061)(b) | — |
| Total Select Medical Corporation Stockholder's Equity | 859,253 | 3,897,051 | 74,091 | 211,815 | (4,182,957) | 859,253 |
| Non-controlling interests | — | — | 46,326 | 2,938 | — | 49,264 |
| Total Equity | 859,253 | 3,897,051 | 120,417 | 214,753 | (4,182,957) | 908,517 |
| **Total Liabilities and Equity** | $4,214,848 | $4,904,242 | $278,982 | $1,331,837 | $(6,303,243) | $4,426,666 |

(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.

## 18. Financial Information for Subsidiary Guarantors and Non-Guarantor Subsidiaries under Select's 6.375% Senior Notes (Continued)

### Select Medical Corporation
### Condensed Consolidating Statement of Operations
### For the Year Ended December 31, 2015

| | Select (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Non-Guarantor Concentra | Eliminations | Consolidated Select Medical Corporation |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Net operating revenues | $ 724 | $2,673,987 | $482,803 | $585,222 | $ — | $3,742,736 |
| Costs and expenses: | | | | | | |
| Cost of services | 2,029 | 2,266,647 | 414,518 | 528,347 | — | 3,211,541 |
| General and administrative | 88,227 | (890) | — | 4,715 | — | 92,052 |
| Bad debt expense | — | 40,541 | 9,240 | 9,591 | — | 59,372 |
| Depreciation and amortization | 4,292 | 56,447 | 10,598 | 33,644 | — | 104,981 |
| Total costs and expenses | 94,548 | 2,362,745 | 434,356 | 576,297 | — | 3,467,946 |
| Income (loss) from operations | (93,824) | 311,242 | 48,447 | 8,925 | — | 274,790 |
| Other income and expense: | | | | | | |
| Intercompany interest and royalty fees | (1,417) | 1,387 | 30 | — | — | — |
| Intercompany management fees | 143,939 | (119,388) | (24,551) | — | — | — |
| Gain on sale of equity investment | — | 29,647 | — | — | — | 29,647 |
| Equity in earnings of unconsolidated subsidiaries | — | 16,719 | 92 | — | — | 16,811 |
| Interest expense | (58,350) | (24,250) | (6,154) | (24,062) | — | (112,816) |
| Income (loss) from operations before income taxes | (9,652) | 215,357 | 17,864 | (15,137) | — | 208,432 |
| Income tax expense (benefit) | (7,869) | 85,907 | (470) | (5,132) | — | 72,436 |
| Equity in earnings of subsidiaries | 132,520 | 9,117 | — | — | (141,637)(a) | — |
| Net income | 130,737 | 138,567 | 18,334 | (10,005) | (141,637) | 135,996 |
| Less: Net income attributable to non-controlling interests | — | — | 9,144 | (3,884) | — | 5,260 |
| Net income (loss) attributable to Select Medical Corporation | $130,737 | $ 138,567 | $ 9,190 | $ (6,121) | $(141,637) | $ 130,736 |

(a) Elimination of equity in earnings of subsidiaries.

## 18. Financial Information for Subsidiary Guarantors and Non-Guarantor Subsidiaries under Select's 6.375% Senior Notes (Continued)

### Select Medical Corporation
### Condensed Consolidating Statement of Cash Flows
### For the Year Ended December 31, 2015

