# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the Quarterly Period Ended June 30, 2015**

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

**For the Transition Period From to .**

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

# SELECT MEDICAL HOLDINGS CORPORATION

# SELECT MEDICAL CORPORATION

(Exact name of Registrant as specified in its charter)

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

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

(Address of principal executive offices and zip code)

**(717) 972-1100**

(Registrants telephone number, including area code)

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

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

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

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

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

| | |
|---|---|
| Large accelerated filer o | Accelerated filer o |

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

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

As of July 31, 2015, Select Medical Holdings Corporation had outstanding 131,381,185 shares of common stock.

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

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## PART I FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Condensed Consolidated Balance Sheets**

**(unaudited)**

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

| | Select Medical Holdings Corporation | | Select Medical Corporation | |
|---|---|---|---|---|
| | December 31, 2014 | June 30, 2015 | December 31, 2014 | June 30, 2015 |
| **ASSETS** | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | $ 3,354 | $ 25,191 | $ 3,354 | $ 25,191 |
| Accounts receivable, net of allowance for doubtful accounts of $46,425 and $50,675 at 2014 and 2015, respectively | 444,269 | 633,621 | 444,269 | 633,621 |
| Current deferred tax asset | 15,991 | 17,355 | 15,991 | 17,355 |
| Prepaid income taxes | 17,888 | | 17,888 | |
| Other current assets | 46,142 | 78,153 | 46,142 | 78,153 |
| Total Current Assets | 527,644 | 754,320 | 527,644 | 754,320 |
| | | | | |
| Property and equipment, net | 542,310 | 771,410 | 542,310 | 771,410 |
| Goodwill | 1,642,083 | 2,353,975 | 1,642,083 | 2,353,975 |
| Other identifiable intangibles | 72,519 | 261,642 | 72,519 | 261,642 |
| Other assets | 140,253 | 199,988 | 140,253 | 199,988 |
| | | | | |
| **Total Assets** | $ 2,924,809 | $ 4,341,335 | $ 2,924,809 | $ 4,341,335 |
| | | | | |
| **LIABILITIES AND EQUITY** | | | | |
| Current Liabilities: | | | | |
| Bank overdrafts | $ 21,746 | $ 27,337 | $ 21,746 | $ 27,337 |
| Current portion of long-term debt and notes payable | 10,874 | 17,448 | 10,874 | 17,448 |
| Accounts payable | 108,532 | 105,369 | 108,532 | 105,369 |
| Accrued payroll | 97,090 | 122,707 | 97,090 | 122,707 |
| Accrued vacation | 63,132 | 76,262 | 63,132 | 76,262 |
| Accrued interest | 10,674 | 14,152 | 10,674 | 14,152 |
| Accrued other | 82,376 | 122,801 | 82,376 | 122,801 |
| Income taxes payable | | 2,303 | | 2,303 |
| Total Current Liabilities | 394,424 | 488,379 | 394,424 | 488,379 |
| | | | | |
| Long-term debt, net of current portion | 1,542,102 | 2,431,319 | 1,542,102 | 2,431,319 |
| Non-current deferred tax liability | 109,203 | 167,908 | 109,203 | 167,908 |
| Other non-current liabilities | 92,855 | 142,383 | 92,855 | 142,383 |
| | | | | |
| Total Liabilities | 2,138,584 | 3,229,989 | 2,138,584 | 3,229,989 |

| | | | | |
|---|---|---|---|---|
| Commitments and contingencies (Note 10) | | | | |
| | | | | |
| Redeemable non-controlling interests | 10,985 | 257,187 | 10,985 | 257,187 |
| | | | | |
| Stockholders Equity: | | | | |
| Common stock of Holdings, $0.001 par value, 700,000,000 shares authorized, 131,233,308 shares and 131,373,985 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 | 422,524 | 885,407 | 894,225 |
| Retained earnings (accumulated deficit) | 325,678 | 383,278 | (145,892) | (88,292) |
| Total Select Medical Holdings Corporation and Select Medical Corporation Stockholders Equity | 739,515 | 805,933 | 739,515 | 805,933 |
| Non-controlling interest | 35,725 | 48,226 | 35,725 | 48,226 |
| Total Equity | 775,240 | 854,159 | 775,240 | 854,159 |
| | | | | |
| **Total Liabilities and Equity** | $ 2,924,809 | $ 4,341,335 | $ 2,924,809 | $ 4,341,335 |

