JOE'S JEANS INC.
Form 10-Q
July 10, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 31, 2014

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 0-18926

JOE S JEANS INC.

(Exact name of registrant as specified in its charter)

Delaware	**11-2928178**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2340 South Eastern Avenue, Commerce, California	**90040**
(Address of principal executive offices)	(Zip Code)

(323) 837-3700

(Registrant s telephone number, including area code)

NO CHANGE

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). x Yes o No

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

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

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares of the registrant s common stock outstanding as of July 10, 2014 was 69,186,577.

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JOE S JEANS INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

JOE S JEANS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	May 31, 2014 (unaudited)	November 30, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 424	$ 785
Accounts receivable, net	4,829	4,621
Due from factor	26,838	31,434
Inventories, net	58,240	52,670
Deferred income taxes, net	3,114	3,114
Prepaid expenses and other current assets	2,708	2,178
Total current assets	96,153	94,802
Property and equipment, net	6,463	7,393
Goodwill	34,230	33,812
Intangible assets	81,943	83,110
Deferred financing costs	1,821	2,031
Other assets	1,817	1,875
Total assets	$ 222,427	$ 223,023
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 23,086	$ 26,436
Line of credit	23,741	17,673
Contingent consideration buy-out payable-short term	3,133	3,072
Promissory tax note issued		1,235
Total current liabilities	49,960	48,416
Long term debt	58,944	58,840
Convertible notes	23,449	27,912
Deferred income taxes, net	17,420	16,202
Contingent consideration buy-out payable-long term	1,629	3,230
Deferred rent	2,632	2,404
Other liabilities	250	250
Total liabilities	154,284	157,254
Commitments and contingencies		
Stockholders equity		

Common stock, $0.10 par value: 100,000 shares authorized, 69,519 shares issued and 68,995 outstanding (2014) and 68,878 shares issued and 68,549 outstanding (2013)		6,954		6,890
Additional paid-in capital		110,309		107,933
Accumulated deficit		(45,802)		(45,963)
Treasury stock, 524 shares (2014), 329 shares (2013)		(3,318)		(3,091)
Total stockholders equity		68,143		65,769
Total liabilities and stockholders equity	$	222,427	$	223,023

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

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JOE S JEANS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(in thousands, except per share data)

	Three months ended		Six months ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
	(unaudited)		(unaudited)	
Net sales	$ 48,167	$ 30,874	$ 95,511	$ 60,304
Cost of goods sold	25,594	17,369	51,453	32,484
Gross profit	22,573	13,505	44,058	27,820
Operating expenses				
Selling, general and administrative	18,125	10,840	37,077	22,327
Depreciation and amortization	1,160	542	2,387	1,034
Contingent consideration buy-out expense				8,732
	19,285	11,382	39,464	32,093
Operating income (loss)	3,288	2,123	4,594	(4,273)
Interest expense	3,355	127	6,676	197
Other income	(4,818)		(2,268)	
Income (loss) before provision for taxes	4,751	1,996	186	(4,470)
Income tax expense	2,412	823	25	745
Net income (loss) and comprehensive income (loss)	$ 2,339	$ 1,173	$ 161	$ (5,215)
Earnings (loss) per common share - basic	$ 0.03	$ 0.02	$ 0.00	$ (0.08)
Earnings (loss) per common share - diluted	$ 0.01	$ 0.02	$ 0.00	$ (0.08)
Weighted average shares outstanding				
Basic	68,148	67,047	68,045	66,849
Diluted	87,096	68,411	87,212	66,849

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

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JOE S JEANS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six months ended May 31, 2014	Six months ended May 31, 2013
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash (used in) provided by operating activities	$ (4,039)	$ 1,262
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(290)	(913)
Purchase of Hudson Clothing, Inc., net of cash acquired	(418)	
Net cash used in investing activities	(708)	(913)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	6,068	
Repayment of term loan	(15)	
Payment of promissory tax note	(1,235)	
Advances from factor, net		1,396
Proceeds from exercise of options		27
Purchase of restricted stock	(227)	
Payment of taxes on restricted stock units	(205)	(255)
Net cash provided by financing activities	4,386	1,168
NET CHANGE IN CASH AND CASH EQUIVALENTS	(361)	1,517
CASH AND CASH EQUIVALENTS, at beginning of period	785	13,426
CASH AND CASH EQUIVALENTS, at end of period	$ 424	$ 14,943

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

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JOE S JEANS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands)

	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total Stockholders Equity
Balance, November 30, 2012	67,294	$ 6,732	$ 106,747	$ (38,649)	$ (3,091)	71,739
Net loss and comprehensive loss (unaudited)				(5,215)		(5,215)
Exercise of stock options (unaudited)	20	2	25			27
Stock-based compensation, net of withholding taxes (unaudited)			649			649
Issuance of restricted stock (unaudited)	1,088	109	(109)			
Balance, May 31, 2013 (unaudited)	68,402	$ 6,843	$ 107,312	$ (43,864)	$ (3,091)	$ 67,200
Balance, November 30, 2013	68,878	$ 6,890	$ 107,933	$ (45,963)	$ (3,091)	$ 65,769
Net income and comprehensive income (unaudited)				161		161
Embedded conversion feature, net of taxes (unaudited)			2,058			2,058
Stock repurchase (unaudited)					(227)	(227)
Stock-based compensation, net of withholding taxes (unaudited)			382			382
Issuance of restricted stock (unaudited)	641	64	(64)			
Balance, May 31, 2014 (unaudited)	69,519	$ 6,954	$ 110,309	$ (45,802)	$ (3,318)	$ 68,143

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

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JOE S JEANS INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements of Joe s Jeans Inc., or Joe s, we or us, which include the accounts of our wholly-owned subsidiaries, for the three and six months ended May 31, 2014 and 2013 and the related footnote information have been prepared on a basis consistent with our audited consolidated financial statements as of November 30, 2013 contained in our Annual Report on Form 10-K, or the Annual Report. Our fiscal year end is November 30.

Our principal business activity involves the design, development and worldwide marketing of apparel products, which include denim jeans, related casual wear and accessories that bear the brands Joe s® and Hudson®. Our primary current operating subsidiaries are Joe s Jeans Subsidiary Inc., or Joe s Jeans Subsidiary and Hudson Clothing LLC, or Hudson. In addition, we have other subsidiaries, including Joe s Jeans Retail Subsidiary, Inc., Innovo West Sales Inc., Hudson Clothing Holdings, Inc. and HC Acquisition Inc. All significant inter-company transactions have been eliminated. We completed the acquisition of Hudson on September 30, 2013 and the information presented includes the results of operations of Hudson from the date of acquisition.

Our reportable business segments are Wholesale and Retail. We manage, evaluate and aggregate our operating segments for segment reporting purposes primarily on the basis of business activity and operation. Our Wholesale segment is comprised of sales of Joe s® and Hudson® products to retailers, specialty stores and international distributors, includes revenue from licensing agreements and records expenses from sales, trade shows, distribution, product samples and customer service departments. Our Retail segment is comprised of sales to consumers through full price retail stores, outlet stores and through our online retail sites at *www.joesjeans.com* and *www.hudsonjeans.com*. We opened our first full price retail store in October 2008 in Chicago, Illinois and we currently operate 13 full price retail stores and 20 outlet stores in outlet centers, malls and street locations around the country for our Joe s® brand. Our Corporate and other expense is comprised of expenses from corporate operations, which include the executive, finance, legal, human resources, design and production departments and general advertising expenses associated with our brands.

These unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes thereto contained in our Annual Report. In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring adjustments), which management considers necessary to present fairly our financial position, results of operations and cash flows for the interim periods presented. The results for the three and six months ended May 31, 2014 are not necessarily indicative of the results anticipated for the entire year ending November 30, 2014. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results may differ from those estimates.

NOTE 2 ADOPTION OF ACCOUNTING PRINCIPLES

In February 2013, the Financial Accounting Standards Board, or FASB, issued a standard that revised the disclosure requirements for items reclassified out of accumulated other comprehensive income and requires entities to present information about significant items reclassified out of accumulated other comprehensive income by component either (1) on the face of the statement where net income is presented or (2) as a separate disclosure in the notes to the financial statements. This guidance is effective for annual reporting periods beginning after December 15, 2012. We adopted this guidance effective for our first quarter of fiscal 2014. The adoption of this guidance did not have a material effect on our financial statements.

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In March 2013, the FASB issued a standard which requires the release of a cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. This guidance is effective for annual reporting periods beginning after December 15, 2013. The adoption of this amendment will not have a material effect on our financial statements.

In July 2013, the FASB issued a standard clarify the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists as of the reporting date. This guidance is effective for annual reporting periods beginning after December 15, 2013. The adoption of this amendment will not have a material effect on our financial statements.

In April 2014, the FASB issued authoritative guidance which raises the threshold for disposals to qualify as discontinued operations. Under this new guidance, a discontinued operation is (1) a component of an entity or group of components that have been disposed of or are classified as held for sale and represent a strategic shift that has or will have a major effect on an entity s operations and financial results, or (2) an acquired business that is classified as held for sale on the acquisition date. This guidance also requires expanded or new disclosures for discontinued operations, individually material disposals that do not meet the definition of a discontinued operation, an entity s continuing involvement with a discontinued operation following disposal and retained equity method investments in a discontinued operation. This guidance is effective for fiscal periods beginning after December 15, 2014. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued a comprehensive new revenue recognition standard which will supersede previous existing revenue recognition guidance. The standard creates a five-step model for revenue recognition that requires companies to exercise judgment when considering contract terms and relevant facts and circumstances. The five-step model includes (1) identifying the contract, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations and (5) recognizing revenue when each performance obligation has been satisfied. The standard also requires expanded disclosures surrounding revenue recognition. The standard is effective for fiscal periods beginning after December 15, 2016 and allows for either full retrospective or modified retrospective adoption. We are currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

NOTE 3 ACCOUNTS RECEIVABLE, INVENTORY ADVANCES AND DUE FROM FACTOR

Historically, our primary method to obtain the cash necessary for operating needs has been through the sale of accounts receivable pursuant to factoring agreements and advances under inventory security agreements with our factor, CIT Commercial Services, a unit of CIT Group Inc., or CIT.

As a result of these agreements, amounts due from factor consist of the following (in thousands):

	May 31, 2014	November 30, 2013
Non-recourse receivables assigned to factor	$ 24,437	$ 32,194
Client recourse receivables	6,479	3,220
Total receivables assigned to factor	30,916	35,414

Allowance for customer credits		(4,078)		(3,980)
Due from factor	$	26,838	$	31,434
Non-factored accounts receivable	$	5,834	$	5,396
Allowance for customer credits		(687)		(478)
Allowance for doubtful accounts		(318)		(297)
Accounts receivable, net of allowance	$	4,829	$	4,621

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Of the total amount of receivables sold by us as of May 31, 2014 and November 30, 2013, we hold the risk of payment of $6,479,000 and $3,220,000, respectively, in the event of non-payment by the customers.

CIT Commercial Services

Prior to our acquisition of Hudson on September 30, 2013, our Joe s Jeans Subsidiary was a party to an accounts receivable factoring agreement and an inventory security agreement with CIT. The agreements prior to September 30, 2013 were structured so that we had the ability to obtain cash by selling to CIT certain of our accounts receivable and advances for up to 50 percent of the value of certain eligible inventory. The accounts receivables were sold for up to 85 percent of the face amount on either a recourse or non-recourse basis depending on the creditworthiness of the customer. CIT permitted us to sell our accounts receivables at the maximum level of 85 percent and allowed advances of up to $6,000,000 for eligible inventory. CIT had the ability, in its discretion at any time or from time to time, to adjust or revise any limits on the amount of loans or advances made to us pursuant to both of these agreements and to impose surcharges on our rates for certain of our customers. In addition, cross guarantees were executed by and among us and all of our parent and subsidiaries to guarantee each entity s obligations. In connection with the agreements prior to September 30, 2013, certain assets were pledged to CIT, including our entire inventory, merchandise and/or goods, including raw materials through finished goods and receivables. However, our trademarks were not encumbered under those agreements.

This accounts receivable agreement could be terminated by CIT upon 60 days written notice or immediately upon the occurrence of an event of default as defined in the agreement. In June 2013, we entered into an amendment to the accounts receivable agreement that permitted us to terminate the accounts receivable agreement upon 30 days written notice prior to September 30, 2013, or thereafter upon 60 days written notice provided that the minimum factoring fees have been paid for the respective period or if CIT fails to fund us for five consecutive days. The inventory agreement could be terminated once all obligations were paid under both agreements or if an event of default occurred as defined in the agreement. On September 30, 2013, we entered into an amended and restated factoring agreement with CIT that amended and restated our existing factoring agreement and replaced all prior agreements relating to factoring and inventory security.

Under the agreements that terminated on September 30, 2013, we paid to CIT a factoring rate of 0.55 percent for accounts for which CIT had the credit risk, subject to discretionary surcharges, up to $40,000,000 of invoices factored, 0.50 percent over $40,000,000 of invoices factored and 0.35 percent for accounts for which we had the credit risk. The interest rate associated with borrowings under the inventory lines and factoring facility was 0.25 percent plus the Chase prime rate, which was 3.25 percent prior to September 30, 2013. In the event we needed additional funds, we also had a letter of credit facility with CIT to allow us to open letters of credit for a fee of 0.25 percent of the letter of credit face value with international and domestic suppliers, subject to our overall availability.

Amended and Restated Factoring Agreement

On September 30, 2013, we entered into an amended and restated factoring agreement, or the Amended and Restated Factoring Agreement, with CIT, which replaces all prior agreements relating to factoring and inventory security. The Amended and Restated Factoring Agreement provides that we sell and assign to CIT certain of our accounts receivable, including accounts arising from or related to sales of inventory and the rendition of services. We will pay a factoring rate of 0.50 percent for accounts for which CIT bears the credit risk, subject to discretionary surcharges, and 0.35 percent for accounts for which we bear the credit risk, but in no event less than $3.50 per invoice. The interest rate associated with borrowings under the factoring facility will be equal to the interest rate then in effect for Revolving A Loans pursuant to the revolving credit agreement. The Amended and Restated Factoring Agreement may be terminated by CIT upon 60 days written notice or immediately upon the occurrence of an event of default as defined in the agreement. The accounts receivable agreement may be terminated by

us upon 60 days written notice prior to September 30, 2018 or annually with 60 days written notice prior to September 30th of each year thereafter. The Amended and Restated Factoring Agreement remains effective until it is terminated.

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As of May 31, 2014, our cash balance was $424,000 and our borrowing base cash availability with CIT was approximately $18,000,000. This amount with CIT fluctuates on a daily basis based upon invoicing and collection related activity by CIT for the receivables sold. See also Note 12 Debt for a further discussion of our debt arrangements with CIT and other lenders.

NOTE 4 INVENTORIES, NET

Inventories are valued at the lower of cost or market with cost determined by the first-in, first-out method. Inventories consisted of the following (in thousands):

	May 31, 2014	November 30, 2013
Finished goods	$ 32,383	$ 30,129
Finished goods consigned to others	1,383	1,066
Work in progress	5,098	5,057
Raw materials	21,470	18,406
	60,334	54,658
Less allowance for obsolescence and slow moving items	(2,094)	(1,988)
	$ 58,240	$ 52,670

We did not record any charges to our inventory reserve allowance for the three and six months ended May 31, 2014 or year ended November 30, 2013.

NOTE 5 RELATED PARTY TRANSACTIONS

Joe Dahan

Since the acquisition of the Joe s® brand as a result of a merger in October 2007 through February 18, 2013, Mr. Dahan was entitled to a certain percentage of our gross profit in any applicable fiscal year until October 2017. At the time of the acquisition, pursuant to ASC 805 *Business Combinations,* we assessed this original contingent consideration arrangement as compensatory and expensed such amounts over the term of the earn out period at the defined percentage amounts. For the three and six months ended May 31, 2013, expense of $0 and $311,000, respectively, was recorded in the statement of net (loss) income and comprehensive (loss) income related to the contingent consideration expense made to Mr. Dahan under the original agreement. For the three and six months ended May 31, 2014, we did not have any expense related to the contingent consideration expense made to Mr. Dahan under the original agreement since we entered into the new agreement with him as described below.

On February 18, 2013, we entered into a new agreement with Mr. Dahan that fixed the overall amount to be paid by us for the remaining months of year six through year 10 in the original merger agreement at $9,168,000 through weekly installment payments beginning on February 22,

2013 until November 27, 2015. In the first quarter of fiscal 2013, we recorded a charge of $8,732,000 as contingent consideration buy-out expense in connection with this agreement. This amount represented the net present value of the total fixed amount that Mr. Dahan would receive. The entire amount was expensed during the first quarter of fiscal 2013 as the amount payable represented a present obligation due to Mr. Dahan. On September 30, 2013, in connection with entry into new credit facilities relating to the acquisition of Hudson, Mr. Dahan, CIT, Garrison and all of our loan parties entered into an earn out subordination agreement, which provides, among other things, that any payment, whether in cash, in kind, securities or any other property, in connection with the our obligations to Mr. Dahan is expressly junior and subordinated in right of payment to all amounts due and owing upon any indebtedness outstanding under the revolving credit facility and the term loan facility. We are permitted to make certain amount of weekly installment payments of our obligations in the absence of an insolvency proceeding or any event of default under the revolving credit agreement or the term loan credit agreement.

See Note 9 Commitments and Contingencies - Contingent Consideration Payments, Buy Out Agreement and Earnout Subordination Agreement for a further discussion on these agreements with Mr. Dahan.

Ambre Dahan

In January 2013, we entered in to a consulting arrangement with Ambre Dahan, the spouse of Mr. Joe Dahan, for design director services that pays her $175,000 per annum on a bi-weekly basis. For the three months ended May 31, 2014 and 2013, we paid Ms. Dahan $40,000 and $40,000, respectively, under this arrangement. For the six months ended May 31, 2014 and 2013, we paid Ms. Dahan $87,000 and $67,000, respectively, under this arrangement. This arrangement may be terminated at any time by the parties. Mr. Dahan is not a party to this arrangement, and we do not consider this arrangement material to us.

Albert Dahan

In April 2009, we entered into a commission-based sales agreement with Albert Dahan, brother of Joe Dahan, for the sale of our products into the off-price channels of distribution. Under the agreement, Mr. Albert Dahan is entitled to a commission for purchase orders entered into by us where he acts as a sales person. The agreement may be terminated at any time for any reason or no reason with or without notice. For the three months ended May 31, 2014 and 2013, payments of $0 and $123,000, respectively, were made to Mr. Albert Dahan under this arrangement. For the six months ended May 31, 2014 and 2013, payments of $0 and $243,000, respectively, were made to Mr. Albert Dahan under this arrangement.

In October 2011, we entered into an agreement with Ever Blue LLC, or Ever Blue, an entity for which Albert Dahan is the sole member, for the sale of children s products. Ever Blue has an exclusive right to produce, distribute and sell children s products bearing the Joe s® brand on a worldwide basis, subject to certain limitations on the channels of distribution. In exchange for the license, Ever Blue pays to us a royalty on net sales with certain guaranteed minimum sales for each term. In connection with this agreement, we provided initial funding to Ever Blue for inventory purchases, which such amount has been repaid in full. For the three months ended May 31, 2014 and 2013, we recognized $60,000 and $154,000, respectively, in royalty income under the license agreement. For the six months ended May 31, 2014 and 2013, we recognized $308,000 and $334,000, respectively, in royalty income under the license agreement.

Peter Kim

We have entered into several agreements, including a stock purchase agreement, a convertible note, a registration rights agreement, an employment agreement and a non-competition agreement with Peter Kim, CEO of our Hudson subsidiary and member of our Board of Directors, in connection with the acquisition of Hudson. See Note 11 Acquisition of Hudson and Note 12 Debt for a further discussion of those agreements.