| | Select (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Non-Guarantor Concentra | Eliminations | Consolidated Select Medical Corporation |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| **Operating activities** | | | | | | |
| Net income | $ 130,737 | $ 138,567 | $ 18,334 | $ (10,005) | $(141,637)(a) | $ 135,996 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | |
| Distributions from unconsolidated subsidiaries | — | 13,870 | 99 | — | — | 13,969 |
| Depreciation and amortization | 4,292 | 56,447 | 10,598 | 33,644 | — | 104,981 |
| Provision for bad debts | — | 40,541 | 9,240 | 9,591 | — | 59,372 |
| Equity in earnings of unconsolidated subsidiaries | — | (16,719) | (92) | — | — | (16,811) |
| Loss (gain) on sale of assets and businesses | — | (1,128) | 16 | 14 | — | (1,098) |
| Gain on sale of equity investment | — | (29,647) | — | — | — | (29,647) |
| Stock compensation expense | 13,969 | — | — | 1,016 | — | 14,985 |
| Amortization of debt discount and issuance costs | 7,404 | — | — | 2,139 | — | 9,543 |
| Deferred income taxes | (3,484) | — | — | 1,426 | — | (2,058) |
| Changes in operating assets and liabilities, net of effects from acquisition of businesses: | | | | | | |
| Equity in earnings of subsidiaries | (132,520) | (9,117) | — | — | 141,637(a) | — |
| Accounts receivable | — | (83,142) | (10,255) | 825 | — | (92,572) |
| Other current assets | (2,661) | (2,236) | (396) | 2,790 | — | (2,503) |
| Other assets | 10,840 | (6,415) | 288 | — | — | 4,713 |
| Accounts payable | 560 | 8,569 | 2,654 | (9,438) | — | 2,345 |
| Accrued expenses | (1,508) | 9,569 | 5,696 | (6,557) | — | 7,200 |
| Net cash provided by operating activities | 27,629 | 119,159 | 36,182 | 25,445 | — | 208,415 |
| **Investing activities** | | | | | | |
| Purchases of property and equipment | (10,890) | (134,002) | (10,979) | (26,771) | — | (182,642) |
| Proceeds from sale of assets | — | 1,742 | 24 | 1 | — | 1,767 |
| Investment in businesses | — | (2,347) | — | — | — | (2,347) |
| Proceeds from sale of equity method investment | — | 33,096 | — | — | — | 33,096 |
| Acquisition of businesses, net of cash acquired | — | — | (8,832) | (1,052,796) | — | (1,061,628) |
| Net cash used in investing activities | (10,890) | (101,511) | (19,787) | (1,079,566) | — | (1,211,754) |
| **Financing activities** | | | | | | |
| Borrowings on revolving facilities | 1,115,000 | — | — | 20,000 | — | 1,135,000 |
| Payments on revolving facilities | (880,000) | — | — | (15,000) | — | (895,000) |
| Proceeds from term loans, net of discounts | — | — | — | 646,875 | — | 646,875 |
| Payments on term loans | (26,884) | — | — | (2,250) | — | (29,134) |
| Borrowings of other debt | 8,684 | — | 1,681 | 3,009 | — | 13,374 |
| Principal payments on other debt | (11,923) | (2,736) | (1,513) | (1,964) | — | (18,136) |
| Debt issuance costs | — | — | — | (23,300) | — | (23,300) |
| Proceeds from bank overdrafts | 6,869 | — | — | — | — | 6,869 |
| Equity investment by Holdings | 1,649 | — | — | — | — | 1,649 |
| Dividends paid to Holdings | (28,956) | — | — | — | — | (28,956) |
| Intercompany | (199,024) | (13,660) | (5,251) | 217,935 | — | — |
| Purchase of non-controlling interests | — | — | (1,095) | — | — | (1,095) |
| Proceeds from issuance of non-controlling interests | — | — | — | 217,065 | — | 217,065 |
| Tax benefit from stock based awards | 1,846 | — | — | — | — | 1,846 |
| Distributions to non-controlling interests | — | — | (10,422) | (2,215) | — | (12,637) |
| Net cash provided by (used in) financing activities | (12,739) | (16,396) | (16,600) | 1,060,155 | — | 1,014,420 |
| Net increase (decrease) in cash and cash equivalents | 4,000 | 1,252 | (205) | 6,034 | — | 11,081 |
| Cash and cash equivalents at beginning of period | 70 | 2,454 | 830 | — | — | 3,354 |
| Cash and cash equivalents at end of period | $ 4,070 | $ 3,706 | $ 625 | $ 6,034 | $ — | $ 14,435 |

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

## 18. Financial Information for Subsidiary Guarantors and Non-Guarantor Subsidiaries under Select's 6.375% Senior Notes (Continued)