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

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**Condensed Consolidated Statements of Operations**

**(unaudited)**

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

| | Select Medical Holdings Corporation For the Three Months Ended June 30, 2014 | 2015 | Select Medical Corporation For the Three Months Ended June 30, 2014 | 2015 |
|---|---|---|---|---|
| Net operating revenues | $ 772,762 | $ 887,065 | $ 772,762 | $ 887,065 |
| Costs and expenses: | | | | |
| Cost of services | 642,881 | 743,879 | 642,881 | 743,879 |
| General and administrative | 19,377 | 24,041 | 19,377 | 24,041 |
| Bad debt expense | 11,115 | 12,286 | 11,115 | 12,286 |
| Depreciation and amortization | 17,196 | 21,848 | 17,196 | 21,848 |
| Total costs and expenses | 690,569 | 802,054 | 690,569 | 802,054 |
| Income from operations | 82,193 | 85,011 | 82,193 | 85,011 |
| Other income and expense: | | | | |
| Equity in earnings of unconsolidated subsidiaries | 1,239 | 3,848 | 1,239 | 3,848 |
| Interest expense | (21,663) | (25,288) | (21,663) | (25,288) |
| Income before income taxes | 61,769 | 63,571 | 61,769 | 63,571 |
| Income tax expense | 23,775 | 23,517 | 23,775 | 23,517 |
| Net income | 37,994 | 40,054 | 37,994 | 40,054 |
| Less: Net income attributable to non-controlling interests | 2,653 | 3,114 | 2,653 | 3,114 |
| Net income attributable to Select Medical Holdings Corporation and Select Medical Corporation | $ 35,341 | $ 36,940 | $ 35,341 | $ 36,940 |
| Income per common share: | | | | |
| Basic | $ 0.27 | $ 0.28 | | |
| Diluted | $ 0.27 | $ 0.28 | | |
| Dividends paid per share | $ 0.10 | $ | | |
| Weighted average shares outstanding: | | | | |
| Basic | 127,038 | 127,674 | | |
| Diluted | 127,541 | 128,009 | | |

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

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**Condensed Consolidated Statements of Operations**

**(unaudited)**

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

| | Select Medical Holdings Corporation For the Six Months Ended June 30, 2014 | Select Medical Holdings Corporation For the Six Months Ended June 30, 2015 | Select Medical Corporation For the Six Months Ended June 30, 2014 | Select Medical Corporation For the Six Months Ended June 30, 2015 |
|---|---|---|---|---|
| Net operating revenues | $ 1,535,340 | $ 1,682,408 | $ 1,535,340 | $ 1,682,408 |
| Costs and expenses: | | | | |
| Cost of services | 1,281,645 | 1,408,264 | 1,281,645 | 1,408,264 |
| General and administrative | 37,500 | 45,716 | 37,500 | 45,716 |
| Bad debt expense | 22,133 | 24,956 | 22,133 | 24,956 |
| Depreciation and amortization | 33,425 | 39,196 | 33,425 | 39,196 |
| Total costs and expenses | 1,374,703 | 1,518,132 | 1,374,703 | 1,518,132 |
| Income from operations | 160,637 | 164,276 | 160,637 | 164,276 |
| Other income and expense: | | | | |
| Loss on early retirement of debt | (2,277) | | (2,277) | |
| Equity in earnings of unconsolidated subsidiaries | 2,147 | 6,440 | 2,147 | 6,440 |
| Interest expense | (42,279) | (46,676) | (42,279) | (46,676) |
| Income before income taxes | 118,228 | 124,040 | 118,228 | 124,040 |
| Income tax expense | 45,867 | 46,701 | 45,867 | 46,701 |
| Net income | 72,361 | 77,339 | 72,361 | 77,339 |
| Less: Net income attributable to non-controlling interests | 3,976 | 5,336 | 3,976 | 5,336 |
| Net income attributable to Select Medical Holdings Corporation and Select Medical Corporation | $ 68,385 | $ 72,003 | $ 68,385 | $ 72,003 |
| Income per common share: | | | | |
| Basic | $ 0.51 | $ 0.55 | | |
| Diluted | $ 0.51 | $ 0.55 | | |
| Dividends paid per share | $ 0.20 | $ 0.10 | | |
| Weighted average shares outstanding: | | | | |
| Basic | 131,266 | 127,620 | | |
| Diluted | 131,766 | 127,944 | | |