NOTE 6 EARNINGS PER SHARE

Earnings per share are computed using weighted average common shares and dilutive common equivalent shares outstanding. Potentially dilutive shares consist of outstanding options, shares issuable upon the assumed conversion of convertible notes, restricted stock and unvested RSUs. A reconciliation of the numerator and denominator of basic earnings per share and diluted earnings per share is as follows:

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	Three months ended (in thousands, except per share data)		Six months ended (in thousands, except per share data)	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Basic earnings (loss) per share computation:				
Numerator:				
Net earnings (loss) and comprehensive earnings (loss)	$ 2,339	$ 1,173	$ 161	$ (5,215)
Denominator:				
Weighted average common shares outstanding	68,148	67,047	68,045	66,849
Earnings (loss) per common share - basic				
Net earnings (loss) and comprehensive earnings (loss)	$ 0.03	$ 0.02	$ 0.00	$ (0.08)
Diluted earnings (loss) per share computation:				
Numerator:				
Net earnings (loss) and comprehensive earnings (loss)	$ 2,339	$ 1,173	$ 161	$ (5,215)
Convertible notes interest expense, net of taxes	557		1,960	
Other Income - Gain from change in fair value of conversion derivative, net of taxes	(2,371)		(1,965)	
Numerator for dilutive earnings (loss) per share	$ 525	$ 1,173	$ 156	$ (5,215)
Denominator:				
Weighted average common shares outstanding	68,148	67,047	68,045	66,849
Effect of dilutive securities:				
Convertible note shares	18,430		18,369	
Restricted shares, RSU s and options	518	1,364	798	
Dilutive potential common shares	87,096	68,411	87,212	66,849
Earnings (loss) per common share - diluted				
Net earnings (loss) and comprehensive earnings (loss)	$ 0.01	$ 0.02	$ 0.00	$ (0.08)

For the three months ended May 31, 2014, and 2013, currently exercisable options, convertible notes, unvested restricted shares and unvested RSUs in the aggregate of 21,510,929 and 450,000, respectively, have been excluded from the calculation of the diluted loss per share as their effect would have been anti-dilutive. For the six months ended May 31, 2014, and 2013, currently exercisable options, convertible notes, unvested restricted shares and unvested RSUs in the aggregate of 21,510,929 and 4,164,822, respectively, have been excluded from the calculation of the diluted loss per share as their effect would have been anti-dilutive.

Shares Reserved for Future Issuance

As of May 31, 2014, shares reserved for future issuance include (i) 775,000 shares of common stock issuable upon the exercise of stock options granted under the incentive plans; (ii) 1,472,575 shares of common stock issuable upon the vesting of RSUs; and (iii) an aggregate of 2,988,654 shares of common stock available for future issuance under the Amended and Restated 2004 Stock Incentive Plan; and (iv) 18,471,051 shares of common stock issuable pursuant to the convertible notes.

NOTE 7 INCOME TAXES

We utilize the liability method of accounting for income taxes in accordance with FASB Accounting Standards Codification, or ASC, 740. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statements and tax bases of

assets and liabilities using enacted tax rates.

A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. Quarterly, management reassesses the need for a valuation allowance. Realization of deferred income tax assets is dependent upon taxable income in prior carryback years, estimates of future taxable income, tax planning strategies and reversals of existing taxable temporary differences. Based on our assessment of these items for fiscal 2013, 2012 and 2011, we determined that the deferred tax assets were more likely than not to be realized with the exception of a valuation allowance of $342,000 that was recorded against a state net operating loss deferred tax asset during fiscal 2013.

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We are subject to U.S. federal income tax as well as income tax in multiple state jurisdictions. To the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses were generated and carried forward, and make adjustments up to the amount of the net operating loss carryforward amount. We are no longer subject to U.S. federal and California income tax examinations by tax authorities for years prior to 2009. We are currently not subject to any examinations, except for an examination by the State of Florida. We do not expect the out come of this audit to have a significant impact on our financial results.

We had net operating loss carryforwards of $24,909,000 at the end of fiscal 2013 for federal tax purposes that will expire from fiscal 2019 through 2027. We also had $22,467,000 of net operating loss carryforwards available for California which begin to expire from fiscal 2014 through fiscal 2020.

Certain limitations may be placed on net operating loss carryforwards as a result of changes in control as defined in Section 382 of the Internal Revenue Code. In the event a change in control occurs, it will have the effect of limiting the annual usage of the carryforwards in future years. Additional changes in control in future periods could result in further limitations of our ability to offset taxable income. Management believes that certain changes in control have occurred which resulted in limitations on our net operating loss carryforwards.

NOTE 8 STOCKHOLDERS EQUITY

Stock Incentive Plans

On June 3, 2004, we adopted the 2004 Stock Incentive Plan, or the 2004 Incentive Plan, and in October 2011, we adopted an Amended and Restated 2004 Stock Incentive Plan, or the Restated Plan, to update it with respect to certain provisions and changes in the tax code since its original adoption. Under the Restated Plan, the number of shares authorized for issuance is 6,825,000 shares of common stock. After the adoption of the Restated Plan in October 2011, we no longer grant awards pursuant to the 2004 Incentive Plan; however, it remains in effect for awards outstanding as of the adoption of the Restated Plan. Under the Restated Plan, grants may be made to employees, officers, directors and consultants under a variety of awards based upon underlying equity, including, but not limited to, stock options, restricted common stock, restricted stock units or performance shares. The Restated Plan limits the number of shares that can be awarded to any employee in one year to 1,250,000. The exercise price for incentive options may not be less than the fair market value of our common stock on the date of grant and the exercise period may not exceed ten years. Vesting periods, terms and types of awards are determined by the Board of Directors and/or our Compensation and Stock Option Committee, or Compensation Committee. The Restated Plan includes a provision for the acceleration of vesting of all awards upon a change of control as well as a provision that allows forfeited or unexercised awards that have expired to be available again for future issuance. Since fiscal 2008, we have issued both restricted common stock and restricted common stock units, or RSUs, to our officers, directors and employees pursuant to our various plans. The RSUs represent the right to receive one share of common stock for each unit on the vesting date provided that the employee continues to be employed by us. On the vesting date of the RSUs, we expect to issue the shares of common stock to each participant upon vesting and expect to withhold an equivalent number of shares at fair market value on the vesting date to fulfill tax withholding obligations. Any RSUs withheld or forfeited will be shares available for issuance in accordance with the terms of the Restated Plan.

The shares of common stock issued upon exercise of a previously granted stock option or a grant of restricted common stock or RSUs are considered new issuances from shares reserved for issuance in connection with the adoption of the various plans. We require that the option holder provide a written notice of exercise in accordance with the option agreement and plan to the stock plan administrator and full payment for the shares be made prior to issuance. All issuances are made under the terms and conditions set forth in the applicable plan. As of May 31, 2014, 2,988,654 shares remained available for issuance under the Restated Plan.

For all stock compensation awards that contain graded vesting with time-based service conditions, we have elected to apply a straight-line recognition method to account for all of these awards. For existing grants that were not fully vested at November 30, 2013, there was a total of $352,000 and $455,000 of stock based compensation expense recognized during the three months ended May 31, 2014 and 2013, respectively, and $587,000 and $904,000 of stock based compensation expense recognized during the six months ended May 31, 2014 and 2013.

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The following summarizes option grants, restricted common stock and RSUs issued to members of the Board of Directors for the fiscal years 2002 through the second quarter of fiscal 2014 (in actual amounts) for service as a member:

Granted as of:	May 31, 2014 Number of options		Exercise price
2002	40,000	$	1.00
2002	31,496	$	1.27
2003	30,768	$	1.30
2004	320,000	$	1.58
2005	300,000	$	5.91
2006	450,000	$	1.02
			Number of restricted shares isssued
2007			320,000
2008			473,455
2009			371,436
2010			131,828
2011			
2012			617,449
2013			
2014			219,678

Exercise prices for all options outstanding as of May 31, 2014 were as follows:

	Options Outstanding and Exercisable	
Exercise Price	**Number of shares**	**Weighted-Average Remaining Contractual Life**
$1.00 - $1.02	100,000	1.8
$1.58 - $1.63	225,000	0.2
$5.91	450,000	1.0
	775,000	0.9

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The following table summarizes stock option activity by plan for the six months ended May 31, 2014 and 2013, (in actual amounts). There are no stock options outstanding under our Restated Plan.

	Total Number of Shares	2004 Incentive Plan	2000 Director Plan
Outstanding at November 30, 2013	775,000	775,000	
Granted			
Exercised			
Forfeited / Expired			
Outstanding and exercisable at May 31, 2014	775,000	775,000	
Outstanding at November 30, 2012	796,794	775,000	21,794
Granted			
Exercised	(21,794)		(21,794)
Forfeited / Expired			
Outstanding and exercisable at May 31, 2013	775,000	775,000	

Stock option activity in the aggregate for the periods indicated are as follows (in actual amounts):

	Options	Weighted average exercise price	Weighted average remaining contractual Life (Years)			
Net income attributable to Select Medical Holdings Corporation	$ 107,846	$ 148,230		$ 114,390	$ 120,627	$ 130,736
Income per common share:						
Basic	$ 0.71	$ 1.05		$ 0.82	$ 0.91	$ 1.00
Diluted	$ 0.71	$ 1.05		$ 0.82	$ 0.91	$ 0.99
Weighted average common shares outstanding:						
Basic	150,501	138,767		136,879	129,026	127,478
Diluted	150,725	139,042		137,047	129,465	127,752
Balance Sheet Data (at end of period):						
Cash and cash equivalents	$ 12,043	$ 40,144		$ 4,319	$ 3,354	$ 14,435
Working capital	99,472	80,397		82,878	133,220	11,465
Total assets	2,772,147	2,761,361		2,817,622	2,924,809	4,426,666
Total debt	1,396,798	1,470,243		1,445,275	1,522,976	2,423,884
Total Select Medical Holdings Corporation stockholders' equity	819,679	717,048		786,234	739,515	859,253

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	Select Medical Corporation				
	Year Ended December 31,				
	2011	2012	2013	2014	2015
	(In thousands)				
Statement of Operations Data:					
Net operating revenues	$ 2,804,507	$ 2,948,969	$ 2,975,648	$ 3,065,017	$ 3,742,736
Operating expenses[(1)(2)]	2,422,271	2,548,799	2,609,820	2,712,187	3,362,965
Depreciation and amortization	71,517	63,311	64,392	68,354	104,981
Income from operations	310,719	336,859	301,436	284,476	274,790
Loss on early retirement of debt[(3)]	(20,385)	(6,064)	(17,788)	(2,277)	
Equity in earnings of unconsolidated subsidiaries	2,923	7,705	2,476	7,044	16,811
Gain on sale of equity investment					29,647
Interest expense, net[(4)]	(80,910)	(83,759)	(84,954)	(85,446)	(112,816)
Income before income taxes	212,347	254,741	201,170	203,797	208,432
Income tax expense	80,984	93,574	75,971	75,622	72,436
Net income	131,363	161,167	125,199	128,175	135,996
Less: Net income attributable to non-controlling interests[(5)]	4,916	5,663	8,619	7,548	5,260
Net income attributable to Select Medical Corporation	$ 126,447	$ 155,504	$ 116,580	$ 120,627	$ 130,736

	2011	2012	2013	2014	2015
Balance Sheet Data (at end of period):					
Cash and cash equivalents	$ 12,043	$ 40,144	$ 4,319	$ 3,354	$ 14,435
Working capital	97,348	78,414	82,878	133,220	11,465
Total assets	2,770,738	2,760,313	2,817,622	2,924,809	4,426,666
Total debt	1,229,498	1,302,943	1,445,275	1,552,976	2,423,884
Total Select Medical Corporation stockholders' equity	983,446	881,317	786,234	739,515	859,253

(1) Operating expenses include cost of services, general and administrative expenses, and bad debt expenses.

(2) Includes stock compensation expense related to restricted stock and stock options for the years ended December 31, 2011, 2012, 2013, 2014 and 2015.

(3) During the year ended December 31, 2011, we refinanced the Select credit facilities, repurchased and retired $266.5 million principal amount of Select's 7$^5/_8$% senior subordinated notes, and repurchased and retired $150.0 million principal amount of Holdings 10% senior subordinated notes. A loss on early retirement of debt of $31.0 million and $20.4 million for Holdings and Select, respectively, was recognized for the year ended December 31, 2011, which included the write-off of unamortized debt issuance costs, tender premiums and original issue discount.

During the year ended December 31, 2012, we repurchased and retired an aggregate of $275.0 million principal amount of Select's outstanding 7$^5/_8$% senior subordinated notes. A loss on early retirement of debt of $6.1 million was recognized by Holdings and Select for the year ended December 31, 2012, which included the write-off of unamortized debt issuance costs and call premiums.

During the year ended December 31, 2013, Select entered into a credit extension amendment on February 20, 2013, the proceeds of which were used to redeem all of its outstanding $7\frac{5}{8}$% 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 the Select credit facilities. Additionally, on May 28,

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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 the 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 its term loans under the Select credit facilities. A loss on early retirement of debt of $2.3 million was recognized for unamortized debt issuance costs, unamortized original issue discount, and certain frees incurred related to term loan modifications.

(4) Interest expense, net equals interest expense minus interest income.

(5) Reflects interests held by other parties in subsidiaries, limited liability companies and limited partnerships owned and controlled by us.

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Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

You should read this discussion together with the "Selected Financial Data" and consolidated financial statements and accompanying notes included elsewhere herein.

Overview

We began operations in 1997, and we believe that we are one of the largest operators of both specialty hospitals and outpatient rehabilitation clinics in the United States based on number of facilities. On June 1, 2015, a joint venture created by Select and WCAS consummated the acquisition of Concentra, which provides occupational medicine, consumer health, physical therapy, and veteran's healthcare services throughout the United States. As of December 31, 2015, we operated 127 specialty hospitals in 27 states, and 1,038 outpatient rehabilitation clinics in 31 states and the District of Columbia. Through our contract therapy business we provide medical rehabilitation services on a contracted basis to nursing homes, hospitals, assisted living and senior care centers, schools, and work sites. As of December 31, 2015, Concentra operated 300 medical centers in 38 states. Concentra also provides contract services at employer worksites and Department of Veterans Affairs CBOCs. As of December 31, 2015, we had operations in 46 states and the District of Columbia.

We manage our Company through three business segments; specialty hospitals, outpatient rehabilitation and, as of June 1, 2015, our Concentra segment. We had net operating revenues of $3,742.7 million for the year ended December 31, 2015. Of this total, we earned approximately 63% of our net operating revenues from our specialty hospitals segment, approximately 22% from our outpatient rehabilitation segment, and approximately 15% from our Concentra segment. Our specialty hospitals segment consists of hospitals designed to serve the needs of long term acute care patients and hospitals designed to serve patients that require intensive medical rehabilitation care. Patients are typically admitted to our 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. Our outpatient rehabilitation segment consists of clinics and contract therapy that provide physical, occupational, and speech rehabilitation services. Our outpatient rehabilitation patients are typically diagnosed with musculoskeletal impairments that restrict their ability to perform normal activities of daily living. Our Concentra segment consists of medical centers and contract services provided at employer worksites and Department of Veterans Affairs CBOCs that deliver occupational medicine, consumer health, physical therapy, and veteran's healthcare services. The financial and statistical information related to the operation of the Concentra segment, and used for calculations in our discussion and analysis of our financial condition and results of operations for the period ended December 31, 2015, discussed herein, began as of June 1, 2015, which is the date the Concentra acquisition was consummated.

Significant 2015 Events

Concentra Transaction

On June 1, 2015, MJ Acquisition Corporation, a joint venture that Select created with WCAS, consummated the acquisition of Concentra. Pursuant to the terms of the stock purchase agreement, MJ Acquisition Corporation acquired 100% of the issued and outstanding equity securities of Concentra from Humana, Inc. ("Humana") for $1,047.2 million, net of $3.8 million of cash acquired. Select used borrowings under the Select revolving facility to fund its portion of the equity contribution to Group Holdings in an aggregate amount equal to $217.9 million. Group Holdings contributed those funds along with $217.1 million of equity contributions of its other members to MJ Acquisition Corporation, which used the funds, together with the borrowings under the Concentra credit facilities to pay the purchase price to Humana.

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Group Holdings is the parent company of Concentra, the surviving entity of the merger between MJ Acquisition Corporation and Concentra. Select owns 50.1% of the voting equity interests of Group Holdings. Concentra's financial results are consolidated with Select's as of June 1, 2015.

Our acquisition costs related to the acquisition of Concentra were $4.7 million and are included in general and administrative expenses for the year ended December 31, 2015. Concentra incurred $23.3 million of debt issuance costs related to the Concentra credit facilities through December 31, 2015. The original issue discounts and debt issuance costs associated with the Concentra term loans are being amortized in interest expense beginning June 1, 2015 using the interest method which will continue over the total term of each respective facility.

Financing Transactions

Select Credit Facilities

On May 20, 2015, Select entered into an additional credit extension amendment to the Select credit facilities. Pursuant to the terms and conditions of the additional credit extension amendment, the lenders named therein committed an additional $100.0 million in incremental revolving commitments that mature on March 1, 2018. All other material terms and conditions applicable to the Select revolving facility commitments are applicable to incremental revolving commitments created under the additional credit extension amendment.

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.

Concentra Credit Facilities

On June 1, 2015, MJ Acquisition Corporation, as the initial borrower, entered into the Concentra credit facilities. Concentra, as the surviving entity of the merger between MJ Acquisition Corporation and Concentra, became the borrower under the Concentra credit facilities on June 1, 2015. The Concentra credit facilities consist of the Concentra first lien credit agreement and the Concentra second lien credit agreement. The Concentra first lien credit agreement provides for $500.0 million in first lien loans composed of a $450.0 million, seven-year term loan and a $50.0 million, five-year revolving credit facility. The $450.0 million Concentra first lien term loan was issued with a discount of $1.1 million resulting in proceeds of $448.9 million. The Concentra second lien credit agreement (as defined below) provides for a $200.0 million eight-year second lien term loan. The $200.0 million Concentra second lien term loan (as defined below) was issued with a discount of $2.0 million resulting in proceeds of $198.0 million.

New Specialty Hospital Start-up Operating Expenses

Select is developing several new specialty hospitals resulting in start-up costs which have the effect of increasing our operating expenses. Start-up Adjusted EBITDA losses were $16.8 million for the year ended December 31, 2015, compared to $14.5 million for the year ended December 31, 2014. We define Adjusted EBITDA 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. See the section titled *"Results of Operations"* for a reconciliation of net income to Adjusted EBITDA.

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Gain on Sale of Equity Investment

For the year ended December 31, 2015, we had a gain on the sale of an equity investment of $29.6 million. The equity investment was a start-up company investment in which we owned a non-controlling interest.

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, 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 (the "Transaction").

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 facilities, 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.