### Select Medical Corporation
### Condensed Consolidating Balance Sheet
### December 31, 2014

| | Select (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Consolidated Select Medical Corporation |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| **Assets** | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | $ 70 | $ 2,454 | $ 830 | $ — | $ 3,354 |
| Accounts receivable, net | — | 376,780 | 67,489 | — | 444,269 |
| Current deferred tax asset | 10,186 | 2,458 | 3,347 | — | 15,991 |
| Prepaid income taxes | 17,888 | — | — | — | 17,888 |
| Intercompany receivables | — | 1,728,708 | 106,509 | (1,835,217)(a) | — |
| Other current assets | 7,860 | 32,919 | 5,363 | — | 46,142 |
| Total Current Assets | 36,004 | 2,143,319 | 183,538 | (1,835,217) | 527,644 |
| Property and equipment, net | 17,521 | 468,138 | 56,651 | — | 542,310 |
| Investment in affiliates | 3,741,085 | 67,575 | — | (3,808,660)(b)(c) | — |
| Goodwill | — | 1,642,083 | — | — | 1,642,083 |
| Non-current deferred tax asset | 11,230 | — | — | (11,230)(d) | — |
| Other identifiable intangibles | — | 72,519 | — | — | 72,519 |
| Other assets | 32,463 | 106,843 | 947 | — | 140,253 |
| **Total Assets** | $3,838,303 | $4,500,477 | $241,136 | $(5,655,107) | $2,924,809 |
| **Liabilities and Equity** | | | | | |
| Current Liabilities: | | | | | |
| Bank overdrafts | $ 21,746 | $ — | $ — | $ — | $ 21,746 |
| Current portion of long-term debt and notes payable | 8,496 | 1,844 | 534 | — | 10,874 |
| Accounts payable | 9,885 | 84,304 | 14,343 | — | 108,532 |
| Intercompany payables | 1,835,217 | — | — | (1,835,217)(a) | — |
| Accrued payroll | 17,410 | 76,670 | 3,010 | — | 97,090 |
| Accrued vacation | 5,070 | 49,315 | 8,747 | — | 63,132 |
| Accrued interest | 10,596 | 76 | 2 | — | 10,674 |
| Accrued other | 39,801 | 36,874 | 5,701 | — | 82,376 |
| Total Current Liabilities | 1,948,221 | 249,083 | 32,337 | (1,835,217) | 394,424 |
| Long-term debt, net of current portion | 1,098,151 | 364,794 | 79,157 | — | 1,542,102 |
| Non-current deferred tax liability | — | 112,013 | 8,420 | (11,230)(d) | 109,203 |
| Other non-current liabilities | 52,416 | 35,576 | 4,863 | — | 92,855 |
| Total Liabilities | 3,098,788 | 761,466 | 124,777 | (1,846,447) | 2,138,584 |
| Redeemable non-controlling interests | — | — | 10,985 | — | 10,985 |
| Stockholder's Equity: | | | | | |
| Common stock | 0 | — | — | — | 0 |
| Capital in excess of par | 885,407 | — | — | — | 885,407 |
| Retained earnings (accumulated deficit) | (145,892) | 1,048,455 | 8,366 | (1,056,821)(c) | (145,892) |
| Subsidiary investment | — | 2,690,556 | 61,283 | (2,751,839)(b) | — |
| Total Select Medical Corporation Stockholder's Equity | 739,515 | 3,739,011 | 69,649 | (3,808,660) | 739,515 |
| Non-controlling interests | — | — | 35,725 | — | 35,725 |
| Total Equity | 739,515 | 3,739,011 | 105,374 | (3,808,660) | 775,240 |
| **Total Liabilities and Equity** | $3,838,303 | $4,500,477 | $241,136 | $(5,655,107) | $2,924,809 |

(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.