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

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

**(unaudited)**

**(in thousands)**

| | | | Select Medical Holdings Corporation Stockholders | | | | |
|---|---|---|---|---|---|---|---|
| | **Comprehensive Income** | **Total** | **Common Stock Issued** | **Common Stock Par Value** | **Capital in Excess of Par** | **Retained Earnings** | **Non-controlling Interests** |
| Balance at December 31, 2014 | | $ 775,240 | 131,233 | $ 131 | $ 413,706 | $ 325,678 | $ 35,725 |
| Net income | $ 77,771 | 77,771 | | | | 72,003 | 5,768 |
| Net loss - attributable to redeemable non-controlling interests | (432) | | | | | | |
| Total comprehensive income | $ 77,339 | | | | | | |
| Dividends paid to common stockholders | | (13,129) | | | | (13,129) | |
| Issuance and vesting of restricted stock | | 5,765 | 202 | 0 | 5,765 | | |
| Tax benefit from stock based awards | | 11 | | | 11 | | |
| Stock option expense | | 29 | | | 29 | | |
| Exercise of stock options | | 1,324 | 148 | 0 | 1,324 | | |
| Acquisition of non-controlling interests | | 3,470 | | | | | 3,470 |
| Distributions to non-controlling interests | | (3,712) | | | | | (3,712) |
| Exchange of ownership interests with non-controlling interests | | 8,664 | | | 1,689 | | 6,975 |
| Other | | (1,274) | (209) | (0) | | (1,274) | |
| Balance at June 30, 2015 | | $ 854,159 | 131,374 | $ 131 | $ 422,524 | $ 383,278 | $ 48,226 |

| | | | Select Medical Corporation Stockholders | | | | |
|---|---|---|---|---|---|---|---|
| | **Comprehensive Income** | **Total** | **Common Stock Issued** | **Common Stock Par Value** | **Capital in Excess of Par** | **Accumulated Deficit** | **Non-controlling Interests** |
| Balance at December 31, 2014 | | $ 775,240 | 0 | $ 0 | $ 885,407 | $ (145,892) | $ 35,725 |
| Net income | $ 77,771 | 77,771 | | | | 72,003 | 5,768 |
| Net loss - attributable to redeemable non-controlling interests | (432) | | | | | | |
| Total comprehensive income | $ 77,339 | | | | | | |
| Additional investment by Holdings | | 1,324 | | | 1,324 | | |
| Dividends declared and paid to Holdings | | (13,129) | | | | (13,129) | |
| Contribution related to restricted stock awards and stock option issuances by Holdings | | 5,794 | | | 5,794 | | |
| Tax benefit from stock based awards | | 11 | | | 11 | | |
| Acquisition of non-controlling interests | | 3,470 | | | | | 3,470 |
| Distributions to non-controlling interests | | (3,712) | | | | | (3,712) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Exchange of ownership interests with non-controlling interests | 8,664 | | | 1,689 | | 6,975 |
| Other | (1,274) | | | | (1,274) | |
| Balance at June 30, 2015 | $ 854,159 | 0 | $ 0 | $ 894,225 | $ (88,292) | $ 48,226 |

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

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**Condensed Consolidated Statements of Cash Flows**