Summary Financial Results

Year Ended December 31, 2015

For the year ended December 31, 2015, our net operating revenues increased 22.1% to $3,742.7 million compared to $3,065.0 million for the year ended December 31, 2014, principally due to the addition of our Concentra segment and increases in net operating revenues in our specialty hospitals segment. We had income from operations for the year ended December 31, 2015 of $274.8 million, compared to $284.5 million for the year ended December 31, 2014. The decrease in our income from operations was principally due to increases in operating expenses at our specialty hospitals as further discussed below under "Results of Operations". Our Adjusted EBITDA for the year ended December 31, 2015 was $399.2 million, compared to $363.9 million for the year ended December 31, 2014 and our Adjusted EBITDA margin was 10.7% for the year ended December 31, 2015, compared to 11.9% for the year ended December 31, 2014. See the section titled "Results of Operations" for a reconciliation of net income to Adjusted EBITDA. Our increase in Adjusted EBITDA was principally due to the effects of the Concentra acquisition, offset in part by increases in our specialty hospitals segment operating expenses discussed above. The decrease in our Adjusted EBITDA margin is principally due to a decline in Adjusted EBITDA from our specialty hospitals segment caused by the increases in operating expenses discussed above, and the fact that incremental Adjusted EBITDA contributed by Concentra has a lower Adjusted EBITDA margin than our overall Adjusted EBITDA margin for the year ended December 31, 2014, thus reducing the overall Adjusted EBITDA margin.

Net income attributable to Holdings was $130.7 million for the year ended December 31, 2015, compared to $120.6 million for the year ended December 31, 2014. The increase in Holdings' net income was principally due to increases in our equity in earnings of unconsolidated subsidiaries and a gain on the sale of an equity investment, offset in part by the decrease in our income from operations as discussed above and increases in interest expense associated with Concentra indebtedness.

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Cash flow from operations for Holdings provided $208.4 million and $170.6 million of cash for the years ended December 31, 2015 and 2014, respectively.

Year Ended December 31, 2014

For the year ended December 31, 2014, our net operating revenues increased 3.0% to $3,065.0 million compared to $2,975.6 million for the year ended December 31, 2013. We experienced increases in net operating revenues in both our specialty hospitals and outpatient rehabilitation segments. We had income from operations for the year ended December 31, 2014 of $284.5 million, compared to $301.4 million for the year ended December 31, 2013. Our Adjusted EBITDA for the year ended December 31, 2014 was $363.9 million, compared to $372.9 million for the year ended December 31, 2013 and our Adjusted EBITDA margin was 11.9% for the year ended December 31, 2014, compared to 12.5% for the year ended December 31, 2013. The decrease in our income from operations, Adjusted EBITDA and Adjusted EBITDA margin is principally due to increases in our operating expenses, primarily related to incremental start-up costs associated with new and recently expanded specialty hospitals, the Sequestration Reduction and the MPPR Reduction.

Net income attributable to Holdings was $120.6 million for the year ended December 31, 2014, compared to $114.4 million for the year ended December 31, 2013. The increase in Holdings' net income resulted principally from lower losses related to early retirement of debt, lower interest expense, and increases in equity earnings of unconsolidated subsidiaries, offset in part by a decrease in our income from operations as discussed above.

Cash flow from operations for Holdings provided $170.6 million and $192.5 million of cash for the years ended December 31, 2014 and 2013, respectively.

Regulatory Changes

The Medicare program reimburses us for services furnished to Medicare beneficiaries, which are generally persons age 65 and older, those who are chronically disabled, and those suffering from end stage renal disease. Net operating revenues generated directly from the Medicare program represented approximately 46%, 45% and 37% of our consolidated net operating revenues for the years ended December 31, 2013, 2014 and 2015, respectively.

The Medicare program reimburses our LTCHs, IRFs and outpatient rehabilitation providers, using different payment methodologies. Those payment methodologies are complex and are described elsewhere in this report under "Business Government Regulations." The following is a summary of some of the more significant healthcare regulatory changes that have affected our financial performance in the periods covered by this report or are likely to affect our financial performance and financial condition in the future.

The Medicare Access and CHIP Reauthorization Act of 2015, enacted on April 16, 2015, reforms Medicare payment policy for services paid under the Medicare physician fee schedule, including our outpatient rehabilitation services. The law repeals the SGR formula effective January 1, 2015, and establishes a new payment framework consisting of specified updates to the Medicare physician fee schedule, a new MIPS, and incentives for participation in APMs. To finance these provisions, the Medicare Access and CHIP Reauthorization Act of 2015 reduces market basket updates for post-acute care providers, including LTCHs and IRFs, among other Medicare payment cuts. As noted below, the law sets the annual prospective payment system update for fiscal year 2018 at 1% for LTCHs and IRFs, as well as skilled nursing facilities, home health agencies, and hospices. The law also extends the exceptions process for outpatient therapy caps through December 31, 2017.

The Bipartisan Budget Act of 2015, enacted on November 2, 2015, extends the 2% reductions to Medicare payments through fiscal year 2025. This reduction was originally enacted in the BCA of 2011,

which required automatic reductions in federal spending by approximately $1.2 trillion split evenly between domestic and defense spending. Payments to Medicare providers are subject to these automatic spending reductions, subject to a 2% cap. On April 1, 2013 a 2% reduction to Medicare payments was implemented. The BBA of 2013 extended the automatic spending reductions through 2023 and the Bipartisan Budget Act of 2015 further extended the automatic spending reductions through fiscal year 2025.

Medicare Reimbursement of LTCH Services

There have been significant regulatory changes affecting LTCHs that have affected our net operating revenues and, in some cases, caused us to change our operating models and strategies. We have been subject to regulatory changes that occur through the rulemaking procedures of CMS. All Medicare payments to our LTCHs are made in accordance with LTCH-PPS. Proposed rules specifically related to LTCHs are generally published in May, finalized in August and effective on October 1st of each year.

The following is a summary of significant changes to the Medicare prospective payment system for LTCHs which have affected our results of operations, as well as the policies and payment rates for fiscal year 2016 that affect our patient discharges and cost reporting periods beginning on or after October 1, 2015.

Fiscal Year 2014. On August 19, 2013, CMS published the final rule updating the policies and payment rates for LTCH-PPS for fiscal year 2014 (affecting discharges and cost reporting periods beginning on or after October 1, 2013 through September 30, 2014). The standard federal rate was set at $40,607, an increase from the standard federal rate applicable during the period from December 29, 2012 through September 30, 2013 of $40,398. The update to the standard federal rate for fiscal year 2014 included a market basket increase of 2.5%, less a productivity adjustment of 0.5%, less a reduction of 0.3% mandated by the ACA, and less a budget neutrality adjustment of 1.266%. The fixed-loss amount for high cost outlier cases was set at $13,314, which was a decrease from the fixed-loss amount in the 2013 fiscal year of $15,408.

Fiscal Year 2015. On August 22, 2014, CMS published the final rule updating policies and payment rates for LTCH-PPS for fiscal year 2015 (affecting discharges and cost reporting periods beginning on or after October 1, 2014 through September 30, 2015). The standard federal rate was set at $41,044, an increase from the standard federal rate applicable during fiscal year 2014 of $40,607. The update to the standard federal rate for fiscal year 2015 included a market basket increase of 2.9%, less a productivity adjustment of 0.5%, less a reduction of 0.2% mandated by the ACA, and less a budget neutrality adjustment of 1.266%. The fixed-loss amount for high cost outlier cases was set at $14,972, which was an increase from the fixed-loss amount in the 2014 fiscal year of $13,314.

Fiscal Year 2016. On August 17, 2015, CMS published the final rule updating policies and payment rates for the LTCH-PPS for fiscal year 2016 (affecting discharges and cost reporting periods beginning on or after October 1, 2015 through September 30, 2016). The standard federal rate is set at $41,763, an increase from the standard federal rate applicable during fiscal year 2015 of $41,044. The update to the standard federal rate for fiscal year 2016 includes a market basket increase of 2.4%, less a productivity adjustment of 0.5%, and less a reduction of 0.2% mandated by the ACA. The fixed-loss amount for high cost outlier cases paid under LTCH-PPS is set at $16,423, which is an increase from the fixed-loss amount in the 2015 fiscal year of $14,972. The fixed-loss amount for high cost outlier cases paid under the site-neutral payment rate described below is set at $22,544.

Patient Criteria

The BBA of 2013, enacted December 26, 2013, establishes new payment limits for Medicare patients discharged from an LTCH who do not meet specified criteria. Specifically, for Medicare patients discharged in cost reporting periods beginning on or after October 1, 2015, LTCHs will be reimbursed

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under LTCH-PPS only if, immediately preceding the patient's LTCH admission, the patient was discharged from a general acute care hospital paid under IPPS and the patient's stay included at least three days in an intensive care unit (ICU) or coronary care unit (CCU) or the patient is assigned to an MS-LTC-DRG for cases receiving at least 96 hours of ventilator services in the LTCH. In addition, to be paid under LTCH-PPS the patient's discharge from the LTCH may not include a principal diagnosis relating to psychiatric or rehabilitation services. For any Medicare patient who does not meet the new criteria, the LTCH will be paid a lower "site-neutral" payment rate, which will be the lower of (1) the IPPS comparable per-diem payment rate capped at the MS-DRG including any outlier payments, or (2) 100 percent of the estimated costs for services.

The BBA of 2013 provides for a transition to the site-neutral payment rate for those patients not paid under LTCH-PPS. During the transition period (cost reporting periods beginning on or after October 1, 2015 through September 30, 2017), a blended rate will be paid for Medicare patients not meeting the new criteria. The blended rate will comprise half the site-neutral payment rate and half the LTCH-PPS payment rate. For discharges in cost reporting periods beginning on or after October 1, 2017, only the site-neutral payment rate will apply for Medicare patients not meeting the new criteria.

In addition, for cost reporting periods beginning on or after October 1, 2019, qualifying discharges from an LTCH will continue to be paid at the LTCH-PPS payment rate, unless the number of discharges for which payment is made under the site-neutral payment rate is greater than 50% of the total number of discharges from the LTCH. If the number of discharges for which payment is made under the site-neutral payment rate is greater than 50%, then beginning in the next cost reporting period all discharges from the LTCH will be reimbursed at the site-neutral payment rate. The BBA of 2013 requires CMS to establish a process for an LTCH subject to the site-neutral payment rate to re-qualify for payment under LTCH-PPS.

Payment adjustments, including the interrupted stay policy and the 25 Percent Rule (discussed below), apply to LTCH discharges regardless of whether the case is paid at the LTCH-PPS payment rate or the site-neutral payment rate. However, short stay outlier payment adjustments do not apply to cases paid at the site-neutral payment rate. Beginning with fiscal year 2016, CMS will calculate the annual recalibration of the MS-LTC-DRG relative payment weighting factors using only data from LTCH discharges that meet the criteria for exclusion from the site-neutral payment rate. In addition, beginning in fiscal year 2016, CMS will apply the IPPS fixed-loss amount to site-neutral cases, rather than the LTCH PPS fixed-loss amount. For fiscal year 2016, the IPPS fixed-loss amount is set at $22,544 and the LTCH-PPS fixed-loss amount is estimated to be $16,423. CMS will calculate the LTCH-PPS fixed-loss amount using only data from cases paid at the LTCH-PPS payment rate, excluding cases paid at the site-neutral rate.

Each of our LTCHs has their own unique annual cost reporting period. As a result, the new payment limits will become effective for each of our LTCHs at different points in time over a twelve month period that began on October 1, 2015. As of December 31, 2015, 16 of our LTCHs have cost reporting periods that began during the fourth quarter of 2015 and 37, 19 and 36 of our LTCHs have cost reporting periods commencing during the first quarter, second quarter and third quarters of 2016, respectively.

Medicare Market Basket Adjustments

The ACA instituted a market basket payment adjustment to LTCHs. In fiscal years 2017 through 2019, the market basket update will be reduced by 0.75%. The Medicare Access and CHIP Reauthorization Act of 2015 sets the annual update for fiscal year 2018 at 1% after taking into account the market basket payment reduction of 0.75% mandated by the ACA. The ACA specifically allows these market basket reductions to result in a less than 0% payment update and payment rates that are less than the prior year.

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25 Percent Rule

The "25 Percent Rule" is a downward payment adjustment that applies if the percentage of Medicare patients discharged from LTCHs who were admitted from a referring hospital (regardless of whether the LTCH or LTCH satellite is co-located with the referring hospital) exceeds the applicable percentage admissions threshold during a particular cost reporting period. As more full described under "business Government Regulations," various legislation has limited or deferred the full application of the 25 Percent Rule. These regulatory changes will have an adverse financial impact on the net operating revenues and profitability of many of our LTCHs for cost reporting periods beginning on or after July 1, 2016.

Moratorium on New LTCHs, LTCH Satellite Facilities and LTCH Beds

The BBA of 2013, as amended by the PAMA, reinstated a moratorium on the establishment and classification of new LTCHs or LTCH satellite facilities, and on the increase of LTCH beds in existing LTCHs or satellite facilities beginning April 1, 2014 through September 30, 2017 with certain exceptions to the moratorium that are applicable to the establishment and classification of new LTCHs or LTCH satellite facilities currently under development.

Medicare Reimbursement of Inpatient Rehabilitation Facility Services

The following is a summary of significant changes to the Medicare prospective payment system for IRFs which have affected our results of operations during the periods presented in this report, as well as the policies and payment rates for fiscal year 2016 that affect our patient discharges and cost reporting periods beginning on or after October 1, 2015.

Fiscal Year 2014. On August 6, 2013, CMS published the final rule updating policies and payment rates for IRF-PPS for fiscal year 2014 (affecting discharges and cost reporting periods beginning on or after October 1, 2013 through September 30, 2014). The standard payment conversion factor for discharges for fiscal year 2014 was $14,846, which was an increase from the fiscal year 2013 standard payment conversion factor of $14,343. The update to the standard payment conversion factor for fiscal year 2014 included a market basket increase of 2.6%, less a productivity adjustment of 0.5%, and less a reduction of 0.3% mandated by the ACA. CMS decreased the outlier threshold amount for fiscal year 2014 to $9,272 from $10,466 established in the final rule for fiscal year 2013.

Fiscal Year 2015. On August 6, 2014, CMS published the final rule updating policies and payment rates for IRF-PPS for fiscal year 2015 (affecting discharges and cost reporting periods beginning on or after October 1, 2014 through September 30, 2015). The standard payment conversion factor for discharges for fiscal year 2015 was $15,198, which was an increase from the fiscal year 2014 standard payment conversion factor of $14,846. The update to the standard payment conversion factor for fiscal year 2015 included a market basket increase of 2.9%, less a productivity adjustment of 0.5%, and less a reduction of 0.2% mandated by the ACA. CMS decreased the outlier threshold amount for fiscal year 2015 to $8,848 from $9,272 established in the final rule for fiscal year 2014.

Fiscal Year 2016. On August 6, 2015, CMS published the final rule updating policies and payment rates for IRF-PPS for fiscal year 2016 (affecting discharges and cost reporting periods beginning on or after October 1, 2015 through September 30, 2016). The standard payment conversion factor for discharges for fiscal year 2016 is set at $15,478, which is an increase from the fiscal year 2015 standard payment conversion factor of $15,198. The update to the standard payment conversion factor for fiscal year 2016 includes a market basket increase of 2.4%, less a productivity adjustment of 0.5%, and less a reduction of 0.2% mandated by the ACA. CMS decreased the outlier threshold amount for fiscal year 2016 to $8,658 from $8,848 established in the final rule for fiscal year 2015.

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Medicare Market Basket Adjustments

The ACA instituted a market basket payment adjustment for IRFs. In fiscal years 2017 through 2019, the market basket update will be reduced by 0.75%. The Medicare Access and CHIP Reauthorization Act of 2015 sets the annual update for fiscal year 2018 at 1% after taking into account the market basket payment reduction of 0.75% mandated by the ACA. The ACA specifically allows these market basket reductions to result in less than a 0% payment update and payment rates that are less than the prior year.

Medicare Reimbursement of Outpatient Rehabilitation Services

The Medicare program reimburses outpatient rehabilitation providers based on the Medicare physician fee schedule. Historically, the Medicare physician fee schedule rates have updated annually based on the SGR formula. The SGR formula has resulted in automatic reductions in rates every year since 2002; however, for each year through March 31, 2015 CMS or Congress has taken action to prevent the SGR formula reductions. The Medicare Access and CHIP Reauthorization Act of 2015 repeals the SGR formula effective for services provided on or after January 1, 2015, and establishes a new payment framework consisting of specified updates to the Medicare physician fee schedule, a new MIPS, and APMs. For services provided between January 1, 2015 and June 30, 2015, a 0% payment update was applied to the Medicare physician fee schedule payment rates. For services provided between July 1, 2015 and December 31, 2015, a 0.5% update was applied to the fee schedule payment rates. For services provided in 2016 through 2019, a 0.5% update will be applied each year to the fee schedule payment rates, subject to MIPS adjustment beginning in 2019. For services provided in 2020 through 2025, a 0.0% percent update will be applied each year to the fee schedule payment rates, subject to MIPS and APM adjustments. Finally, in 2026 and subsequent years eligible professionals participating in APMs that meet certain criteria would receive annual updates of 0.75%, while all other professionals would receive annual updates of 0.25%.

The Medicare Access and CHIP Reauthorization Act of 2015 requires that payments under the fee schedule be adjusted starting in 2019 based on performance in MIPS, which will consolidate the three existing incentive programs focused on quality, resource use, and meaningful use of electronic health records. The law requires the Secretary of Health and Human Services to establish the MIPS requirements under which a provider's performance is assessed according to established performance standards and used to determine an adjustment factor that is then applied to the professional's payment for a year. Each year from 2019-2024 professionals who receive a significant share of their revenues through an APM (such as accountable care organizations or bundled payment arrangements) that involves risk of financial losses and a quality measurement component will receive a 5% bonus. The bonus payment for APM participation is intended to encourage participation and testing of new APMs and promotes the alignment of incentives across payors. The specifics of the MIPS and APM adjustments beginning in 2019 and 2020, respectively, will be subject to future notice and comment rule-making. For the year ended December 31, 2015, we received approximately 11% of our outpatient rehabilitation net operating revenues from Medicare.

Development of New Specialty Hospitals and Clinics

In addition to the growth of our business through the acquisition and integration of other businesses, we have also grown our business by developing specialty hospitals and outpatient rehabilitation facilities. Since our inception in 1997 through December 31, 2015, we have internally developed 73 specialty hospitals and 434 outpatient rehabilitation clinics. The BBA of 2013, as amended by the PAMA, reinstated a moratorium on the establishment and classification of new LTCHs, LTCH satellite facilities and LTCH beds in existing LTCHs or satellite facilities beginning April 1, 2014 through September 30, 2017, with certain exceptions to the moratorium that are applicable to the establishment and classification of new LTCHs or LTCH satellite facilities currently under development. We continue to evaluate opportunities to develop new joint venture relationships with significant health systems and from time to time we may also develop new inpatient rehabilitation hospitals. We also intend to open new outpatient rehabilitation clinics

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in the local areas that we currently serve where we can benefit from existing referral relationships and brand awareness to produce incremental growth.

Critical Accounting Matters

Sources of Revenue

Our net operating revenues are derived from a number of sources, including commercial, managed care, private and governmental payors. Our net operating revenues include amounts estimated by management to be reimbursable from each of the applicable payors and the federal Medicare program. Amounts we receive for treatment of patients are generally less than the standard billing rates. We account for the differences between the estimated reimbursement rates and the standard billing rates as contractual adjustments, which we deduct from gross revenues to arrive at net operating revenues.

Net operating revenues generated directly from the Medicare program from all segments represented approximately 36%, 45% and 46% of net operating revenues for the years ended December 31, 2015, 2014 and 2013, respectively. Approximately 55%, 57% and 59% of our specialty hospital revenues for the years ended December 31, 2015, 2014 and 2013, respectively, were received from the Medicare program.