**18. Financial Information for Subsidiary Guarantors and Non-Guarantor Subsidiaries under Select's 6.375% Senior Notes (Continued)**

### Select Medical Corporation
### Condensed Consolidating Statement of Operations
### For the Year Ended December 31, 2014

| | Select (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Consolidated Select Medical Corporation |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| Net operating revenues | $ 721 | $2,634,480 | $429,816 | $ — | $3,065,017 |
| Costs and expenses: | | | | | |
| Cost of services | 2,015 | 2,209,724 | 370,601 | — | 2,582,340 |
| General and administrative | 86,311 | (1,064) | — | — | 85,247 |
| Bad debt expense | — | 38,052 | 6,548 | — | 44,600 |
| Depreciation and amortization | 3,723 | 54,876 | 9,755 | — | 68,354 |
| Total costs and expenses | 92,049 | 2,301,588 | 386,904 | — | 2,780,541 |
| Income (loss) from operations | (91,328) | 332,892 | 42,912 | — | 284,476 |
| Other income and expense: | | | | | |
| Intercompany interest and royalty fees | (1,142) | 1,131 | 11 | — | — |
| Intercompany management fees | 142,273 | (120,528) | (21,745) | — | — |
| Equity in earnings of unconsolidated subsidiaries | — | 6,958 | 86 | — | 7,044 |
| Loss on early retirement of debt | (2,277) | — | — | — | (2,277) |
| Interest expense | (57,651) | (23,367) | (4,428) | — | (85,446) |
| Income (loss) from operations before income taxes | (10,125) | 197,086 | 16,836 | — | 203,797 |
| Income tax expense (benefit) | (4,333) | 78,748 | 1,207 | — | 75,622 |
| Equity in earnings of subsidiaries | 126,419 | 8,995 | — | (135,414)(a) | — |
| Net income | 120,627 | 127,333 | 15,629 | (135,414) | 128,175 |
| Less: Net income attributable to non-controlling interests | — | 623 | 6,925 | — | 7,548 |
| Net income attributable to Select Medical Corporation | $120,627 | $ 126,710 | $ 8,704 | $(135,414) | $ 120,627 |

(a) Elimination of equity in earnings of subsidiaries.

## 18. Financial Information for Subsidiary Guarantors and Non-Guarantor Subsidiaries under Select's 6.375% Senior Notes (Continued)

### Select Medical Corporation
### Condensed Consolidating Statement of Cash Flows
### For the Year Ended December 31, 2014

| | Select (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Consolidated Select Medical Corporation |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| **Operating activities** | | | | | |
| Net income | $ 120,627 | $127,333 | $ 15,629 | $(135,414)(a) | $ 128,175 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Distributions from unconsolidated subsidiaries | — | 11,889 | 65 | — | 11,954 |
| Depreciation and amortization | 3,723 | 54,876 | 9,755 | — | 68,354 |
| Provision for bad debts | — | 38,052 | 6,548 | — | 44,600 |
| Equity in earnings of unconsolidated subsidiaries | — | (6,958) | (86) | — | (7,044) |
| Loss on early retirement of debt | 2,277 | — | — | — | 2,277 |
| Gain on disposal or sale of assets | — | (1,168) | 120 | — | (1,048) |
| Stock compensation expense | 11,186 | — | — | — | 11,186 |
| Amortization of debt discount and issuance costs | 7,553 | — | — | — | 7,553 |
| Deferred income taxes | 14,311 | — | — | — | 14,311 |
| Changes in operating assets and liabilities, net of effects from acquisition of businesses: | | | | | |
| Equity in earnings of subsidiaries | (126,419) | (8,995) | — | 135,414(a) | — |
| Accounts receivable | — | (80,394) | (17,408) | — | (97,802) |
| Other current assets | 1,885 | (4,004) | 390 | — | (1,729) |
| Other assets | 2,811 | (2,566) | (348) | — | (103) |
| Accounts payable | 3,136 | 2,440 | 421 | — | 5,997 |
| Accrued expenses | (6,353) | (9,407) | (279) | — | (16,039) |
| Net cash provided by operating activities | 34,737 | 121,098 | 14,807 | — | 170,642 |
| **Investing activities** | | | | | |
| Purchases of property and equipment | (4,674) | (79,600) | (10,972) | — | (95,246) |
| Investment in businesses | — | (4,634) | — | — | (4,634) |
| Acquisition of businesses, net of cash acquired | — | (397) | (814) | — | (1,211) |
| Net cash used in investing activities | (4,674) | (84,631) | (11,786) | — | (101,091) |
| **Financing activities** | | | | | |
| Borrowings on revolving facilities | 910,000 | — | — | — | 910,000 |
| Payments on revolving facilities | (870,000) | — | — | — | (870,000) |
| Payments on term loans | (33,994) | — | — | — | (33,994) |
| Issuance of 6.375% senior notes | 111,650 | — | — | — | 111,650 |
| Borrowings of other debt | 8,151 | — | 925 | — | 9,076 |
| Principal payments on other debt | (9,213) | (2,058) | (3,402) | — | (14,673) |
| Debt issuance costs | (4,434) | — | — | — | (4,434) |
| Proceeds from bank overdrafts | 9,240 | — | — | — | 9,240 |
| Purchase of non-controlling interests | — | (9,961) | — | — | (9,961) |
| Equity investment by Holdings | 7,355 | — | — | — | 7,355 |
| Dividends paid to Holdings | (184,100) | — | — | — | (184,100) |
| Intercompany | 22,162 | (25,092) | 2,930 | — | — |
| Proceeds from issuance of non-controlling interests | — | — | 185 | — | 185 |
| Tax benefit from stock based awards | 3,119 | — | — | — | 3,119 |
| Distributions to non-controlling interests | — | — | (3,979) | — | (3,979) |
| Net cash used in financing activities | (30,064) | (37,111) | (3,341) | — | (70,516) |
| Net decrease in cash and cash equivalents | (1) | (644) | (320) | — | (965) |
| Cash and cash equivalents at beginning of period | 71 | 3,098 | 1,150 | — | 4,319 |
| Cash and cash equivalents at end of period | $ 70 | $ 2,454 | $ 830 | $ — | $ 3,354 |