**(unaudited)**

**(in thousands)**

| | Select Medical Holdings Corporation For the Six Months Ended June 30, 2014 | 2015 | Select Medical Corporation For the Six Months Ended June 30, 2014 | 2015 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net income | $ 72,361 | $ 77,339 | $ 72,361 | $ 77,339 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Distributions from unconsolidated subsidiaries | | 52 | | 52 |
| Depreciation and amortization | 33,425 | 39,196 | 33,425 | 39,196 |
| Provision for bad debts | 22,133 | 24,956 | 22,133 | 24,956 |
| Equity in earnings of unconsolidated subsidiaries | (2,147) | (6,440) | (2,147) | (6,440) |
| Loss on early retirement of debt | 2,277 | | 2,277 | |
| Loss from disposal of assets | 143 | 251 | 143 | 251 |
| Non-cash stock compensation expense | 4,120 | 5,794 | 4,120 | 5,794 |
| Amortization of debt discount, premium and issuance costs | 3,849 | 4,027 | 3,849 | 4,027 |
| Deferred income taxes | 1,275 | (4,428) | 1,275 | (4,428) |
| Changes in operating assets and liabilities, net of effects from acquisition of businesses: | | | | |
| Accounts receivable | (84,249) | (89,265) | (84,249) | (89,265) |
| Other current assets | (2,935) | (8,038) | (2,935) | (8,038) |
| Other assets | (3,462) | 3,568 | (3,462) | 3,568 |
| Accounts payable | 10,343 | 8,925 | 10,343 | 8,925 |
| Accrued expenses | (14,086) | 707 | (14,086) | 707 |
| Income taxes | (878) | 18,416 | (878) | 18,416 |
| Net cash provided by operating activities | 42,169 | 75,060 | 42,169 | 75,060 |
| | | | | |
| **Investing activities** | | | | |
| Purchases of property and equipment | (50,493) | (68,912) | (50,493) | (68,912) |
| Investment in businesses | (175) | (855) | (175) | (855) |
| Acquisition of businesses, net of cash acquired | (454) | (1,047,997) | (454) | (1,047,997) |
| Net cash used in investing activities | (51,122) | (1,117,764) | (51,122) | (1,117,764) |
| | | | | |
| **Financing activities** | | | | |
| Borrowings on revolving facilities | 515,000 | 660,000 | 515,000 | 660,000 |
| Payments on revolving facilities | (425,000) | (400,000) | (425,000) | (400,000) |
| Payments on Select term loans | (33,994) | (26,884) | (33,994) | (26,884) |
| Issuance of 6.375% senior notes, includes premium | 111,650 | | 111,650 | |
| Proceeds from Concentra term loans, net of discounts | | 646,875 | | 646,875 |
| Borrowings of other debt | 6,111 | 9,590 | 6,111 | 9,590 |
| Principal payments on other debt | (7,049) | (8,320) | (7,049) | (8,320) |
| Debt issuance costs | (4,434) | (23,300) | (4,434) | (23,300) |
| Dividends paid to common stockholders | (27,153) | (13,129) | | |
| Dividends paid to Holdings | | | (154,653) | (13,129) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Repurchase of common stock | | (127,500) | | | | | | |
| Proceeds from issuance of common stock | | 5,297 | | 1,325 | | | | |
| Proceeds from issuance of non-controlling interest | | | | 217,065 | | | | 217,065 |
| Equity investment by Holdings | | | | | | 5,297 | | 1,325 |
| Proceeds from (repayments of) bank overdrafts | | (3,314) | | 5,590 | | (3,314) | | 5,590 |
| Tax benefit from stock based awards | | | | 11 | | | | 11 |
| Distributions to non-controlling interests | | (1,840) | | (4,282) | | (1,840) | | (4,282) |
| Net cash provided by financing activities | | 7,774 | | 1,064,541 | | 7,774 | | 1,064,541 |
| | | | | | | | | |
| Net increase (decrease) in cash and cash equivalents | | (1,179) | | 21,837 | | (1,179) | | 21,837 |
| | | | | | | | | |
| Cash and cash equivalents at beginning of period | | 4,319 | | 3,354 | | 4,319 | | 3,354 |
| Cash and cash equivalents at end of period | $ | 3,140 | $ | 25,191 | $ | 3,140 | $ | 25,191 |
| | | | | | | | | |
| **Supplemental Cash Flow Information** | | | | | | | | |
| Cash paid for interest | $ | 39,107 | $ | 39,932 | $ | 39,107 | $ | 39,932 |
| Cash paid for taxes | $ | 45,471 | $ | 32,702 | $ | 45,471 | $ | 32,702 |