Most of our specialty hospitals receive bi-weekly periodic interim payments from Medicare instead of being paid on an individual claim basis. Under a periodic interim payment methodology, Medicare estimates a hospital's claim volume based on historical trends and makes bi-weekly interim payments to us based on these estimates. Generally, twice a year per hospital, Medicare reconciles the differences between the actual claim data and the estimated payments. To the extent our actual hospital's experience is different from the historical trends used by Medicare to develop the estimate, the periodic interim payments will result in our being either temporarily over-paid or under-paid for our Medicare claims. At each balance sheet date, we record any aggregate under-payment as an account receivable or any aggregate over-payment as a payable to third-party payors on our balance sheet. The timing of when we receive our bi-weekly periodic interim payments, in relation to our balance sheet date, has an impact on our accounts receivable balance and our days sales outstanding as of the end of any reporting period.

Contractual Adjustments

Net operating revenues include amounts estimated by us to be reimbursable by Medicare and Medicaid under prospective payment systems and provisions of cost-reimbursement and other payment methods. In addition, we are reimbursed by non-governmental payors using a variety of payment methodologies. Amounts we receive for treatment of patients covered by these programs are generally less than the standard billing rates. Contractual allowances are calculated and recorded through our internally developed systems. In our specialty hospitals segment our billing system automatically calculates estimated Medicare reimbursement and associated contractual allowances. For non-governmental payors in our specialty hospitals segment, we either manually calculate the contractual allowance for each patient based upon the contractual provisions associated with the specific payor or where we have a relatively homogeneous patient population, we monitor individual payors' historical closed paid claims data and apply those payment rates to the existing patient population. The net payments are converted into per diem rates. The per diem rates are applied to unpaid patient days to determine the expected payment and a contractual adjustment is recorded to adjust the recorded amount to agree with the expected payment. Quarterly, we update our analysis of historical closed paid claims. In our outpatient rehabilitation and Concentra segments, we perform provision testing, using internally developed systems, whereby we monitor a payors' historical paid claims data and compare it against the associated gross charges. This difference is determined as a percentage of gross charges and is applied against gross billing revenue to determine the contractual allowances for the period. Additionally, these contractual percentages are applied against the gross receivables on the balance sheet to determine that adequate contractual reserves are maintained for the gross accounts receivables reported on the balance sheet. We account for any

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difference as additional contractual adjustments to gross revenues to arrive at net operating revenues in the period that the difference is determined. We believe the processes described above and used in recording our contractual adjustments have resulted in reasonable estimates determined on a consistent basis.

Allowance for Doubtful Accounts

Substantially all of our accounts receivable are related to providing healthcare services to patients. Collection of these accounts receivable is our primary source of cash and is critical to our financial performance. Our primary collection risks relate to non-governmental payors who insure these patients, and deductibles, co-payments and self-insured amounts owed by the patient. Deductibles, co-payments and self-insured amounts are an immaterial portion of our net accounts receivable balance. At December 31, 2015, deductibles, co-payments and self-insured amounts owed by patients accounted for approximately 1.2% of our net accounts receivable balance before doubtful accounts. Our general policy is to verify insurance coverage prior to the date of admission for a patient admitted to our specialty hospitals, or in the case of our outpatient rehabilitation clinics and Concentra medical centers, we verify insurance coverage prior to their first visit. Our estimate for the allowance for doubtful accounts is calculated by providing a reserve allowance based upon the age of an account balance. This method is based on our historical cash collections experience and is periodically assessed in light of any changes to such experience. Collections are impacted by the effectiveness of our collection efforts with non-governmental payors and regulatory or administrative disruptions with the fiscal intermediaries that pay our governmental receivables.

We estimate bad debts for total accounts receivable within each of our operating units. We believe our policies have resulted in reasonable estimates determined on a consistent basis. We have historically collected substantially all of our third-party insured receivables (net of contractual allowances) which include receivables from governmental agencies. Historically, there has not been a material difference between our bad debt allowances and the ultimate historical collection rates on accounts receivable. We review our overall reserve adequacy by monitoring historical cash collections as a percentage of net revenue less the provision for bad debts. Uncollected accounts are charged against the reserve when they are turned over to an outside collection agency, or when management determines that the balance is uncollectible, whichever occurs first.

The following table is an aging of our accounts receivable (after allowances for contractual adjustments but before doubtful accounts) as of the dates indicated (in thousands):

	Balance as of December 31,			
	2014		2015	
	0 - 180 Days	Over 180 Days	0 - 180 Days	Over 180 Days
Commercial insurance and other	$ 254,623	$ 46,556	$ 311,800	$ 51,507
Medicare and Medicaid	180,005	9,510	291,403	9,981
Total accounts receivable	$ 434,628	$ 56,066	$ 603,203	$ 61,488

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The approximate percentage of total accounts receivable (after allowance for contractual adjustments but before doubtful accounts) summarized by aging categories as of the dates indicated is as follows:

	As of December 31,	
	2014	**2015**
0 to 90 days	80.0%	81.4%
91 to 180 days	8.6%	9.6%
181 to 365 days	6.3%	4.8%
Over 365 days	5.1%	4.2%
Total	100.0%	100.0%

The approximate percentage of total accounts receivable (after allowance for contractual adjustments but before doubtful accounts) summarized by insured status as of the dates indicated is as follows:

	As of December 31,	
	2014	**2015**
Commercial insurance and other	61.2%	68.5%
Medicare and Medicaid	38.6%	30.3%
Self-pay receivables (including deductibles and co-payments)	0.2%	1.2%
Total	100.0%	100.0%

Insurance

Under a number of our insurance programs, which include our employee health insurance program and certain components under our property and casualty insurance program, we are liable for a portion of our losses. In these cases we accrue for our losses under an occurrence based principle whereby we estimate the losses that will be incurred by us in a given accounting period and accrue that estimated liability. We utilize actuarial methods in estimating the losses. We monitor these programs quarterly and revise our estimates as necessary to take into account additional information. At December 31, 2015 and December 31, 2014, we recorded a liability of $157.4 million and $101.9 million, respectively, for our estimated losses under these insurance programs.

Related Party Transactions

We are party to various rental and other agreements with companies affiliated with us through common ownership. Our payments to these related parties amounted to $4.7 million, $4.4 million and $4.2 million for the years ended December 31, 2015, 2014 and 2013, respectively. Our future commitments are related to commercial office space we lease for our corporate headquarters in Mechanicsburg, Pennsylvania. These future commitments as of December 31, 2015 amount to $31.0 million through 2023. These transactions and commitments are described more fully in the notes to our consolidated financial statements included herein. Our practice is that any such transaction must receive the prior approval of both the audit and compliance committee of the board of directors and a majority of non-interested members of the board of directors. It is our practice that an independent third-party appraisal supporting the amount of rent for such leased space is obtained prior to approving the related party lease of office space.

During the year ended December 31, 2014, 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.

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We also provide contracted services, principally employee leasing services and charge management fees to related parties affiliated through our equity investments. Net operating revenues generated from the provision of contracted services and management fees amounted to $146.0 million, $129.3 million and $110.1 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Goodwill and Other Intangible Assets

On February 24, 2005, EGL Acquisition Corp., a subsidiary of Holdings, was merged with and into Select, with Select continuing as the surviving corporation and a wholly owned subsidiary of Holdings. We refer to the merger and the related transactions collectively as the "Merger." As a result of the Merger, the majority of Select's assets and liabilities were adjusted to their fair value as of February 25, 2005. The excess of the total purchase price over the fair value of Select's tangible and identifiable intangible assets was allocated to goodwill. Additionally, a portion of the equity related to our continuing stockholders was recorded at the stockholder's predecessor basis and a corresponding portion of the fair value of the acquired assets was reduced accordingly.

Goodwill and certain other indefinite-lived intangible assets are subject to periodic impairment evaluations. For purposes of goodwill impairment assessment, we have defined our reporting units as specialty hospitals, outpatient rehabilitation clinics, contract therapy, and Concentra. 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. Our most recent impairment assessment was completed during the fourth quarter of 2015, which indicated that there was no impairment with respect to goodwill or other recorded intangible assets. We have recorded total goodwill and other intangible assets of $2.6 billion, of which goodwill and other intangible assets of $1.4 billion relates to our specialty hospitals reporting unit, $869.2 billion relates to the Concentra reporting unit, $337.0 million relates to our outpatient clinic reporting unit, and $2.3 million relates to our contract therapy reporting unit. In performing periodic impairment tests, the fair value of the reporting unit is compared to the carrying value, including goodwill and other intangible assets. If the carrying value exceeds the fair value, an impairment condition exists, which results in an impairment loss equal to the excess carrying value. 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 and adversely affecting our results of operations.

Regulatory changes governing the provision of our services in our specialty hospitals, outpatient rehabilitation, and Concentra segments and development activities can have both positive and negative effects on our results of operations and future cash flows which impact the fair value of our reporting units. The excess fair value, as a percentage of carrying value, of our specialty hospitals reporting unit was approximately 39.6%, 37.6% and 10.4% as of October 1, 2015, 2014 and 2013, respectively. The fair value of our outpatient rehabilitation clinics and our contract therapy reporting units significantly exceeded the carrying values of each of those corresponding reporting units as of October 1, 2015, 2014 and 2013. The fair value of our Concentra reporting unit approximated the carrying value as of October 1, 2015.

To determine the fair value of our reporting units, we use a discounted cash flow approach. Included in the discounted cash flow are assumptions regarding revenue growth rates, internal development of specialty hospitals, rehabilitation clinics, and Concentra medical centers, future Adjusted EBITDA margin estimates, future general and administrative expenses and the weighted average cost of capital for our industry. We also must estimate residual values at the end of the forecast period and future capital expenditure requirements. Each of these assumptions requires us to use our knowledge of (1) our industry, (2) our recent transactions, and (3) reasonable performance expectations for our operations. If any one of

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the above assumptions changes or fails to materialize, the resulting decline in our estimated fair value could result in a material impairment charge to the goodwill associated with any one of the reporting units. We have consistently applied the discounted cash flow approach methodology to determine the fair value of each of our reporting units at each annual impairment test dated October 1, 2015, 2014 and 2013.

Realization of Deferred Tax Assets

Deferred tax assets and liabilities are required to be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. Deferred tax assets are also required to be 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 our consolidated financial statements, we estimate our income taxes based on our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. We also recognize as deferred tax assets the future tax benefits from net operating loss carry forwards. We evaluate 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 our 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. However, changes in tax codes, statutory tax rates or future taxable income levels could materially impact our valuation of tax accruals and assets and could cause our provision for income taxes to vary significantly from period to period.

At December 31, 2015, we had deferred tax liabilities in excess of deferred tax assets of approximately $190.1 million for both Holdings and Select principally due to depreciation deductions that have been accelerated for tax purposes. This amount includes approximately $7.6 million of valuation reserves related primarily to state net operating losses.

Uncertain Tax Positions

We record and review quarterly our uncertain tax positions. 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. While we believe that our reserves for uncertain tax positions are adequate, the settlement of any such exposures at amounts that differ from current reserves may require us to materially increase or decrease our reserves for uncertain tax positions.

Stock Based Compensation

We measure the compensation costs of share-based compensation arrangements based on the grant-date fair value and recognize the costs in the financial statements over the period during which employees are required to provide services. Our share-based compensation arrangements comprise both stock options and restricted share plans. We value employee stock options using the Black-Scholes option valuation method that uses assumptions that relate to the expected volatility of our common stock, the expected dividend yield of our stock, the expected life of the options and the risk free interest rate. Such compensation amounts, if any, are recognized over the respective vesting periods or period of service of the option grant. We value restricted stock grants by using the closing market price of our stock on the date of grant.

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Operating Statistics

The following tables set forth operating statistics for each of our operating segments for each of the periods presented. The operating statistics reflect data for the period of time these operations were managed by us.

	Year Ended December 31, 2013	Year Ended December 31, 2014	Year Ended December 31, 2015
Specialty hospitals data:[1]			
Number of hospitals owned start of period	116	115	120
Number of hospital start-ups		7	2
Number of hospitals acquired	1	1	1
Number of hospitals closed/sold	(2)	(3)	(5)
Number of hospitals owned end of period	115	120	118
Number of hospitals managed end of period	8	9	9
Total number of hospitals (all) end of period	123	129	127
Long term acute care hospitals	108	113	109
Rehabilitation hospitals	15	16	18
Available licensed beds[2]	5,172	5,326	5,172
Admissions[2]	55,729	55,581	56,570
Patient days[2]	1,353,847	1,340,506	1,373,780
Average length of stay (days)[2]	24	24	24
Net revenue per patient day[2][3]	$ 1,514	$ 1,546	$ 1,569
Occupancy rate[2]	72%	70%	72%
Percent patient days Medicare[2]	64%	63%	60%
Outpatient rehabilitation data:			
Number of clinics owned start of period	867	885	880
Number of clinic start-ups	27	18	34
Number of clinics acquired	5	14	7
Number of clinics closed/sold	(14)	(37)	(25)
Number of clinics owned end of period	885	880	896
Number of clinics managed end of period	121	143	142
Total number of clinics (all) end of period	1,006	1,023	1,038
Number of visits[2]	4,780,723	4,970,724	5,218,532
Net revenue per visit[2][4]	$ 104	$ 103	$ 103
Concentra data:[5]			
Number of medical centers owned start of period			
Number of medical centers acquired			300
Number of medical centers owned end of period			300
Number of visits[6]			4,436,977
Net revenue per visit[6][7]			$ 114

(1) Specialty hospitals consist of LTCHs and IRFs.

(2) Data excludes specialty hospitals and outpatient clinics managed by the Company.

(3) Net revenue per patient day is calculated by dividing specialty hospital direct patient service revenues by the total number of patient days.

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(4) Net revenue per visit is calculated by dividing outpatient rehabilitation clinic direct patient service revenue by the total number of visits. For purposes of this computation, outpatient rehabilitation direct patient service clinic revenue does not include contract therapy revenue.

(5) 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.

(6) Data excludes onsite clinics and CBOCs.

(7) Net revenue per visit is calculated by dividing center direct patient service revenue by the total number of center visits.

Results of Operations

The following table outlines, for the periods indicated, selected operating data as a percentage of net operating revenues:

	Select Medical Holdings Corporation		
	Year Ended December 31, 2013	Year Ended December 31, 2014	Year Ended December 31, 2015
Net operating revenues	100.0%	100.0%	100.0%
Cost of services[1]	83.8	84.2	85.8
General and administrative	2.6	2.8	2.5
Bad debt expense	1.3	1.5	1.6
Depreciation and amortization	2.2	2.2	2.8
Income from operations	10.1	9.3	7.3%
Loss on early retirement of debt	(0.6)	(0.0)	
Equity in earnings of unconsolidated subsidiaries	0.1	0.2	0.4
Gain on sale of equity investment			0.8
Interest expense, net	(2.9)	(2.8)	(2.9)
Income before income taxes	6.7	6.7	5.6
Income tax expense	2.6	2.5	2.0
Net income	4.1	4.2	3.6
Net income attributable to non-controlling interests	0.3	0.3	0.1
Net income attributable to Holdings	3.8%	3.9%	3.5%

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	Select Medical Corporation		
	Year Ended December 31, 2013	Year Ended December 31, 2014	Year Ended December 31, 2015
Net operating revenues	100.0%	100.0%	100.0%
Cost of services[1]	83.8	84.2	85.8
General and administrative	2.6	2.8	2.5
Bad debt expense	1.3	1.5	1.6
Depreciation and amortization	2.2	2.2	2.8
Income from operations	10.1	9.3	7.3%
Loss on early retirement of debt	(0.6)	(0.0)	
Equity in earnings of unconsolidated subsidiaries	0.1	0.2	0.4
Gain on sale of equity investment			0.8
Interest expense, net	(2.8)	(2.8)	(2.9)
Income before income taxes	6.8	6.7	5.6
Income tax expense	2.6	2.5	2.0
Net income	4.2	4.2	3.6
Net income attributable to non-controlling interests	0.3	0.3	0.1
Net income attributable to Select	3.9%	3.9%	3.5%

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The following tables summarize the Company's selected financial data by business segment, for the periods indicated:

	Year Ended December 31, 2013	Year Ended December 31, 2014	Year Ended December 31, 2015	% Change 2013 - 2014	% Change 2014 - 2015
			(In thousands)		
Net operating revenues:					
Specialty hospitals	$ 2,198,121	$ 2,244,899	$ 2,346,781	2.1%	4.5%
Outpatient rehabilitation	777,177	819,397	810,009	5.4	(1.1)
Concentra[2]			585,222	N/A	N/A
Other[3]	350	721	724	106.0	0.4
Total company	$ 2,975,648	$ 3,065,017	$ 3,742,736	3.0%	22.1%
Income (loss) from operations:					
Specialty hospitals	$ 305,222	$ 290,001	$ 273,631	(5.0)%	(5.6)%
Outpatient rehabilitation	78,289	84,739	85,167	8.2	0.5
Concentra[2]			8,926	N/A	N/A
Other[3]	(82,075)	(90,264)	(92,934)	(10.0)	(3.0)
Total company	$ 301,436	$ 284,476	$ 274,790	(5.6)%	(3.4)%
Adjusted EBITDA:[4]					
Specialty hospitals	$ 353,843	$ 341,787	$ 327,623	(3.4)%	(4.1)%
Outpatient rehabilitation	90,313	97,584	98,220	8.1	0.7
Concentra[2]			48,301	N/A	N/A
Other[3]	(71,295)	(75,499)	(74,979)	(5.9)	0.7
Total company	$ 372,861	$ 363,872	$ 399,165	(2.4)%	9.7%
Adjusted EBITDA margins:[4]					
Specialty hospitals	16.1%	15.2%	14.0%		
Outpatient rehabilitation	11.6	11.9	12.1		
Concentra[2]			8.3		
Other[3]	N/M	N/M	N/M		
Total company	12.5%	11.9%	10.7%		
Total assets:					
Specialty hospitals	$ 2,205,921	$ 2,279,665	$ 2,425,113		
Outpatient rehabilitation	512,539	532,685	548,242		
Concentra[2]			1,331,837		
Other[3]	99,162	112,459	121,474		
Total company	$ 2,817,622	$ 2,924,809	$ 4,426,666		

Purchases of property and equipment, net:			
Specialty hospitals	$ 56,523	$ 77,742	$ 126,014
Outpatient rehabilitation	14,113	12,506	17,768
Concentra[2]			26,771
Other[3]	3,024	4,998	12,089
Total company	$ 73,660	$ 95,246	$ 182,642

N/M Not Meaningful.

N/A Not Applicable

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(1) Cost of services includes salaries, wages and benefits, operating supplies, lease and rent expense and other operating costs.

(2) Concentra's financial results are consolidated with Select's effective June 1, 2015.

(3) Other includes our corporate services and certain other non-consolidating joint ventures and minority investments in other healthcare related businesses.

(4) We define Adjusted EBITDA 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. We believe that the presentation of Adjusted EBITDA is important to investors because Adjusted EBITDA is commonly used as an analytical indicator of performance by investors within the healthcare industry. Adjusted EBITDA is used by management to evaluate financial performance and determine resource allocation for each of our operating units. Adjusted EBITDA is not a measure of financial performance under generally accepted accounting principles. Items excluded from Adjusted EBITDA are significant components in understanding and assessing financial performance. Adjusted EBITDA should not be considered in isolation or as an alternative to, or substitute for, net income, cash flows generated by operations, investing or financing activities, or other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity. Because Adjusted EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, Adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies.

Following is a reconciliation of net income to Adjusted EBITDA as utilized by us in reporting our segment performance.