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

**18. Financial Information for Subsidiary Guarantors and Non-Guarantor Subsidiaries under Select's 6.375% Senior Notes (Continued)**

**Select Medical Corporation**
**Condensed Consolidating Statement of Operations**
**For the Year Ended December 31, 2013**

| | Select Medical Corporation (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| Net operating revenues | $ 350 | $2,576,906 | $398,392 | $ — | $2,975,648 |
| Costs and expenses: | | | | | |
| Cost of services | 1,757 | 2,155,370 | 338,349 | — | 2,495,476 |
| General and administrative | 76,709 | 212 | — | — | 76,921 |
| Bad debt expense | — | 31,173 | 6,250 | — | 37,423 |
| Depreciation and amortization | 3,746 | 51,825 | 8,821 | — | 64,392 |
| Total costs and expenses | 82,212 | 2,238,580 | 353,420 | — | 2,674,212 |
| Income (loss) from operations | (81,862) | 338,326 | 44,972 | — | 301,436 |
| Other income and expense: | | | | | |
| Intercompany interest and royalty fees | (1,326) | 836 | 490 | — | — |
| Intercompany management fees | 144,447 | (125,357) | (19,090) | — | — |
| Equity in earnings of unconsolidated subsidiaries | — | 2,384 | 92 | — | 2,476 |
| Loss on early retirement of debt | (17,788) | — | — | — | (17,788) |
| Interest expense | (58,100) | (22,916) | (3,938) | — | (84,954) |
| Income (loss) from operations before income taxes | (14,629) | 193,273 | 22,526 | — | 201,170 |
| Income tax expense (benefit) | (1,238) | 76,837 | 372 | — | 75,971 |
| Equity in earnings of subsidiaries | 129,971 | 14,561 | — | (144,532)(a) | — |
| Net income | 116,580 | 130,997 | 22,154 | (144,532) | 125,199 |
| Less: Net income attributable to non-controlling interests | — | 995 | 7,624 | — | 8,619 |
| Net income attributable to Select Medical Corporation | $116,580 | $ 130,002 | $ 14,530 | $(144,532) | $ 116,580 |

(a) Elimination of equity in earnings of subsidiaries.