*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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

## 1. Basis of Presentation

The unaudited condensed consolidated financial statements of Select Medical Holdings Corporation ( Holdings ) and Select Medical Corporation ( Select ) as of June 30, 2015, and for the three and six month periods ended June 30, 2014 and 2015, have been prepared in accordance with generally accepted accounting principles ( GAAP ). In the opinion of management, such information contains all adjustments, which are normal and recurring in nature, necessary for a fair statement of the financial position, results of operations, and cash flow for such periods. All significant intercompany transactions and balances have been eliminated. The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2015. Holdings and Select, and their subsidiaries, are collectively referred to as the Company. The condensed consolidated financial statements of Holdings include the accounts of its wholly-owned subsidiary Select. Holdings conducts substantially all of its business through Select and its subsidiaries.

Certain information and disclosures normally included in the notes to consolidated financial statements have been condensed or omitted consistent with the rules and regulations of the Securities and Exchange Commission (the SEC ), although the Company believes the disclosure is adequate to make the information presented not misleading. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2014, contained in the Company s Annual Report on Form 10-K filed with the SEC on February 25, 2015.

## 2. Accounting Policies

**Use of Estimates**

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

**Redeemable Non-Controlling Interests**

The interests held by other parties in subsidiaries, limited liability companies, and limited partnerships owned and controlled by the Company are generally reported as a component of stockholders equity. Some of those non-controlling interests consist of outside owners that have certain put rights, that are currently exercisable, and that, if exercised, require the Company to purchase the member s non-controlling interest. These redeemable non-controlling interests that are currently redeemable, or considered probable of becoming redeemable, have been adjusted to their approximate redemption values, and are reported outside of the stockholders equity section. As of June 30, 2015 and December 31, 2014, the

Company believes the redemption values of the non-controlling ownership interests approximates the fair value of those interests classified as redeemable non-controlling interests. The changes in the redeemable non-controlling interests amounts for the six months ended June 30, 2015 are as follows (in thousands):

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| | | |
|---|---|---|
| Balance at December 31, 2014 redeemable non-controlling interests | $ | 10,985 |
| Issuance of non-controlling interests in Concentra Group Holdings | | 217,065 |
| Acquisition of Concentra Inc. non-controlling interests | | 28,865 |
| Changes in the redemption amounts of non-controlling interests | | 1,274 |
| Net loss attributable to non-controlling interests | | (432) |
| Distributions to non-controlling interests | | (570) |
| Balance at June 30, 2015 redeemable non-controlling interests | $ | 257,187 |

## 3. Concentra Acquisition

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 Inc. ( Concentra ), the indirect operating subsidiary of Concentra Group Holdings, LLC ( Group Holdings ), and its subsidiaries. Pursuant to the terms of the stock purchase agreement (the 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 $1,045.3 million, net of $3.7 million of cash acquired.

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 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.

MJ Acquisition Corporation entered into the Concentra credit facilities (See Footnote 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.

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. Select owns 50.1% of the voting interests of Group Holdings, the indirect parent of Concentra. Concentra s financial results are consolidated with Select s as of June 1, 2015. Group Holdings issued a non-controlling interest valued at $217.1 million.

Concentra, formed in 1979, is one of the largest providers of occupational health, consumer health, physical therapy and veteran s healthcare services in the United States based on the number of facilities. As of June 30, 2015, Concentra operated 300 freestanding medical centers in 38 states, 150 medical facilities located at the workplaces of Concentra s employer customers and 30 Department of Veterans Affairs community-based outpatient clinics.