	Select Medical Holdings Corporation		
	Year Ended December 31,		
	2013	2014	2015
	(In thousands)		
Net income	$ 123,009	$ 128,175	$ 135,996
Income tax expense	74,792	75,622	72,436
Loss on early retirement of debt	18,747	2,277	
Gain on sale of equity investment			(29,647)
Interest expense	87,364	85,446	112,816
Equity in earnings of unconsolidated subsidiaries	(2,476)	(7,044)	(16,811)
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
Depreciation and amortization	64,392	68,354	104,981
Concentra acquisition costs			4,715
Adjusted EBITDA	$ 372,861	$ 363,872	$ 399,165

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	Select Medical Corporation		
	Year Ended December 31,		
	2013	2014	2015
	(In thousands)		
Net income	$ 125,199	$ 128,175	$ 135,996
Income tax expense	75,971	75,622	72,436
Loss on early retirement of debt	17,788	2,277	
Gain on sale of equity investment			(29,647)
Interest expense	84,954	85,446	112,816
Equity in earnings of unconsolidated subsidiaries	(2,476)	(7,044)	(16,811)
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
Depreciation and amortization	64,392	68,354	104,981
Concentra acquisition costs			4,715
Adjusted EBITDA	$ 372,861	$ 363,872	$ 399,165

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

In the following, we discuss our results of operations related to net operating revenues, operating expenses, Adjusted EBITDA, depreciation and amortization, income from operations, loss on early retirement of debt, equity in earnings of unconsolidated subsidiaries, gain on sale of equity investment, interest expense, income taxes, and non-controlling interest, which, in each case, are the same for Holdings and Select.

Net Operating Revenues

Our net operating revenues increased by $677.7 million to $3,742.7 million for the year ended December 31, 2015 compared to $3,065.0 million for the year ended December 31, 2014.

Specialty Hospitals. Our specialty hospitals segment net operating revenues increased 4.5% to $2,346.8 million for the year ended December 31, 2015 compared to $2,244.9 million for the year ended December 31, 2014. The segment experienced growth in its patient services revenues which resulted from increases in patient days and an increase in our net revenues per patient day. Patient days increased to 1,373,780 days for the year ended December 31, 2015, as compared to 1,340,506 days for the year ended December 31, 2014. The average net revenue per patient day increased to $1,569 for the year ended December 31, 2015, compared to $1,546 for the year ended December 31, 2014, due to increases in both our Medicare and non-Medicare net revenue per patient day. The occupancy percentage was 72% for the year ended December 31, 2015, compared to 70% for the year ended December 31, 2014.

Outpatient Rehabilitation. Our outpatient rehabilitation segment net operating revenues decreased to $810.0 million for the year ended December 31, 2015 compared to $819.4 million for the year ended December 31, 2014. This decrease resulted from a reduction in net operating revenues at our contract therapy business, offset in part by increases in net operating revenues at our outpatient rehabilitation clinics. The net operating revenues generated by our outpatient rehabilitation clinics for the year ended December 31, 2015 increased 5.3% compared to the year ended December 31, 2014. This growth was principally due to a 5.0% increase in visits to 5,218,532 at our owned clinics. Net revenue per visit in our owned outpatient rehabilitation clinics was $103 for both the years ended December 31, 2015 and 2014. The net operating revenues generated by our contract therapy business for the year ended December 31, 2015 decreased $42.3 million compared to the year ended December 31, 2014, which principally resulted from contract terminations.

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Concentra Segment. For the period from June 1, 2015 to December 31, 2015, net operating revenues were $585.2 million, visits were 4,436,977 in the medical centers, and net revenue per visit was $114.

Operating Expenses

Our operating expenses include our cost of services, general and administrative expense and bad debt expense. Our operating expenses increased by $650.8 million to $3,363.0 million, or 89.9% of net operating revenues for the year ended December 31, 2015 compared to $2,712.2 million, or 88.5% of net operating revenues for the year ended December 31, 2014, principally due to the acquisition of Concentra on June 1, 2015. Our cost of services, a major component of which is labor expense, was $3,211.5 million, or 85.8% of net operating revenues for the year ended December 31, 2015 compared to $2,582.3 million, or 84.2% of net operating revenues for the year ended December 31, 2014. Approximately half of the increase in cost of services as a percent of net operating revenues resulted from the addition of Concentra which operated with a higher relative cost of services percentage to net operating revenues during the year ended December 31, 2015 as compared to the relative cost of services percentage to net operating revenues experienced overall by Select in the year ended December 31, 2015. The other half of the increase occurred in our specialty hospitals segment and resulted principally from non-recurring increases in labor costs associated with several training initiatives, including training to prepare for the adoption of patient criteria and incremental costs resulting from a higher staff turnover rate for the year ended December 31, 2015 as compared to 2014. Facility rent expense, a component of cost of services, was $135.1 million for the year ended December 31, 2015 compared to $128.7 million for the year ended December 31, 2014. General and administrative expenses were $92.1 million for the year ended December 31, 2015 compared to $85.2 million for the year ended December 31, 2014 and as a percentage of net operating revenues were 2.5% and 2.8% for the year ended December 31, 2015 and 2014, respectively. The increase in general and administrative expenses resulted primarily from Concentra acquisition costs of $4.7 million. Our bad debt expense was $59.4 million or 1.6% of net operating revenues for the year ended December 31, 2015 compared to $44.6 million or 1.5% of net operating revenues for the year ended December 31, 2014. This is principally a result of higher relative bad debt expense in our specialty hospitals segment compared to the year ended December 31, 2014, and at Concentra.

Adjusted EBITDA

Specialty Hospitals. Adjusted EBITDA for our specialty hospitals decreased to $327.6 million for the year ended December 31, 2015 compared to $341.8 million for the year ended December 31, 2014. Our Adjusted EBITDA margin for the segment was 14.0% for the year ended December 31, 2015 compared to 15.2% for the year ended December 31, 2014. The decline in Adjusted EBITDA and Adjusted EBITDA margin for our specialty hospitals segment was attributable to increases in our cost of services and bad debt expense as discussed above under "*Operating Expenses*."

Outpatient Rehabilitation. Our Adjusted EBITDA for our outpatient rehabilitation segment increased 0.7% to $98.2 million for the year ended December 31, 2015 compared to $97.6 million for the year ended December 31, 2014. Our Adjusted EBITDA margin for the outpatient rehabilitation segment was 12.1% for the year ended December 31, 2015 compared to 11.9% for the year ended December 31, 2014. The Adjusted EBITDA in our outpatient rehabilitation clinics increased by $7.4 million for the year ended December 31, 2015 compared to the year ended December 31, 2014. The increase in Adjusted EBITDA for our outpatient rehabilitation clinics was principally the result of increases in net operating revenues as discussed above under "*Net Operating Revenues*." Our Adjusted EBITDA margin for our outpatient rehabilitation clinics was 13.8% for the year ended December 31, 2015 compared to 13.3% for the year ended December 31, 2014. Our contract therapy business experienced a decrease in Adjusted EBITDA of $6.8 million, compared to the year ended December 31, 2014, which principally resulted from contract terminations as discussed above under "Net Operating Revenues."

Concentra Segment. For the period June 1, 2015 to December 31, 2015, Adjusted EBITDA was $48.3 million and the Adjusted EBITDA margin for the segment was 8.3%.

Other. The Adjusted EBITDA loss was $75.0 million for the year ended December 31, 2015 compared to an Adjusted EBITDA loss of $75.5 million for the year ended December 31, 2014.

Depreciation and Amortization

Depreciation and amortization expense was $105.0 million, including $33.6 million in our Concentra segment, for the year ended December 31, 2015, compared to $68.4 million for the year ended December 31, 2014.

Income from Operations

For the year ended December 31, 2015, we had income from operations of $274.8 million compared to $284.5 million for the year ended December 31, 2014. The decrease in our income from operations resulted principally from increases in operating expenses at our specialty hospitals segment, as discussed above under "*Operating Expenses*," and was offset in part by the incremental contribution from of our Concentra segment since June 1, 2015.

Loss on Early Retirement of Debt

On March 4, 2014, we amended the Select term loans. During the year ended December 31, 2014, we recognized a loss of $2.3 million for unamortized debt issuance costs, unamortized original issue discount and certain fees incurred related to the Select term loan modifications.

Equity in Earnings of Unconsolidated Subsidiaries

For the year ended December 31, 2015, we had equity in earnings of unconsolidated subsidiaries of $16.8 million compared to equity in earnings of unconsolidated subsidiaries of $7.0 million for the year ended December 31, 2014. The increase in our equity in earnings of unconsolidated subsidiaries resulted from increased earnings associated with several of our inpatient rehabilitation joint ventures and improved financial results at the start-up companies in which we own a non-controlling interest.

Gain on Sale of Equity Investment

For the year ended December 31, 2015, we had a gain on the sale of an equity investment of $29.6 million. The equity investment was a start-up company investment in which we owned a non-controlling interest.

Interest Expense

Interest expense was $112.8 million for the year ended December 31, 2015 compared to $85.4 million for the year ended December 31, 2014. The increase in interest expense was principally due to increases in our indebtedness to finance the Concentra acquisition.

Income Taxes

We recorded income tax expense of $72.4 million for the year ended December 31, 2015, which represented an effective tax rate of 34.8%. We recorded income tax expense of $75.6 million for the year ended December 31, 2014, which represented an effective tax rate of 37.1%. The decrease in the effective tax rate has resulted principally from the resolution of uncertain tax positions.

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Non-Controlling Interests

Non-controlling interests in consolidated earnings were $5.3 million for the year ended December 31, 2015 and $7.5 million for the year ended December 31, 2014. These amounts represent the minority owner's share of income and losses in consolidated entities, such as Concentra, in which our ownership is less than 100.0%. The decrease was principally caused by net losses in our Concentra segment for the year ended December 31, 2015, which offset positive net income from other consolidated entities.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

In the following, we discuss our results of operations related to net operating revenues, operating expenses, Adjusted EBITDA, income from operations, equity in earnings of unconsolidated subsidiaries, and non-controlling interest, which in each case, are the same for both Holdings and Select. In addition, we discuss separately for Holdings and Select changes related to loss on early retirement of debt, interest expense, and income taxes.

Net Operating Revenues

Our net operating revenues increased by 3.0% to $3,065.0 million for the year ended December 31, 2014 compared to $2,975.6 million for the year ended December 31, 2013.

Specialty Hospitals. Our specialty hospitals segment net operating revenues increased 2.1% to $2,244.9 million for the year ended December 31, 2014 compared to $2,198.1 million for the year ended December 31, 2013. We experienced growth in our net operating revenues primarily resulting from increases in our patient services revenues in our specialty hospitals and the expansion of contracted labor services provided to certain of our non-consolidated joint ventures. Our patient services revenues increased principally due to an increase in our average net revenue per patient day, offset in part by a decrease in patient days. Our average net revenue per patient day increased to $1,546 for the year ended December 31, 2014 compared to $1,514 for the year ended December 31, 2013, primarily driven by an increase in our average Medicare net revenue per patient day. Our Medicare revenues per patient day increased despite a reduction in our Medicare net operating revenue due to the Sequestration Reduction of $28.2 million for the year ended December 31, 2014 compared to $22.8 million for the year ended December 31, 2013. Our patient days decreased 1.0% to 1,340,506 days for the year ended December 31, 2014 as compared to 1,353,847 days for the year ended December 31, 2013. Our occupancy percentage was 70% for the year ended December 31, 2014 compared to 72% for the year ended December 31, 2013.

Outpatient Rehabilitation. Our outpatient rehabilitation segment net operating revenues increased 5.4% to $819.4 million for the year ended December 31, 2014 compared to $777.2 million for the year ended December 31, 2013. This increase resulted from a growth in patient visits and the expansion of contracted management services in our outpatient rehabilitation clinic business and growth in our contract therapy business. The net operating revenues generated by our outpatient rehabilitation clinics for the year ended December 31, 2014 increased 5.0% compared to the year ended December 31, 2013. Our growth was principally due to a 4.0% increase in visits to 4,970,724 at our owned clinics and additional contracted management service revenue at our managed clinics for the year ended December 31, 2014 compared to the year ended December 31, 2013. Net revenue per visit in our owned outpatient rehabilitation clinics was $103 for the year ended December 31, 2014 compared to $104 for the year ended December 31, 2013. The net operating revenues generated by our contract therapy business for the year ended December 31, 2014 increased 6.9% compared to the year ended December 31, 2013, which principally resulted from new contracts and expansion of services of existing contracts, which more than offset reductions from terminated contracts. Growth at our outpatient rehabilitation segment was offset in part by a reduction in our net operating revenues caused by the Sequestration Reduction of $1.8 million and the MPPR Reduction of $9.2 million for the year ended December 31, 2014 compared to a Sequestration Reduction of $1.1 million and the MPPR Reduction of $5.7 million for the year ended December 31, 2013.

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Operating Expenses

Our operating expenses include our cost of services, general and administrative expense and bad debt expense. Our operating expenses increased by $102.4 million to $2,712.2 million, or 88.5% of net operating revenues for the year ended December 31, 2014 compared to $2,609.8 million, or 87.7% of net operating revenues for the year ended December 31, 2013. Our cost of services, a major component of which is labor expense, was $2,582.3 million, or 84.2% of net operating revenues for the year ended December 31, 2014 compared to $2,495.5 million, or 83.8% of net operating revenues for the year ended December 31, 2013. The principal causes of the increases in cost of services as a percentage of net operating revenues resulted from incremental start-up costs associated with new and recently expanded specialty hospitals and an increase in labor costs to provide contracted services to certain of our non-consolidated joint ventures. Facility rent expense, a component of cost of services, was $128.7 million for the year ended December 31, 2014 compared to $123.7 million for the year ended December 31, 2013. General and administrative expenses were $85.2 million for the year ended December 31, 2014 compared to $76.9 million for the year ended December 31, 2013 and as a percentage of net operating revenues were 2.8% and 2.6% for the year ended December 31, 2014 and 2013, respectively. The growth in general and administrative expenses as a percentage of net operating revenues resulted primarily from increased stock compensation expense and healthcare costs. Our bad debt expense was $44.6 million or 1.5% of net operating revenues for the year ended December 31, 2014 compared to $37.4 million or 1.3% of net operating revenues for the year ended December 31, 2013. The increase in bad debt expense occurred principally in our specialty hospitals segment.

Adjusted EBITDA

Specialty Hospitals. Adjusted EBITDA for our specialty hospitals segment decreased 3.4% to $341.8 million for the year ended December 31, 2014 compared to $353.8 million for the year ended December 31, 2013. Our Adjusted EBITDA margin for the segment was 15.2% for the year ended December 31, 2014 compared to 16.1% for the year ended December 31, 2013. The decrease in Adjusted EBITDA and Adjusted EBITDA margin for our specialty hospitals segment was principally the result of incremental start-up costs of $14.5 million associated with new and recently expanded specialty hospitals, the Sequestration Reduction, as discussed above under "*Net Operating Revenues,*" and an increase in bad debt expense, discussed above under *"Operating Expenses."*

Outpatient Rehabilitation. Our Adjusted EBITDA for our outpatient rehabilitation segment increased 8.1% to $97.6 million for the year ended December 31, 2014 compared to $90.3 million for the year ended December 31, 2013. Our Adjusted EBITDA margin for the outpatient rehabilitation segment was 11.9% for the year ended December 31, 2014 compared to 11.6% for the year ended December 31, 2013. The Adjusted EBITDA in our outpatient rehabilitation clinics increased by $5.7 million for the year ended December 31, 2014 compared to the year ended December 31, 2013. The increase in Adjusted EBITDA for our outpatient rehabilitation clinics was principally the result of our growth in net operating revenues as discussed above under "*Net Operating Revenues*." Our Adjusted EBITDA margin for our outpatient rehabilitation clinics was 13.3% for the year ended December 31, 2014 compared to 13.0% for the year ended December 31, 2013. Our contract therapy business experienced an increase in Adjusted EBITDA of $1.5 million compared to the year ended December 31, 2013, which principally resulted from revenue growth, as discussed above under *"Net Operating Revenues."*

Other. The Adjusted EBITDA loss was $75.5 million for the year ended December 31, 2014 compared to an Adjusted EBITDA loss of $71.3 million for the year ended December 31, 2013.

Income from Operations

For the year ended December 31, 2014, we had income from operations of $284.5 million compared to $301.4 million for the year ended December 31, 2013. The decrease in our income from operations

resulted principally from incremental start-up costs associated with new and recently expanded specialty hospitals, the Sequestration Reduction and MPPR Reduction, as discussed above under "*Net Operating Revenues,*" and an increase in bad debt expense, discussed above under *"Operating Expenses."*

Loss on Early Retirement of Debt

Select Medical Corporation. On March 4, 2014, we amended the Select term loans. During the year ended December 31, 2014, we recognized a loss of $2.3 million for unamortized debt issuance costs, unamortized original issue discount and certain fees incurred related to the Select term loan modifications.

On May 28, 2013, we repaid a portion of Select's original term loan and series A term loan under the Select credit facilities, and on June 3, 2013, we amended the Select credit facilities. During the year ended December 31, 2013, we recognized a loss of $17.3 million for unamortized debt issuance costs, unamortized original issue discount and certain debt issuance costs associated with these refinancing activities.

On March 22, 2013, we redeemed Select's 7⁵/₈% senior subordinated notes due 2015. During the year ended December 31, 2013, we recognized a loss on early retirement of debt of $0.5 million for unamortized debt issuance costs associated with Select's redemption of its 7⁵/₈% senior subordinated notes due 2015.

Select Medical Holdings Corporation. On March 4, 2014, we amended Select's term loans under the Select credit facilities. During the year ended December 31, 2014, we recognized a loss of $2.3 million for unamortized debt issuance costs, unamortized original issue discount and certain fees incurred related to the Select term loan modifications.

On May 28, 2013, we repaid a portion of Select's original term loan and series A term loan under the Select credit facilities, and on June 3, 2013, we amended the Select credit facilities. During the year ended December 31, 2013, we recognized a loss of $17.3 million for unamortized debt issuance costs, unamortized original issue discount and certain debt issuance costs associated with these refinancing activities.

On March 22, 2013, we redeemed Select's 7⁵/₈% senior subordinated notes due 2015 and redeemed Holdings' senior floating rate notes due 2015. During the year ended December 31, 2013, we recognized a loss on early retirement of debt of $1.5 million for unamortized debt issuance costs of which approximately $0.5 million was associated with Select's redemption of its 7⁵/₈% senior subordinated notes due 2015 and approximately $1.0 million was associated with Holdings' redemption of its senior floating rate notes due 2015.

Equity in Earnings of Unconsolidated Subsidiaries

For the year ended December 31, 2014, we had equity in earnings of unconsolidated subsidiaries of $7.0 million compared to equity in earnings of unconsolidated subsidiaries of $2.5 million for the year ended December 31, 2013. The principal increase in our equity in earnings of unconsolidated subsidiaries resulted from the earnings associated with several of our inpatient rehabilitation joint ventures in which we own a non-controlling interest.

Interest Expense

Select Medical Corporation. Interest expense was $85.4 million for the year ended December 31, 2014 compared to $85.0 million for the year ended December 31, 2013. The increase in interest expense was principally due to increases in our indebtedness.

Select Medical Holdings Corporation. Interest expense was $85.4 million for the year ended December 31, 2014 compared to $87.4 million for the year ended December 31, 2013. The decrease in interest expense was principally due to lower interest rates on borrowings during year ended December 31, 2014.

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Income Taxes

Select Medical Corporation. We recorded income tax expense of $75.6 million for the year ended December 31, 2014. The expense represented an effective tax rate of 37.1%. We recorded income tax expense of $76.0 million for the year ended December 31, 2013. The expense represented an effective tax rate of 37.8%. Select is part of the consolidated federal tax return for Holdings. We allocate income taxes between Select and Holdings for purposes of financial statement presentation. Because Holdings is a passive investment company incorporated in Delaware, it does not incur any state income tax expense or benefit on its specific income or loss and, as such, receives a tax allocation equal to the federal statutory rate of 35% on its specific income or loss. Based upon the relative size of Holdings' income or loss, this can cause the effective tax rate for Select to differ from the effective tax rate for the consolidated company.