**18. Financial Information for Subsidiary Guarantors and Non-Guarantor Subsidiaries under Select's 6.375% Senior Notes (Continued)**

**Select Medical Corporation**
**Condensed Consolidating Statement of Cash Flows**
**For the Year Ended December 31, 2013**

| | Select Medical Corporation (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| **Operating activities** | | | | | |
| Net income | $ 116,580 | $130,997 | $ 22,154 | $(144,532)(a) | $ 125,199 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Depreciation and amortization | 3,746 | 51,825 | 8,821 | — | 64,392 |
| Provision for bad debts | — | 31,173 | 6,250 | — | 37,423 |
| Equity in earnings of unconsolidated subsidiaires | — | (2,384) | (92) | — | (2,476) |
| Loss on early retirement of debt | 17,788 | — | — | — | 17,788 |
| Gain on disposal or sale of assets | — | (463) | (118) | — | (581) |
| Stock compensation expense | 7,033 | — | — | — | 7,033 |
| Amortization of debt discount and issuance costs | 8,344 | — | — | — | 8,344 |
| Deferred income taxes | 7,032 | — | — | — | 7,032 |
| Changes in operating assets and liabilities, net of effects from acquisition of businesses: | | | | | |
| Equity in earnings of subsidiaries | (129,971) | (14,561) | — | 144,532(a) | — |
| Accounts receivable | — | (60,460) | (6,685) | — | (67,145) |
| Other current assets | (4,145) | (5,849) | 1,827 | — | (8,167) |
| Other assets | (6,594) | 3,026 | 84 | — | (3,484) |
| Accounts payable | 2,075 | (3,746) | 388 | — | (1,283) |
| Due to third-party payors | — | 3,067 | (4,108) | — | (1,041) |
| Accrued expenses | (4,929) | 20,843 | (846) | — | 15,068 |
| Net cash provided by operating activities | 16,959 | 153,468 | 27,675 | — | 198,102 |
| **Investing activities** | | | | | |
| Purchases of property and equipment | (3,024) | (60,532) | (10,104) | — | (73,660) |
| Investment in businesses, net of distributions | — | (34,893) | — | — | (34,893) |
| Acquisition of businesses, net of cash acquired | — | (1,665) | — | — | (1,665) |
| Proceeds from sale of assets | — | 2,456 | 456 | — | 2,912 |
| Net cash used in investing activities | (3,024) | (94,634) | (9,648) | — | (107,306) |

**18. Financial Information for Subsidiary Guarantors and Non-Guarantor Subsidiaries under Select's 6.375% Senior Notes (Continued)**

**Select Medical Corporation**
**Condensed Consolidating Statement of Cash Flows (Continued)**
**For the Year Ended December 31, 2013**

| | Select Medical Corporation (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| **Financing activities** | | | | | |
| Borrowings on revolving facilities | 690,000 | — | — | — | 690,000 |
| Payments on revolving facilities | (800,000) | — | — | — | (800,000) |
| Borrowings on term loans, net of discount | 298,500 | — | — | — | 298,500 |
| Payments on term loans | (596,720) | — | — | — | (596,720) |
| Issuance of 6.375% senior notes | 600,000 | — | — | — | 600,000 |
| Repurchase of 7⅝% senior subordinated notes, net of premiums | (70,000) | — | — | — | (70,000) |
| Borrowings of other debt | 8,923 | 5,303 | 1,084 | — | 15,310 |
| Principal payments on other debt | (7,752) | (873) | (2,209) | — | (10,834) |
| Debt issuance costs | (18,914) | — | — | — | (18,914) |
| Repayments of bank overdrafts | (5,330) | — | — | — | (5,330) |
| Equity investment by Holdings | 1,525 | — | — | — | 1,525 |
| Dividends paid to Holdings | (226,621) | — | — | — | (226,621) |
| Intercompany | 77,455 | (63,900) | (13,555) | — | — |
| Distributions to non-controlling interests | — | — | (3,537) | — | (3,537) |
| Net cash used in financing activities | (48,934) | (59,470) | (18,217) | — | (126,621) |
| Net decrease in cash and cash equivalents | (34,999) | (636) | (190) | — | (35,825) |
| Cash and cash equivalents at beginning of period | 35,070 | 3,734 | 1,340 | — | 40,144 |
| Cash and cash equivalents at end of period | $ 71 | $ 3,098 | $ 1,150 | $ — | $ 4,319 |