The Concentra acquisition is being accounted for under the provisions of Accounting Standards Codification ( ASC ) 805, *Business Combinations.* The Company will allocate the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The Company is in the process of completing its assessment of fair values for identifiable tangible and intangible assets, and liabilities assumed; therefore, the values set forth below are subject to adjustment during the measurement period for such activities as estimating useful lives of long-lived assets and finite lived intangibles and completing assessment of fair values by obtaining appraisals. The amount of these potential adjustments could be significant. The Company expects to complete its purchase price allocation activities by December 31, 2015.

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

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 3,772 |
| Identifiable tangible assets, excluding cash and cash equivalents | | 389,782 |
| Identifiable intangible assets | | 190,000 |
| Goodwill | | 702,023 |
| Total assets | | 1,285,577 |
| | | |
| Total current liabilities | | 91,557 |
| Total non-current liabilities | | 112,601 |
| Non-controlling interests | | 32,336 |
| Total liabilities | | 236,494 |
| | | |
| Net assets acquired | | 1,049,083 |
| Cash and cash equivalents acquired | | (3,772) |
| Net cash paid | $ | 1,045,311 |

Goodwill of $702.0 million has been preliminarily 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 goodwill has been pushed down to Concentra 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 $21.1 million that is deductible for tax purposes, which the Company will deduct through 2025.

For the period of June 1, 2015 through June 30, 2015, Concentra contributed net revenue of $86.8 million and a net loss of approximately $0.4 million reflected in the Company s Consolidated Statement of Operations. We incurred $4.7 million of acquisition costs for the period ended June 30, 2015. Acquisition costs consist 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.

| | For the Three Months Ended June 30, | | | | For the Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2015 | | 2014 | | 2015 | |
| | (in thousands, except per share amounts) | | | | | | | |
| Net revenue | $ | 1,026,748 | $ | 1,087,953 | $ | 2,033,445 | $ | 2,094,650 |
| Net income | | 35,421 | | 40,532 | | 63,832 | | 68,943 |
| Income per common share: | | | | | | | | |
| Basic | $ | 0.27 | $ | 0.31 | $ | 0.47 | $ | 0.53 |
| Diluted | $ | 0.27 | $ | 0.31 | $ | 0.47 | $ | 0.52 |

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The pro forma financial information is based on the preliminary allocation of the purchase price and therefore subject to adjustment upon finalizing the purchase price allocation 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 three months ended June 30, 2015 were adjusted to include approximately $8.6 million of interest expense, an income tax benefit of approximately $1.8 million, approximately $0.3 million of rent expense, and approximately $0.1 million in net loss attributable to non-controlling interest. Results for the same period were also adjusted to exclude Concentra acquisition costs of $4.7 million and amortization expense of approximately $0.7 million.

Pro forma results for the three months ended June 30, 2014 were adjusted to include approximately $12.0 million of interest expense, approximately $1.4 million in net income attributable to non-controlling interest, an income tax benefit of approximately $1.3 million, and approximately $0.5 million of rent expense.  Results for the same period were also adjusted to exclude amortization expense of approximately $1.0 million.

Pro forma results for the six months ended June 30, 2015 were adjusted to include approximately $20.5 million of interest expense, an income tax benefit of approximately $6.5 million, approximately $0.9 million of rent expense, and $0.8 million in net loss attributable to non-controlling interest. Results for the same period were also adjusted to exclude Concentra acquisition costs of $4.7 million and amortization expense of approximately $1.8 million.

Pro forma results for the six months ended June 30, 2014 were adjusted to include approximately $24.0 million of interest expense, $4.7 million of Concentra acquisition costs, an income tax benefit of approximately $5.0 million, approximately $2.0 million of net loss attributable to non-controlling interest, and approximately $0.9 million of rent expense.  Results for the same period were also adjusted to exclude amortization expense of approximately $2.1 million.

## 4. Property and Equipment

Property and equipment consists of the following:

| | December 31, 2014 | June 30, 2015 |
|---|---|---|
| | (in thousands) | |
| Land | $ 71,635 | $ 74,510 |
| Leasehold improvements | 155,648 | 274,606 |
| Buildings and improvements | 396,228 | 404,936 |
| Furniture and equipment | 272,919 | 360,632 |
| Construction-in-progress | 41,230 | 72,915 |
| | 937,660 | 1,187,599 |
| Accumulated depreciation and amortization | (395,350) | (416,189) |
| Total property and equipment | $ 542,310 | $ 771,410 |

Depreciation expense was $20.7 million and $17.1 million for the three months ended June 30, 2015 and 2014, respectively. Depreciation expense was $37.8 million and $33.2 million for the six months ended June 30, 2015 and 2014, respectively.