Select Medical Holdings Corporation. We recorded income tax expense of $75.6 million for the year ended December 31, 2014, which represented an effective tax rate of 37.1%. We recorded income tax expense of $74.8 million for the year ended December 31, 2013, which represented an effective tax rate of 37.8%. The decrease in the effective tax rate has resulted principally from a decrease in our state effective tax rate that has resulted from a lower proportion of our income being generated in states with higher tax rates, lower state tax rates in certain states, a decrease in non-deductible expenses and the favorable effect of IRS settlements.

Non-Controlling Interests

Non-controlling interests in consolidated earnings were $7.5 million for the year ended December 31, 2014 and $8.6 million for the year ended December 31, 2013. These amounts represent the minority owner's share of income and losses for these consolidated entities.

Liquidity and Capital Resources

Years Ended December 31, 2013, 2014 and 2015

	Select Medical Holdings Corporation			Select Medical Corporation		
	Year Ended December 31,			Year Ended December 31,		
	2013	2014	2015	2013	2014	2015
	(In thousands)			(In thousands)		
Cash flows provided by operating activities	$ 192,523	$ 170,642	$ 208,415	$ 198,102	$ 170,642	$ 208,415
Cash flows used in investing activities	(107,306)	(101,091)	(1,211,754)	(107,306)	(101,091)	(1,211,754)
Cash flows provided by (used in) financing activities	(121,042)	(70,516)	1,014,420	(126,621)	(70,516)	1,014,420
Net increase (decrease) in cash and cash equivalents	(35,825)	(965)	11,081	(35,825)	(965)	11,081
Cash and cash equivalents at beginning of period	40,144	4,319	3,354	40,144	4,319	3,354
Cash and cash equivalents at end of period	$ 4,319	$ 3,354	$ 14,435	$ 4,319	$ 3,354	$ 14,435

Operating activities for Holdings and Select provided $208.4 million of cash flows for the year ended December 31, 2015. The increase in operating cash flows for both Holdings and Select for the year ended

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December 31, 2015 compared to the year ended December 31, 2014 is principally due to the addition of Concentra.

Operating activities for Holdings and Select provided $170.6 million of cash flows for the year ended December 31, 2014. The decrease in operating cash flows for both Holdings and Select for the year ended December 31, 2014 compared to the year ended December 31, 2013 is principally due to reductions in our income from operations as discussed above under "Year Ended December 31, 2014 Compared to Year Ended December 31, 2013 *Income from Operations*" and decrease in the turnover of our accounts receivable.

Our days sales outstanding were 53 days at December 31, 2015, 53 days at December 31, 2014, and 48 days at December 31, 2013. Our days sales outstanding will fluctuate based upon variability in our collection cycles. Our days sales outstanding at December 31, 2015, 2014 and 2013 all fall within our normal range for accounts receivable turnover.

The operating cash flow of Select exceeds the operating cash flow of Holdings by $5.6 million for the year ended December 31, 2013. The difference relates to interest payments on Holdings' indebtedness, which indebtedness was repaid in 2013.

Investing activities used $1,211.8 million, $101.1 million and $107.3 million of cash flow for the years ended December 31, 2015, 2014 and 2013, respectively. For the year ended December 31, 2015, the principal use of cash related to the Concentra acquisition costs of $1,047.2 million and $182.6 million for purchases of property and equipment, offset in part by the proceeds from the sale of an equity investment. For the year ended December 31, 2014, the principal use of cash was for purchases of property and equipment of $95.2 million. For the year ended December 31, 2013, the principal use of cash was for purchases of property and equipment of $73.7 million and equity investments in unconsolidated businesses of $34.9 million.

Financing activities provided $1,014.4 million of cash flow for the year ended December 31, 2015. Cash was principally provided from $235.0 million of net borrowings under the Select revolving facility, $5.0 million of net borrowings under the Concentra revolving facility, $646.9 million borrowed under the Concentra term loans, and $217.1 million attributable to non-consolidating interests in Group Holdings. The principal uses of cash for financing activities were $26.9 million mandatory prepayment of term loans under the Select credit facilities, $23.3 million for Concentra's debt issuance costs, $13.6 million for common stock repurchases and $13.1 million for dividend payments to common stockholders.

Financing activities used $70.5 million of cash flow for the year ended December 31, 2014. Cash was principally used by a $34.0 million mandatory prepayment of term loans under the Select credit facilities, $10.0 million for purchases of non-controlling interests and $184.1 million of dividends paid to Holdings in the aggregate that were used to repurchase shares of common stock and pay dividends to common stockholders, offset in part by $40.0 million in net borrowings under the Select revolving facility and $111.7 million from the issuance of additional 6.375% senior notes.

Financing activities used $126.6 million of cash flow for the year ended December 31, 2013. The primary financing activities were associated with a $600.0 million 6.375% senior notes offering. The proceeds of this senior notes offering were used to repay $587.0 million of Select's term loans and fund certain transaction costs amounting to $14.7 million. In addition, $298.5 million was provided through the issuance of the Select term loans which were used to pay dividends to Holdings to fund the redemption of $167.3 million principal amount of Holdings' senior floating rate notes and pay $4.2 million of transaction costs related to the financing transactions. In addition, during the year ended December 31, 2013, Select paid dividends to Holdings to fund $42.0 million of dividends paid to common stockholders, $11.8 million to fund Holdings' repurchase of common stock and $5.6 million to fund interest payments on Holdings' debt. Select also made net repayments on the Select revolving facility of $110.0 million.

The difference in cash flows used in financing activities of Holdings compared to Select of $5.6 million for the year ended December 31, 2013 relates to dividends paid by Select to Holdings to service Holdings' interest obligations related to its indebtedness.

Capital Resources

Working capital We had net working capital of $11.5 million at December 31, 2015 compared to net working capital of $133.2 million at December 31, 2014. The decrease in net working capital is primarily due to the December 20, 2016 maturity of the portion of Select's D term loan that were not extended pursuant to the December 11, 2015 amendment.

Select credit facilities On March 4, 2015, Select made a principal prepayment of $26.9 million associated with the Select series D term loan and Select series E term loan (collectively, the "Select term loans") in accordance with the provision in the Select credit facilities that requires mandatory prepayments of the Select 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 its revolving credit facility (the "Select revolving facility" and together with the Select term loans, the "Select credit facilities"). Pursuant to the terms and conditions of the additional credit extension amendment, the lenders named therein committed an additional $100.0 million in incremental revolving commitments that mature on March 1, 2018. All other material terms and conditions applicable to the Select revolving facility are applicable to incremental revolving commitments created under the additional credit extension amendment.

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 had outstanding borrowings under the Select credit facilities of $753.3 million of 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 Select credit facilities require Select to maintain certain leverage ratios (as defined in the Select credit facilities). For the four consecutive fiscal quarters ended December 31, 2015, Select was required to maintain its leverage ratio (its ratio of total indebtedness to consolidated EBITDA) 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 capacity and intends to use borrowings under its revolving facility to make the required prepayment during the first quarter ended March 31, 2016.

Concentra credit facilities MJ Acquisition Corporation used borrowings under the Concentra credit facilities to pay a portion of the purchase price for the stock of Concentra. While this debt is non-recourse to Select, it is included in Select's consolidated financial statements.

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Concentra Transaction On June 1, 2015, MJ Acquisition Corporation, as the initial borrower, entered into the Concentra 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 under the Concentra first lien credit agreement on June 1, 2015. 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 first lien basis, by Concentra Holdings, Inc., the direct parent of Concentra, the domestic subsidiaries of Concentra and will be guaranteed by a lien on Concentra's future domestic subsidiaries and are secured by substantially all of Concentra's and its domestic subsidiaries' existing and future property and assets and by a pledge of Concentra's capital stock, the capital stock of Concentra's domestic subsidiaries and up to 65% of the voting capital stock and 100% of the non-voting capital stock of Concentra's foreign subsidiaries, if any.

Borrowings under the Concentra first lien credit agreement bear interest at a rate equal to:

- 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 a LIBOR 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

- 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 will amortize in equal quarterly installments on the last day of each March, June, September and December in aggregate annual amounts equal to 0.25% of the original principal amount of the Concentra first lien term loan commencing in September 2015. The balance of the Concentra first lien term loan will be payable on June 1, 2022. The Concentra revolving facility will be payable on June 1, 2020.

Concentra will be required to prepay borrowings under the Concentra first lien credit agreement with (i) 100% of the net cash proceeds received from non-ordinary course asset sales or other dispositions, or as a result of a casualty or condemnation, subject to reinvestment provisions and other customary carveouts and the payment of certain indebtedness secured by liens, (ii) 100% of the net cash proceeds received from the issuance of debt obligations other than certain permitted debt obligations, and (iii) 50% of excess cash flow (as defined in the Concentra first lien credit agreement) if Concentra's leverage ratio is greater than 4.25 to 1.00 and 25% of excess cash flow if Concentra's leverage ratio is less than or equal to 4.25 to 1.00 and greater than 3.75 to 1.00, in each case, reduced by the aggregate amount of term loans and certain debt secured on a pari passu basis optionally prepaid during the applicable fiscal year and the aggregate amount of revolving commitments hereunder reduced permanently during the applicable fiscal year (other than in connection with a refinancing). Concentra will not be required to prepay borrowings with excess cash flow if Concentra's leverage ratio is less than or equal to 3.75 to 1.00.

The Concentra first lien credit agreement requires Concentra to maintain a leverage ratio (based upon the ratio of indebtedness for money borrowed to consolidated EBITDA, as defined in the Concentra first lien credit agreement) of 5.25 to 1.00 which is tested quarterly, but only if Revolving Exposure (as defined in the Concentra first lien credit agreement) exceeds 30% of Revolving Commitments (as defined in the Concentra first lien credit agreement) on such day. Failure to comply with this covenant would result in an event of default under the Concentra revolving facility only and, absent a waiver or an amendment from the lenders, preclude Concentra from making further borrowings under the Concentra revolving facility and permit the lenders to accelerate all outstanding borrowings under the Concentra revolving facility. Upon such acceleration, Concentra's failure to comply with the financial covenant would result in an Event of Default with respect to the Concentra first lien term loan.

On June 1, 2015, MJ Acquisition Corporation, as the initial borrower, also entered into the Concentra 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 under the Concentra second lien credit agreement on June 1, 2015. 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 term loan are guaranteed, on a second lien basis, by Concentra Holdings, Inc., the domestic subsidiaries of Concentra and will be guaranteed by Concentra's future domestic subsidiaries and are secured by a lien on substantially all of Concentra's and its domestic subsidiaries' existing and future property and assets and by a pledge of Concentra's capital stock, the capital stock of Concentra's domestic subsidiaries and up to 65% of the voting capital stock and 100% of the non-voting capital stock of Concentra's foreign subsidiaries, if any.

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 a LIBOR 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 so 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 so prepaid. The Concentra second lien term loan will be payable on June 1, 2023.

Concentra will be required to prepay borrowings under the Concentra second lien term loan to the extent that such amounts were not used to make mandatory prepayments under the Concentra first lien credit facilities.

The Concentra credit facilities also contain a number of affirmative and restrictive covenants, including limitations on mergers, consolidations and dissolutions; sales of assets; investments and acquisitions; indebtedness; liens; affiliate transactions; and dividends and restricted payments. The Concentra credit facilities contain events of default for non-payment of principal and interest when due (subject to a grace period for interest), cross-default and cross-acceleration provisions and an event of default that would be triggered by a change of control.

Select and Holdings are not parties to the Concentra credit facilities and are not obligors with respect to Concentra's debt under such agreements.

At December 31, 2015, Concentra had outstanding borrowings of $647.8 million under the Concentra term loans (excluding unamortized original issue discounts of $2.9 million) and borrowings of $5.0 million (excluding letters of credit) under the Concentra revolving facility. Concentra had $39.0 million of availability under its revolving facility (after giving effect to $6.0 million of outstanding letters of credit) at December 31, 2015.

6.375% Senior Notes due 2021 On March 11, 2014, Select issued and sold $110.0 million aggregate principal amount of additional 6.375% senior notes due June 1, 2021, 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.

Stock Repurchase Program 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

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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. During the year ended December 31, 2015, Holdings repurchased 1,032,334 shares at an aggregate cost of approximately $13.6 million, an average cost per share of $13.20, which includes transaction costs. Since the inception of the program through December 31, 2015, Holdings has repurchased 35,924,128 shares at a cost of approximately $314.7 million, or $8.76 per share, which includes transaction costs.

Liquidity We intend to refinance a portion of the Select credit facilities as a result of the series D term loan reaching maturity on December 20, 2016. We believe our internally generated cash flows and borrowing capacity under the Select and Concentra credit facilities will be sufficient to finance operations over the next twelve months. We may from time to time seek to retire or purchase our outstanding debt through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions, tender offers, or otherwise. Such repurchases or exchanges, if any, may be funded from operating cash flows or other sources and will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Use of Capital Resources We may from time to time pursue opportunities to develop new joint venture relationships with significant health systems and other healthcare providers, and from time to time we may also develop new inpatient rehabilitation hospitals. We also intend to open new outpatient rehabilitation clinics in local areas that we currently serve where we can benefit from existing referral relationships and brand awareness to produce incremental growth. In addition to our development activities, we may grow through opportunistic acquisitions.

Commitments and Contingencies

The following contractual obligation table summarizes the contractual obligations for Select and Concentra at December 31, 2015, and the effect such obligations are expected to have on liquidity and cash

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flow in future periods. Reserves for uncertain tax positions of $6.1 million have been excluded from the tables below as we cannot reasonably estimate the amounts or periods in which these liabilities will be paid.

Contractual Obligations	Total	2016	2017 - 2019	2020 - 2021	After 2021
			(in thousands)		
6.375% senior notes[1]	$ 710,000	$	$	$ 710,000	$
Select credit facilities[2][3]	1,048,277	224,114	824,163		
Select other debt obligations	11,987	5,257	6,730		
Concentra first lien term loan[4]	447,750	4,500	13,500	9,000	420,750
Concentra second lien term loan[5]	200,000				200,000
Concentra revolving facility	5,000			5,000	
Concenter other debt obligations	5,312	1,168	293	294	3,557
Total debt	2,428,326	235,039	844,686	724,294	624,307
Interest[6][7]	590,857	128,494	298,671	134,837	28,855
Letters of credit outstanding	44,886		38,906	5,980	
Purchase obligations	52,253	19,794	30,805	1,654	
Construction contracts	15,724	15,724			
Naming, promotional and sponsorship agreement	34,165	3,075	9,659	6,819	14,612
Operating leases	1,142,485	205,030	436,172	161,772	339,511
Related party operating leases	31,045	4,174	12,960	9,137	4,774
Total contractual cash obligations	$ 4,339,741	$ 611,330	$ 1,671,859	$ 1,044,493	$ 1,012,059

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(1) Reflects the aggregate principal amount of the 6.375% senior notes which excludes the unamortized premium of $1.2 million at December 31, 2015.

(2) Reflects the aggregate principal amount of the Select credit facilities which excludes the unamortized original issue discounts of $2.8 million at December 31, 2015.

(3) The balance of the series D term loan will be payable on December 20, 2016 and the balance of the series E term loan will be payable on June 1, 2018 and the Select revolving facility will be payable on March 1, 2018.

(4) Reflects the aggregate principal amount of the Concentra first lien term loan which excludes the unamortized original issue discounts of $1.0 million at December 31, 2015.

(5) Reflects the aggregate principal amount of the Concentra second lien term loan which excludes the unamortized original issue discounts of $1.9 million at December 31, 2015.

(6) The interest obligation for the Select credit facilities was calculated using the average interest rate at December 31, 2015 of 3.3% for the series D term loan, 5.0% for the series E term loan, and 4.3% for the revolving loan. The interest obligation was calculated using the stated interest rate for the 6.375% senior notes and a weighted average interest rate of 2.8% for the other debt obligations.

(7) The interest obligation for the Concentra credit facilities was calculated using the average interest rate at December 31, 2015 of 4.0% for the Concentra first lien term loan, 9.0% for the Concentra second lien term loan, and 5.5% for the revolving portion. The interest

obligation for other debt obligations was calculated using a weighted average interest of 7.7% for that debt.

Concentra Class A Put Right

In connection with the acquisition of Concentra, WCAS and the other members of Group Holdings will have the Put Right with respect to their equity interests in Group Holdings. If the Put Right is

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exercised by WCAS, Select will be obligated to purchase up to 33 1/3% of the equity interests of Group Holdings that WCAS purchased on June 1, 2015, at a purchase price based on a valuation of Group Holdings performed by an investment bank to be mutually agreed between Select and WCAS, which valuation will be based on certain precedent transactions using multiples of EBITDA and capped at an agreed upon multiple of EBITDA. Select has the right to elect to pay the purchase price in cash or in shares of Holdings' common stock. WCAS may first exercise its Put Right after June 1, 2018, and then may exercise its Put Right again annually during each fiscal year thereafter. If WCAS exercises its Put Right, the other members of Group Holdings may elect to sell to Select, on the same terms as WCAS, a percentage of their equity interests of Group Holdings that such member purchased on June 1, 2015, up to but not exceeding the percentage of its initial equity interests that WCAS has determined to sell to Select in the exercise of its Put Right. In addition, WCAS and the other members of Group Holdings will have a Put Right with respect to their equity interest in Group Holdings in the event Holdings or Select experiences a change of control that has not been previously approved by WCAS and which results in change in the senior management of Select. If an SEM COC Put Right is exercised by WCAS, WCAS and each other member of Group Holdings will be obligated to sell all (but not less than all) of their equity interests in Group Holdings to Select, at a purchase price based on a valuation of Group Holdings performed by an investment bank to be mutually agreed between Select and WCAS, which valuation will be based on certain precedent transactions using multiples of EBITDA and capped at an agreed upon multiple of EBITDA. Furthermore, Select has a call right (the "Call Right"), whereby each other member of Group Holdings will be obligated to sell all (but not less than all) of their equity interests in Group Holdings to Select at a purchase price based on a valuation of Group Holdings performed by an investment bank to be mutually agreed between Select and WCAS, which valuation will be based on certain precedent transactions using multiples of EBITDA and capped at an agreed upon multiple of EBITDA. Select may first exercise the Call Right after June 1, 2020. We exclude the approximate amount that we may be required to pay to purchase these equity interests in Group Holdings from the contractual obligations table above because of the uncertainty as to: (i) whether or not the Put Right, if exercisable, or the Call Right, will actually be exercised; (ii) the dollar amounts that would be paid if the Put Right or Call Right is exercised; and (iii) the timing and form of consideration of any such payments.

Effects of Inflation and Changing Prices

We derive a substantial portion of our revenues from the Medicare program. We have been, and could be in the future, affected by the continuing efforts of governmental and private third-party payors to contain healthcare costs by limiting or reducing reimbursement payments.

Additionally, reimbursement payments under governmental and private third-party payor programs may not increase to sufficiently cover increasing costs. Medicare reimbursement in long term acute care hospitals and inpatient rehabilitation facilities are subject to fixed payments under the Medicare prospective payment systems. In accordance with Medicare laws, CMS makes annual adjustments to Medicare payments under what is commonly known as a "market basket update." Generally, these rates are adjusted for inflation. However, these adjustments may not reflect the actual increase in the costs of providing healthcare services and may be reduced by CMS for other adjustments.

The healthcare industry is labor intensive and the Company's largest expenses are labor related costs. Wage and other expenses increase during periods of inflation and when labor shortages occur in the marketplace. There can be no guarantee we will not experience increases in the cost of labor, as the need for clinical healthcare professionals is expect to grow. In addition, suppliers pass along rising costs to us in the form of higher prices. We have little or no ability to pass on these increased costs associated with providing services due to federal laws that establish fixed reimbursement rates.