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

## 19. Selected Quarterly Financial Data (Unaudited)

The table below sets forth selected unaudited financial data for each quarter of the last two years.

| | Holdings | | | |
|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| | (in thousands, except per share amounts) | | | |
| Year ended December 31, 2014 | | | | |
| Net operating revenues | $762,578 | $772,762 | $758,069 | $771,608 |
| Income from operations | 78,444 | 82,193 | 66,017 | 57,822 |
| Net income attributable to Select Medical Holdings Corporation | $ 33,044 | $ 35,341 | $ 26,530 | $ 25,712 |
| Income per common share[1]: | | | | |
| Basic | $ 0.24 | $ 0.27 | $ 0.20 | $ 0.20 |
| Diluted | $ 0.24 | $ 0.27 | $ 0.20 | $ 0.20 |

| | Select | | | |
|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| | (in thousands) | | | |
| Year ended December 31, 2014 | | | | |
| Net operating revenues | $762,578 | $772,762 | $758,069 | $771,608 |
| Income from operations | 78,444 | 82,193 | 66,017 | 57,822 |
| Net income attributable to Select Medical Corporation | $ 33,044 | $ 35,341 | $ 26,530 | $ 25,712 |

| | Holdings | | | |
|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| | (in thousands, except per share amounts) | | | |
| Year ended December 31, 2015 | | | | |
| Net operating revenues | $795,343 | $887,065 | $1,021,123 | $1,039,205 |
| Income from operations | 79,265 | 85,011 | 48,214 | 62,300 |
| Net income attributable to Select Medical Holdings Corporation | $ 35,063 | $ 36,940 | $ 29,406 | $ 29,327 |
| Income per common share[1]: | | | | |
| Basic | $ 0.27 | $ 0.28 | $ 0.22 | $ 0.22 |
| Diluted | $ 0.27 | $ 0.28 | $ 0.22 | $ 0.22 |

| | Select | | | |
|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| | (in thousands) | | | |
| Year ended December 31, 2015 | | | | |
| Net operating revenues | $795,343 | $887,065 | $1,021,123 | $1,039,205 |
| Income from operations | 79,265 | 85,011 | 48,214 | 62,300 |
| Net income attributable to Select Medical Corporation | $ 35,063 | $ 36,940 | $ 29,406 | $ 29,327 |

(1) Due to rounding, the summation of quarterly Income per share balances may not equal year to date equivalents.

The following Financial Statement Schedule along with the report thereon of PricewaterhouseCoopers LLP dated February 26, 2016, should be read in conjunction with the consolidated financial statements. Financial Statement Schedules not included in this filing have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

## Select Medical Holdings Corporation
## Select Medical Corporation

### Schedule II—Valuation and Qualifying Accounts

| Description | Balance at Beginning of Year | Charged to Cost and Expenses | Deductions[1] | Balance at End of Year |
|---|---|---|---|---|
| **Allowance for Doubtful Accounts** | | | | |
| Year ended December 31, 2015 | $46,425 | $59,372 | $(44,664) | $61,133 |
| Year ended December 31, 2014 | $40,815 | $44,600 | $(38,990) | $46,425 |
| Year ended December 31, 2013 | $41,854 | $37,423 | $(38,462) | $40,815 |
| **Income Tax Valuation Allowance** | | | | |
| Year ended December 31, 2015 | $ 9,641 | $(2,055) | $ — | $ 7,586 |
| Year ended December 31, 2014 | $10,547 | $ (906) | $ — | $ 9,641 |
| Year ended December 31, 2013 | $13,341 | $(2,794) | $ — | $10,547 |

(1) Allowance for doubtful accounts deductions represent write-offs against the reserve for 2013, 2014 and 2015.