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.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk.***

We are subject to interest rate risk in connection with our variable rate long-term indebtedness. Our principal interest rate exposure relates to the loans outstanding under the Select credit facilities and Concentra credit facilities.

As of December 31, 2015, Select had $753.3 million (excluding unamortized original issue discount) in term loans outstanding under the Select credit facilities and $295.0 million in revolving borrowings outstanding under the Select credit facilities, which bear interest at variable rates.

As of December 31, 2015, Concentra had outstanding borrowings under the Concentra credit facilities of $647.8 million (excluding unamortized original issue discounts) of term loans and $5.0 million in revolving borrowings, which bear interest at variable rates. Certain of Select's and Concentra's outstanding borrowings that bear interest at variable rates were effectively fixed as of December 31, 2015 based upon

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then current interest rates because the Adjusted LIBO Rate did not then exceed the applicable Adjusted LIBO Rate floors for such borrowings:

Select's aggregate $534.7 million in the Select series E term loan is subject to an Adjusted LIBO Rate floor of 1.00%. Therefore, until the Adjusted LIBO Rate exceeds 1.00%, Select's interest rate on this indebtedness is effectively fixed at 5.00%.

the $447.8 million Concentra first lien term loan is subject to an Adjusted LIBO Rate floor of 1.00%. Therefore, until the Adjusted LIBO Rate exceeds 1.00%, Concentra's interest rate on this indebtedness is effectively fixed at 4.00%.

the $200.0 million Concentra second lien term loan is subject to an Adjusted LIBO Rate floor of 1.00%. Therefore, until the Adjusted LIBO Rate exceeds 1.00%, Concentra's interest rate on this indebtedness is effectively fixed at 9.00%.

However, the $218.6 million Select series D term loan, and Select and Concentra revolving borrowings are not subject to an Adjusted LIBO Rate floor.

The following table summarizes the impact of hypothetical increases in market interest rates as of December 31, 2015 on our consolidated interest expense:

Increase in Market Interest Rate	Interest Rate Expense Increases Per Annum (in thousands)(1)
0.25%	$ 1,296.5
0.50%	$ 3,893.7
0.75%	$ 8,146.3
1.00%	$ 12,398.9

(1) Based on the 3-month LIBOR rate of 0.61% as of December 31, 2015, a change in interest rates of up to 0.39% would only increase interest expense with respect to the Select series D term loan, and Select and Concentra revolving borrowings, which are not subject to an Adjusted LIBO Rate floor. Increases in interest rates greater than 0.39% as of December 31, 2015 would impact the interest rate paid on all of Select's and Concentra's variable rate debt, as indicated in the table above.

Item 8. *Financial Statements and Supplementary Data.*

See Consolidated Financial Statements and Notes thereto commencing at Page F-1.

Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.*

None.

Item 9A. *Controls and Procedures.*

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered in this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures, including the accumulation and communication of disclosure to our principal executive officer and principal financial officer as appropriate to allow timely decisions regarding disclosure, are effective as of December 31, 2015

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to provide reasonable assurance that material information required to be included in our periodic SEC reports is recorded, processed, summarized and reported within the time periods specified in the relevant SEC rules and forms.

Concentra Acquisition

On June 1, 2015, MJ Acquisition Corporation, a joint venture that Select created with WCAS, consummated the acquisition of Concentra. SEC guidance permits management to omit an assessment of an acquired business' internal control over financial reporting from management's assessment of internal control over financial reporting for a period not to exceed one year from the date of the acquisition, and at this time Select is omitting an assessment of Concentra's internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) identified in connection with the evaluation required by Rule 13a-15(d) of the Securities Exchange Act of 1934 that occurred during the fourth quarter of the year ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over our financial reporting. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria of "Internal Control Integrated Framework (2013)," issued by the Committee of Sponsoring Organizations of the Treadway Commission, or "COSO," as of December 31, 2015. Our system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

The operations and related assets of Concentra are excluded from management's 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. Concentra's assets (excluding its goodwill and intangible assets) represented 9.8% of our total assets and revenues represented 15.6% of our total revenues of the related consolidated financial statements as of and for the year ended December 31, 2015.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of internal control over financial reporting 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.

Management assessed the effectiveness of the Company's internal control over financial reporting excluding the recently completed acquisition of Concentra as of December 31, 2015. This assessment was based on criteria for effective internal control over financial reporting described in "Internal Control Integrated Framework (2013)," issued by COSO. Based on this assessment, management concludes that, as of December 31, 2015, internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles. The effectiveness of the Company's internal control over financial reporting as of December 31, 2015 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm as stated in their report which appears herein.

Item 9B. ***Other Information.***

None.

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PART III

Item 10. *Directors, Executive Officers and Corporate Governance.*

The information regarding directors and nominees for directors of the Company, including identification of the audit committee and audit committee financial expert, and Compliance with Section 16(a) of the Exchange Act is presented under the headings "Corporate Governance Committees of the Board of Directors," "Election of Directors Directors and Nominees" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive proxy statement for use in connection with the 2016 Annual Meeting of Stockholders (the "Proxy Statement") to be filed within 120 days after the end of the Company's fiscal year ended December 31, 2015. The information contained under these headings is incorporated herein by reference. Information regarding the executive officers of the Company is included in this Annual Report on Form 10-K under Item 1 of Part I as permitted by Instruction 3 to Item 401(b) of Regulation S-K.

We have adopted a written code of business conduct and ethics, known as our code of conduct, which applies to all of our directors, officers, and employees, as well as a code of ethics applicable to our senior financial officers, including our chief executive officer, our chief financial officer and our chief accounting officer. Our code of conduct and code of ethics for senior financial officers are available on our Internet website, www.selectmedicalholdings.com. Our code of conduct and code of ethics for senior financial officers may also be obtained by contacting investor relations at (717) 972-1100. Any amendments to our code of conduct or code of ethics for senior financial officers or waivers from the provisions of the codes for our chief executive officer, our chief financial officer and our chief accounting officer will be disclosed on our Internet website promptly following the date of such amendment or waiver.

Item 11. *Executive Compensation.*

Information concerning executive compensation is presented under the headings "Executive Compensation" and "Compensation Committee Report" in the Proxy Statement. The information contained under these headings is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.*

Information with respect to security ownership of certain beneficial owners and management is set forth under the heading "Security Ownership of Certain Beneficial Owners and Directors and Officers" in the Proxy Statement. The information contained under this heading is incorporated herein by reference.

Equity Compensation Plan Information

Set forth in the table below is a list of all of our equity compensation plans and the number of securities to be issued on exercise of equity rights, average exercise price, and number of securities that

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would remain available under each plan if outstanding equity rights were exercised as of December 31, 2015.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders:			
Select Medical Holdings Corporation 2005 Equity Incentive Plan	716,360	$ 8.84	0(1)
Select Medical Holdings Corporation 2011 Equity Incentive Plan	6,000	$ 7.14	3,406,808
Director equity incentive plan	21,000	$ 9.52	188,923

(1) In connection with the approval of the Select Medical Holdings Corporation 2011 Equity Incentive Plan, we no longer issued awards under the Select Medical Holdings Corporation 2005 Equity Incentive Plan.

Item 13. ***Certain Relationships, Related Transactions and Director Independence.***

Information concerning related transactions is presented under the heading "Certain Relationships, Related Transactions and Director Independence" in the Proxy Statement. The information contained under this heading is incorporated herein by reference.

Item 14. ***Principal Accountant Fees and Services.***

Information concerning principal accountant fees and services is presented under the heading "Ratification of Appointment of Independent Registered Public Accounting Firm" in the Proxy Statement. The information contained under this heading is incorporated herein by reference.

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PART IV

Item 15. ***Exhibits and Financial Statement Schedules.***

(a)

The following documents are filed as part of this report:

1) Financial Statements: See Index to Financial Statements appearing on page F-1 of this report.

2) Financial Statement Schedule: See Schedule II Valuation and Qualifying Accounts appearing on page F-41 of this report.

3) The following exhibits are filed as part of, or incorporated by reference into, this report:

Number	Description
2.1	Stock Purchase Agreement dated as of March 22, 2015 by and among MJ Acquisition Corporation, Concentra Inc. and Human Inc., incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K of Select Medical Holdings Corporation and Select Medical Corporation filed March 24, 2015 (Reg. Nos. 001-34465 and 001-31441).
2.2	Amendment No. 1 to the Stock Purchase Agreement dated as of June 1, 2015 by and among MJ Acquisition Corporation, Concentra Inc. and Human Inc., incorporated by reference to Exhibit 2.1 of the Quarterly Report on Form 10-Q of Select Medical Holdings Corporation and Select Medical Corporation filed August 6, 2015 (Reg. Nos. 001-34465 and 001-31441).
3.1	Amended and Restated Certificate of Incorporation of Select Medical Corporation, incorporated by reference to Exhibit 3.1 of Select Medical Corporation's Form S-4 filed June 15, 2005 (Reg. no. 001-31441).
3.2	Form of Restated Certificate of Incorporation of Select Medical Holdings Corporation, incorporated by reference to Exhibit 3.3 of Select Medical Holdings Corporation's Form S-1/A filed September 21, 2009 (Reg No. 333-152514).
3.3	Amended and Restated Bylaws of Select Medical Corporation, as amended, incorporated herein by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q of Select Medical Holdings Corporation and Select Medical Corporation filed on October 30, 2014 (Reg. Nos. 001-34465 and 001-31441).
3.4	Amended and Restated Bylaws of Select Medical Holdings Corporation, as amended.
4.1	Indenture, dated as of May 28, 2013, by and among Select Medical Holdings Corporation, the guarantors named therein and U.S. Bank National Association, as trustee, incorporated herein by reference to Exhibit 4.1 of the Current Report on Form 8-K of Select Medical Holdings Corporation on May 28, 2013 (Reg. No. 001-34465).
4.2	Forms of 6.375% Senior Notes due 2021, incorporated herein by reference to Exhibit 4.2 of the Current Report on Form 8-K of Select Medical Holdings Corporation on May 28, 2013 (Reg. No. 001-34465).
4.3	Supplemental Indenture, dated as of March 11, 2014, by and among the Company, the guarantors named therein and U.S. Bank National Association, as trustee, incorporated herein by reference to Exhibit 4.1 of the Current Report on Form 8-K of Select Medical Holdings Corporation and Select Medical Corporation filed on March 11, 2014 (Reg. Nos. 001-34465 and 001-31441).

10.1	Credit Agreement, dated as of June 1, 2011, among Select Medical Holdings Corporation, Select Medical Corporation, JPMorgan Chase Bank, N.A., as Administrative and Collateral Agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Goldman Sachs Bank USA, as Co-Syndication Agents and Morgan Stanley Senior Funding, Inc. and Wells Fargo Bank, National Association, LLC, as Co-Documentation Agents and the other lenders party thereto, incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K of Select Medical Holdings Corporation and Select Medical Corporation filed on June 2, 2011 (Reg. Nos. 001-34465 and 001-31441).
10.2	Employment Agreement, dated as of March 1, 2000, between Select Medical Corporation and Rocco A. Ortenzio, incorporated by reference to Exhibit 10.16 of Select Medical Corporation's Registration Statement on Form S-1 filed October 27, 2000 (Reg. No. 333-48856).
10.3	Amendment No. 1 to Employment Agreement, dated as of August 8, 2000, between Select Medical Corporation and Rocco A. Ortenzio, incorporated by reference to Exhibit 10.17 of Select Medical Corporation's Registration Statement on Form S-1 filed October 27, 2000 (Reg. No. 333-48856).
10.4	Amendment No. 2 to Employment Agreement, dated as of February 23, 2001, between Select Medical Corporation and Rocco A. Ortenzio, incorporated by reference to Exhibit 10.47 of Select Medical Corporation's Registration Statement on Form S-1 March 30, 2001 (Reg. No. 333-48856).
10.5	Amendment No. 3 to Employment Agreement, dated as of April 24, 2001, between Select Medical Corporation and Rocco A. Ortenzio, incorporated by reference to Exhibit 10.50 of Select Medical Corporation's Registration Statement on Form S-4 filed June 26, 2001 (Reg. No. 333-63828).
10.6	Amendment No. 4 to Employment Agreement, dated as of September 17, 2001, between Select Medical Corporation and Rocco A. Ortenzio, incorporated by reference to Exhibit 10.52 of Select Medical Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 (Reg. No. 000-32499).
10.7	Amendment No. 5 to Employment Agreement, dated as of February 24, 2005, between Select Medical Corporation and Rocco A. Ortenzio, incorporated by reference to Exhibit 10.10 of Select Medical Corporation's Form S-4 filed June 16, 2005 (Reg. No. 333-125846).
10.8	Employment Agreement, dated as of March 1, 2000, between Select Medical Corporation and Robert A. Ortenzio, incorporated by reference to Exhibit 10.14 of Select Medical Corporation's Registration Statement on Form S-1 filed October 27, 2000 (Reg. No. 333-48856).
10.9	Amendment No. 1 to Employment Agreement, dated as of August 8, 2000, between Select Medical Corporation and Robert A. Ortenzio, incorporated by reference to Exhibit 10.15 of Select Medical Corporation's Registration Statement on Form S-1 filed October 27, 2000 (Reg. No. 333-48856).
10.10	Amendment No. 2 to Employment Agreement, dated as of February 23, 2001, between Select Medical Corporation and Robert A. Ortenzio, incorporated by reference to Exhibit 10.48 of Select Medical Corporation's Registration Statement on Form S-1 filed March 30, 2001 (Reg. No. 333-48856).
10.11	Amendment No. 3 to Employment Agreement, dated as of September 17, 2001, between Select Medical Corporation and Robert A. Ortenzio, incorporated by reference to Exhibit 10.53 of Select Medical Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 (Reg. No. 000-32499).

10.12 Amendment No. 4 to Employment Agreement, dated as of December 10, 2004, between Select Medical Corporation and Robert A. Ortenzio, incorporated by reference to Exhibit 99.3 of Select Medical Corporation's Current Report on Form 8-K filed December 16, 2004 (Reg. No. 001-31441).

10.13 Amendment No. 5 to Employment Agreement, dated as of February 24, 2005, between Select Medical Corporation and Robert A. Ortenzio, incorporated by reference to Exhibit 10.16 of Select Medical Corporation's Form S-4 filed June 16, 2005 (Reg. No. 333-125846).

10.14 Change of Control Agreement, dated as of March 1, 2000, between Select Medical Corporation and Martin F. Jackson, incorporated by reference to Exhibit 10.11 of Select Medical Corporation's Registration Statement on Form S-1 filed October 27, 2000 (Reg. No. 333-48856).

10.15 Amendment to Change of Control Agreement, dated as of February 23, 2001, between Select Medical Corporation and Martin F. Jackson, incorporated by reference to Exhibit 10.52 of Select Medical Corporation's Registration Statement on Form S-1 filed March 30, 2001 (Reg. No. 333-48856).

10.16 Second Amendment to Change of Control Agreement, dated as of February 24, 2005, between Select Medical Corporation and Martin F. Jackson, incorporated by reference to Exhibit 10.24 of Select Medical Corporation's Form S-4 filed June 16, 2005 (Reg. No. 333-125846).

10.17 Change of Control Agreement, dated as of March 1, 2000, between Select Medical Corporation and Michael E. Tarvin, incorporated by reference to Exhibit 10.22 of Select Medical Corporation's Registration Statement on Form S-1 filed October 27, 2000 (Reg. No. 333-48856).

10.18 Amendment to Change of Control Agreement, dated as of February 23, 2001, between Select Medical Corporation and Michael E. Tarvin, incorporated by reference to Exhibit 10.54 of Select Medical Corporation's Registration Statement on Form S-1 filed March 30, 2001 (Reg. No. 333-48856).

10.19 Second Amendment to Change of Control Agreement, dated as of February 24, 2005, between Select Medical Corporation and Michael E. Tarvin, incorporated by reference to Exhibit 10.39 of Select Medical Corporation's Form S-4 filed June 16, 2005 (Reg. No. 333-125846).

10.20 Change of Control Agreement, dated as of March 1, 2000, between Select Medical Corporation and Scott A. Romberger, incorporated by reference to Exhibit 10.56 of Select Medical Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 (Reg. No. 000-32499).

10.21 Amendment to Change of Control Agreement, dated as of February 23, 2001, between Select Medical Corporation and Scott A. Romberger, incorporated by reference to Exhibit 10.57 of Select Medical Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 (Reg. No. 000-32499).

10.22 Second Amendment to Change of Control Agreement, dated as of February 24, 2005, between Select Medical Corporation and Scott A. Romberger, incorporated by reference to Exhibit 10.42 of Select Medical Corporation's Form S-4 filed June 16, 2005 (Reg. No. 333-125846).

10.23 Form of Unit Award Agreement, incorporated by reference to Exhibit 10.54 of Select Medical Holdings Corporation's Form S-1 filed July 24, 2008 (Reg. No. 333-152514).

10.24 Office Lease Agreement, dated as of June 17, 1999, between Select Medical Corporation and Old Gettysburg Associates III, incorporated by reference to Exhibit 10.27 of Select Medical Corporation's Registration Statement on Form S-1 filed October 27, 2000 (Reg. No. 333-48856).

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10.25 First Addendum to Lease Agreement, dated as of April 25, 2008, between Old Gettysburg Associates III and Select Medical Corporation, incorporated by reference to Exhibit 10.65 of Select Medical Holdings Corporation's Form S-1 filed July 24, 2008 (Reg. No. 333-152514).

10.26 Second Addendum to Lease Agreement, dated as of November 1, 2012, between Old Gettysburg Associates III LP and Select Medical Corporation, incorporated by reference to Exhibit 10.37 of the Annual Report on Form 10-K of Select Medical Holdings Corporation and Select Medical Corporation filed on February 26, 2013 (Reg. Nos. 001-34465 and 001-31441).

10.27 Office Lease Agreement, dated August 25, 2006, between Old Gettysburg Associates IV, L.P. and Select Medical Corporation, incorporated by reference to Exhibit 10.1 of Select Medical Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (Reg. No. 001-31441).

10.28 First Addendum to Lease Agreement, dated as of November 1, 2012, between Old Gettysburg Associates IV LP and Select Medical Corporation, incorporated by reference to Exhibit 10.39 of the Annual Report on Form 10-K of Select Medical Holdings Corporation and Select Medical Corporation filed on February 26, 2013 (Reg. Nos. 001-34465 and 001-31441).

10.29 Office Lease Agreement, dated November 1, 2012, by and between Select Medical Corporation and Old Gettysburg Associates, incorporated by reference to Exhibit 10.40 of the Annual Report on Form 10-K of Select Medical Holdings Corporation and Select Medical Corporation filed on February 26, 2013 (Reg. Nos. 001-34465 and 001-31441).

10.30 Office Lease Agreement, dated November 1, 2012, by and between Select Medical Corporation and Old Gettysburg Associates II, LP., incorporated by reference to Exhibit 10.41 of the Annual Report on Form 10-K of Select Medical Holdings Corporation and Select Medical Corporation filed on February 26, 2013 (Reg. Nos. 001-34465 and 001-31441).

10.31 Naming, Promotional and Sponsorship Agreement, dated as of October 1, 1997, between NovaCare, Inc. and the Philadelphia Eagles Limited Partnership, assumed by Select Medical Corporation in a Consent and Assumption Agreement dated November 19, 1999 by and among NovaCare, Inc., Select Medical Corporation and the Philadelphia Eagles Limited Partnership, incorporated by reference to Exhibit 10.36 of Select Medical Corporation's Registration Statement on Form S-1 filed December 7, 2000 (Reg. No. 333-48856).

10.32 First Amendment to Naming, Promotional and Sponsorship Agreement, dated as of January 1, 2004, between Select Medical Corporation and Philadelphia Eagles, LLC, incorporated by reference to Exhibit 10.63 of Select Medical Corporation's Form S-4 filed June 16, 2005 (Reg. No. 333-125846).

10.33 Select Medical Holdings Corporation 2005 Equity Incentive Plan, as amended and restated, incorporated by reference to Exhibit 10.88 of Select Medical Holdings Corporation's Form S-1/A filed September 9, 2009 (Reg. No. 333-152514).

10.34 Select Medical Holdings Corporation 2011 Equity Incentive Plan, incorporated by reference to Exhibit A to Select Medical Holdings Corporation's Definitive Proxy Statement on Schedule 14A filed on March 25, 2011 (Reg. No. 333-174393).

10.35 Select Medical Holdings Corporation 2005 Equity Incentive Plan for Non-Employee Directors, as amended and restated, incorporated by reference to Exhibit 10.89 of Select Medical Holdings Corporation's Form S-1/A filed September 9, 2009 (Reg. No. 333-152514).

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10.36 Amendment No. 6 to Employment Agreement between Select Medical Corporation and Rocco A. Ortenzio, incorporated by reference to Exhibit 10.95 of Select Medical Holdings Corporation's Form S-1/A filed June 18, 2009 (Reg. No. 333-152514).

10.37 Amendment No. 6 to Employment Agreement between Select Medical Corporation and Robert A. Ortenzio, incorporated by reference to Exhibit 10.96 of Select Medical Holdings Corporation's Form S-1/A filed June 18, 2009 (Reg. No. 333-152514).

10.38 Third Amendment to Change of Control Agreement between Select Medical Corporation and Michael E. Tarvin, incorporated by reference to Exhibit 10.100 of Select Medical Holdings Corporation's Form S-1/A filed June 18, 2009 (Reg. No. 333-152514).

10.39 Third Amendment to Change of Control Agreement between Select Medical Corporation and Scott A. Romberger, incorporated by reference to Exhibit 10.102 of Select Medical Holdings Corporation's Form S-1/A filed June 18, 2009 (Reg. No. 333-152514).

10.40 Third Amendment to Change of Control Agreement between Select Medical Corporation and Martin F. Jackson, incorporated by reference to Exhibit 10.103 of Select Medical Holdings Corporation's Form S-1/A filed June 18, 2009 (Reg. No. 333-152514).

10.41 Form of Restricted Stock Agreement under the 2005 Equity Incentive Plan, incorporated by reference to Exhibit 10.119 of the Annual Report on Form 10-K of Select Medical Holdings Corporation and Select Medical Corporation filed on March 17, 2010 (Reg. Nos. 001-34465 and 001-31441).

10.42 Restricted Stock Award Agreement, dated August 11, 2010, by and between Select Medical Holdings Corporation and Bryan C. Cressey, incorporated by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q of Select Medical Holdings Corporation and Select Medical Corporation filed on November 12, 2010 (Reg. Nos. 001-34465 and 001-31441).

10.43 Restricted Stock Award Agreement, dated August 11, 2010, by and between Select Medical Holdings Corporation and James E. Dalton, Jr., incorporated by reference to Exhibit 10.3 of the Quarterly Report on Form 10-Q of Select Medical Holdings Corporation and Select Medical Corporation filed on November 12, 2010 (Reg. Nos. 001-34465 and 001-31441).

10.44 Restricted Stock Award Agreement, dated August 11, 2010, by and between Select Medical Holdings Corporation and James S. Ely III, incorporated by reference to Exhibit 10.4 of the Quarterly Report on Form 10-Q of Select Medical Holdings Corporation and Select Medical Corporation filed on November 12, 2010 (Reg. Nos. 001-34465 and 001-31441).

10.45 Restricted Stock Award Agreement, dated August 11, 2010, by and between Select Medical Holdings Corporation and William H. Frist, M.D., incorporated by reference to Exhibit 10.5 of the Quarterly Report on Form 10-Q of Select Medical Holdings Corporation and Select Medical Corporation filed on November 12, 2010 (Reg. Nos. 001-34465 and 001-31441).

10.46 Restricted Stock Award Agreement, dated August 11, 2010, by and between Select Medical Holdings Corporation and Leopold Swergold, incorporated by reference to Exhibit 10.6 of the Quarterly Report on Form 10-Q of Select Medical Holdings Corporation and Select Medical Corporation filed on November 12, 2010 (Reg. Nos. 001-34465 and 001-31441).

10.47 Employment Agreement, dated September 13, 2010, by and between Select Medical Corporation and David S. Chernow, incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K of Select Medical Holdings Corporation and Select Medical Corporation filed on September 15, 2010. (Reg. Nos. 001-34465 and 001-31441).

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10.48 Restricted Stock Award Agreement, dated September 13, 2010, by and between Select Medical Holdings Corporation and David S. Chernow, incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K of Select Medical Holdings Corporation and Select filed on September 15, 2010. (Reg. Nos. 001-34465 and 001-31441).

10.49 Amendment No. 1 to Employment Agreement, dated March 21, 2011, between Select Medical Corporation and David S. Chernow, incorporated herein by reference to Exhibit 10.8 of the Quarterly Report on Form 10-Q of Select Medical Holdings Corporation and Select Medical Corporation filed on May 5, 2011. (Reg. Nos. 001-34465 and 001-31441).

10.50 Amendment No. 7 to Employment Agreement, dated November 10, 2010, by and between Select Medical Corporation and Rocco A. Ortenzio, incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K of Select Medical Holdings Corporation and Select filed on November 15, 2010. (Reg. Nos. 001-34465 and 001-31441).

10.51 Amendment No. 7 to Employment Agreement, dated November 10, 2010, by and between Select Medical Corporation and Robert A. Ortenzio, incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K of Select Medical Holdings Corporation and Select filed on November 15, 2010. (Reg. Nos. 001-34465 and 001-31441).

10.52 Fourth Amendment to Change of Control Agreement, dated March 8, 2011, between Select Medical Corporation and Martin F. Jackson, incorporated herein by reference to Exhibit 10.111 of the Annual Report on Form 10-K of Select Medical Holdings Corporation and Select Medical Corporation filed on March 9, 2011 (Reg. Nos. 001-34465 and 001-31441).

10.53 Amendment No. 8 to Employment Agreement, dated March 8, 2011, between Select Medical Corporation and Robert A. Ortenzio, incorporated herein by reference to Exhibit 10.112 of the Annual Report on Form 10-K of Select Medical Holdings Corporation and Select Medical Corporation filed on March 9, 2011 (Reg. Nos. 001-34465 and 001-31441).

10.54 Amendment No. 8 to Employment Agreement, dated March 8, 2011, between Select Medical Corporation and Rocco A. Ortenzio, incorporated herein by reference to Exhibit 10.113 of the Annual Report on Form 10-K of Select Medical Holdings Corporation and Select Medical Corporation filed on March 9, 2011 (Reg. Nos. 001-34465 and 001-31441).

10.55 Fourth Amendment to Change of Control Agreement, dated March 8, 2011, between Select Medical Corporation and Scott A. Romberger, incorporated herein by reference to Exhibit 10.115 of the Annual Report on Form 10-K of Select Medical Holdings Corporation and Select Medical Corporation filed on March 9, 2011 (Reg. Nos. 001-34465 and 001-31441).

10.56 Fourth Amendment to Change of Control Agreement, dated March 8, 2011, between Select Medical Corporation and Michael E. Tarvin, incorporated herein by reference to Exhibit 10.117 of the Annual Report on Form 10-K of Select Medical Holdings Corporation and Select Medical Corporation filed on March 9, 2011 (Reg. Nos. 001-34465 and 001-31441).

10.57 Form of Restricted Stock Award Agreement under the Select Medical Holdings Corporation 2011 Equity Incentive Plan, incorporated herein by reference to Exhibit 10.107 of the Annual Report on Form 10-K of Select Medical Holdings Corporation and Select Medical Corporation filed on March 2, 2012 (Reg. Nos. 001-34465 and 001-31441).

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10.58	Additional Credit Extension Amendment, dated as of August 13, 2012, among Select Medical Holdings Corporation, Select Medical Corporation, the subsidiaries of Select Medical Corporation named therein and the financial institutions party thereto, incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K of Select Medical Holdings Corporation and Select Medical Corporation filed on August 14, 2012 (Reg. Nos. 001-34465 and 001-31441).
10.59	Amendment No. 1 to the Credit Agreement, dated as of August 8, 2012, among Select Medical Holdings Corporation, Select Medical Corporation and JPMorgan Chase Bank, N.A., incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K of Select Medical Holdings Corporation and Select Medical Corporation filed on August 14, 2012 (Reg. Nos. 001-34465 and 001-31441).
10.60	Amendment No. 2 to the Credit Agreement, dated as of November 6, 2012, among Select Medical Holdings Corporation, Select Medical Corporation and JPMorgan Chase Bank, N.A., incorporated by reference to Exhibit 10.85 of the Annual Report on Form 10-K of Select Medical Holdings Corporation and Select Medical Corporation filed on February 26, 2013 (Reg. Nos. 001-34465 and 001-31441).
10.61	Additional Credit Extension Amendment, dated as of February 20, 2013, among Select Medical Holdings Corporation, Select Medical Corporation, the subsidiaries of Select Medical Corporation named therein and the financial institutions party thereto, incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K of Select Medical Holdings Corporation and Select Medical Corporation filed on February 20, 2013 (Reg. Nos. 001-34465 and 001-31441).
10.62	Amendment No. 3 to the Credit Agreement, dated as of February 15, 2013, among Select Medical Holdings Corporation, Select Medical Corporation and JPMorgan Chase Bank, N.A., incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K of Select Medical Holdings Corporation and Select Medical Corporation filed on February 20, 2013 (Reg. Nos. 001-34465 and 001-31441).
10.63	Amendment No. 4 to the Credit Agreement, dated as of June 3, 2013, among Select Medical Holdings Corporation, Select Medical Corporation and JPMorgan Chase Bank, N.A., incorporated by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q of Select Medical Holdings Corporation filed on August 8, 2013 (Reg. No. 001-34465).
10.64	Consulting Agreement, dated October 30, 2013, by and between Select Medical Corporation and William H. Frist, incorporated by reference to Exhibit 10.83 of the Annual Report on Form 10-K of Select Medical Holdings Corporation and Select Medical Corporation filed on February 25, 2014 (Reg. Nos. 001-34465 and 001-31441).
10.65	Consulting Agreement, dated October 30, 2013, by and between Select Medical Corporation and Thomas A. Scully, incorporated by reference to Exhibit 10.84 of the Annual Report on Form 10-K of Select Medical Holdings Corporation and Select Medical Corporation filed on February 25, 2014 (Reg. Nos. 001-34465 and 001-31441).
10.66	Restricted Stock Award Agreement Under the 2011 Equity Incentive Plan, dated October 30, 2013, by and between Select Medical Corporation and William H. Frist, incorporated by reference to Exhibit 10.85 of the Annual Report on Form 10-K of Select Medical Holdings Corporation and Select Medical Corporation filed on February 25, 2014 (Reg. Nos. 001-34465 and 001-31441).

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10.67 Restricted Stock Award Agreement Under the 2011 Equity Incentive Plan, dated October 30, 2013, by and between Select Medical Corporation and Thomas A. Scully, incorporated by reference to Exhibit 10.86 of the Annual Report on Form 10-K of Select Medical Holdings Corporation and Select Medical Corporation filed on February 25, 2014 (Reg. Nos. 001-34465 and 001-31441).

10.68 Stock Purchase Agreement, dated February 26, 2014, by and among Select Medical Holdings Corporation, Welsh, Carson, Anderson & Stowe IX, L.P. and WCAS Capital Partners IV, L.P., incorporated herein by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q of Select Medical Holdings Corporation and Select Medical Corporation filed on October 30, 2014 (Reg. Nos. 001-34465 and 001-31441).

10.69 Amendment No. 5 to the Credit Agreement, dated as of March 4, 2014, among Select Medical Holdings Corporation, Select Medical Corporation and JPMorgan Chase Bank, N.A., incorporated herein by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q of Select Medical Holdings Corporation and Select Medical Corporation filed on May 1, 2014 (Reg. Nos. 001-34465 and 001-31441).

10.70 Stock Purchase Agreement, dated May 5, 2014, by and among Select Medical Holdings Corporation, Welsh, Carson, Anderson & Stowe IX, L.P. and WCAS Capital Partners IV, L.P., incorporated herein by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q of Select Medical Holdings Corporation and Select Medical Corporation filed on August 7, 2014 (Reg. Nos. 001-34465 and 001-31441).

10.71 Additional Credit Extension Amendment, dated as of October 23, 2014, among Holdings, Select, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent and the additional lender named therein, incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K of Select Medical Holdings Corporation and Select Medical Corporation filed on October 24, 2014 (Reg. Nos. 001-34465 and 001-31441).

10.72 Additional Credit Extension Amendment, dated as of October 23, 2014, among Holdings, Select, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent and the additional lender named therein, incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K of Select Medical Holdings Corporation and Select Medical Corporation filed on October 24, 2014 (Reg. Nos. 001-34465 and 001-31441).

10.73 Office Lease Agreement, dated October 30, 2014, between Century Park Investments, L.P. and Select Medical Corporation, incorporated herein by reference to Exhibit 10.80 of the Annual Report on Form 10-K of Select Medical Holdings Corporation and Select Medical Corporation filed on February 25, 2015 (Reg. Nos. 001-34465 and 001-31441).

10.74 Separation Agreement, dated March 9, 2015, by and between James J. Talalai and Select Medical Corporation, incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K of Select Medical Holdings Corporation and Select Medical Corporation filed on March 11, 2014 (Reg. Nos. 001-34465 and 001-31441).

10.75 Additional Credit Extension Amendment, dated as of May 20, 2015, among Select Medical Holdings Corporation, Select Medical Corporation, JPMorgan Chase Bank, N.A., as administrative agent, collateral agent and lender and the additional lenders names therein, incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K of Select Medical Holdings Corporation and Select Medical Corporation filed on May 20, 2015 (Reg. Nos. 001-34465 and 001-31441).

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10.76	Amended and Restated Limited Liability Agreement, dated June 1, 2015, by and among Select Medical Corporation, Select Medical Holdings Corporation, Welsh, Carson, Anderson & Stowe XII, L.P., Cressey & Company Fund IV LP, James Greenwood and Daniel Thomas, incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K of Select Medical Holdings Corporation and Select Medical Corporation filed on August 6, 2015 (Reg. Nos. 001-34465 and 001-31441).
10.77	First Lien Credit Agreement, dated June 1, 2015, by and among, Concentra Holdings, Inc., Concentra, Inc., JPMorgan Chase Bank, N.A. as administrative agent, collateral agent and lender and the additional lenders names therein, incorporated herein by reference to Exhibit 10.3 of the Current Report on Form 8-K of Select Medical Holdings Corporation and Select Medical Corporation filed on August 6, 2015 (Reg. Nos. 001-34465 and 001-31441).
10.78	Second Lien Credit Agreement, dated June 1, 2015, by and among, Concentra Holdings, Inc., Concentra, Inc., Deutsche Bank AG New York Branch, as administrative agent, collateral agent and lender and the additional lenders names therein, incorporated herein by reference to Exhibit 10.4 of the Current Report on Form 8-K of Select Medical Holdings Corporation and Select Medical Corporation filed on August 6, 2015 (Reg. Nos. 001-34465 and 001-31441).
10.79	Subscription Agreement, dated June 1, 2015, by and among Select Medical Corporation, Welsh, Carson, Anderson & Stowe XII, L.P., Concentra Group Holdings, LLC and Cressey & Company Fund IV LP, incorporated herein by reference to Exhibit 10.5 of the Current Report on Form 8-K of Select Medical Holdings Corporation and Select Medical Corporation filed on August 6, 2015 (Reg. Nos. 001-34465 and 001-31441).
10.80	Restricted Stock Award Agreement, dated August 5, 2015, by and between Select Medical Holdings Corporation and Russell L. Carson.
10.81	Amendment No. 6 to the Credit Agreement, dated as of December 11, 2015, among Select Medical Holdings Corporation, Select Medical Corporation and JPMorgan Chase Bank, N.A.
10.82	First Amendment to Lease Agreement, dated February 24, 2016, between Old Gettysburg II, LP and Select Medical Corporation.
12	Statement of Ratio of Earnings to Fixed Charges.
21.1	Subsidiaries of Select Medical Holdings Corporation.
23	Consent of PricewaterhouseCoopers LLP.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Executive Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer, and Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2015 formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2015, 2014 and 2013 (ii) Consolidated Balance Sheets as of December 31, 2015 and 2014, (iii) Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013, (iv) Consolidated Statements of Changes in Equity and Income for the years ended December 31, 2015, 2014 and 2013 and (v) Notes to Consolidated Financial Statements.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SELECT MEDICAL HOLDINGS CORPORATION
SELECT MEDICAL CORPORATION
By: /s/ MICHAEL E. TARVIN

Michael E. Tarvin
(Executive Vice President, General Counsel and Secretary)

Date: February 26, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of February 26, 2016.

/s/ ROCCO A. ORTENZIO	*/s/ ROBERT A. ORTENZIO*
Rocco A. Ortenzio *Director, Vice Chairman and Co-Founder*	*Robert A. Ortenzio* *Director, Executive Chairman and Co-Founder*
/s/ DAVID S. CHERNOW	/s/ MARTIN F. JACKSON
David S. Chernow *President and Chief Executive Officer (principal executive officer)*	Martin F. Jackson *Executive Vice President and Chief Financial Officer (principal financial officer)*
/s/ SCOTT A. ROMBERGER	/s/ RUSSELL L. CARSON
Scott A. Romberger *Senior Vice President, Controller and Chief Accounting Officer (principal accounting officer)*	Russell L. Carson *Director*
/s/ BRYAN C. CRESSEY	/s/ JAMES E. DALTON, JR.
Bryan C. Cressey *Director*	James E. Dalton, Jr. *Director*
/s/ JAMES S. ELY III	/s/ WILLIAM H. FRIST, M.D.
James S. Ely III *Director*	William H. Frist, M.D. *Director*
/s/ THOMAS A. SCULLY	/s/ LEOPOLD SWERGOLD
Thomas A. Scully *Director*	Leopold Swergold *Director*

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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

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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

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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.

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

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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

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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.

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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.

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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.

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Select Medical Holdings Corporation

Consolidated Statement of Changes in Equity and Income

(in thousands)

	Comprehensive Income	Total	Select Medical Holdings Corporation Stockholders				Non-controlling Interests
			Common Stock Issued	Common Stock Par Value	Capital in Excess of Par	Retained Earnings	
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.

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Select Medical Corporation

Consolidated Statement of Changes in Equity and Income

(in thousands)

	Comprehensive Income	Total	Select Medical Corporation Stockholders: 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.

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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 $7^{5}/_{8}$% 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.

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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 $7^5/_8$% 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.

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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

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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	**Weighted Average Amortization Period**
		(in thousands)	**(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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 $7^5/_8$% 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%

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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,

SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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;

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 $7^5/_8$% 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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 For the Year Ended December 31,			Select 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

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 For the Year Ended December 31,			Select 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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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	Holdings	Select
	(in thousands)					
Adjusted EBITDA	$ 353,843	$ 90,313		$ (71,295)		
Depreciation and amortization	(48,621)	(12,024)		(3,747)		
Stock compensation expense				(7,033)		
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

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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)

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 $7^5/_8$% 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.

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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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.