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## 5. Intangible Assets

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

| | December 31, 2014 | June 30, 2015 |
|---|---|---|
| | (in thousands) | |
| Goodwill | $ 1,642,083 | $ 2,353,975 |
| | | |
| Identifiable intangibles: | | |
| Trademarks | $ 57,709 | $ 140,709 |
| Certificates of need | 12,727 | 12,884 |
| Accreditations | 2,083 | 2,083 |
| Customer relationships | | 105,966 |
| Total identifiable intangibles | $ 72,519 | $ 261,642 |

The Company s accreditations and trademarks have renewal terms. The costs to renew these intangibles are expensed as incurred. At June 30, 2015, the accreditations and trademarks have a weighted average time until next renewal of approximately 1.5 years and 4.5 years, respectively.

The changes in the carrying amount of goodwill for the Company s reportable segments for the six months ended June 30, 2015 are as follows:

| | Specialty Hospitals | Outpatient Rehabilitation | Concentra | Total |
|---|---|---|---|---|
| | | (in thousands) | | |
| Balance as of December 31, 2014 | $ 1,335,460 | $ 306,623 | $ | $ 1,642,083 |
| Goodwill acquired | 9,922 | | 702,023 | 711,945 |
| Measurement period adjustment | (53) | | | (53) |
| Balance as of June 30, 2015 | $ 1,345,329 | $ 306,623 | $ 702,023 | $ 2,353,975 |

Refer to Footnote 3 Concentra Acquisition for details of the goodwill acquired during the period.

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## 6. Indebtedness

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

The components of long-term debt and notes payable are as follows:

| | December 31, 2014 | June 30, 2015 |
|---|---|---|
| | (in thousands) | |
| Select 6.375% senior notes(1) | $ 711,465 | $ 711,350 |
| Select credit facilities: | | |
| Select revolving facility | 60,000 | 320,000 |
| Select term loans(2) | 775,996 | 749,823 |
| Other - Select | 5,515 | 15,554 |
| Total Select debt | 1,552,976 | 1,796,727 |
| Less: Select current maturities | 10,874 | 10,311 |
| Select long-term debt maturities | $ 1,542,102 | $ 1,786,416 |
| | | |
| Concentra credit facilities: | | |
| Concentra revolving facility | | $ |
| Concentra term loans(3) | | 646,908 |
| Other - Concentra | | 5,132 |
| Total Concentra debt | | 652,040 |
| Less: Concentra current maturities | | 7,137 |
| Concentra long-term debt maturities | | $ 644,903 |
| | | |
| Total current maturities | $ 10,874 | $ 17,448 |
| Total long-term debt maturities | 1,542,102 | 2,431,319 |
| Total debt | $ 1,552,976 | $ 2,448,767 |

(1) Includes unamortized premium of $1.5 million and $1.4 million at December 31, 2014 and June 30, 2015, respectively.

(2) Includes unamortized discounts of $4.2 million and $3.5 million at December 31, 2014 and June 30, 2015, respectively.

(3) Includes unamortized discounts of $3.1 million at June 30, 2015.

**Excess Cash Flow Payment**

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 (as defined below) that requires mandatory prepayments of term loans as a result of annual excess cash flow as defined in the Select credit facilities.

**Select revolving facility**

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 ) to obtain $100.0 million of incremental revolving commitments. The revolving commitments mature on March 1, 2018.

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**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 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 will 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 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

- 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, 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 will 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 to refinance such 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 to refinance such term loan on or prior to June 1, 2017, Concentra shall pay a premium of 1.00% of the

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aggregate principal amount of the Concentra second lien term loan prepaid. The Concentra second lien term loan will be payable on June 1, 2023.

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

Maturities of the Company s long-term debt for the period from July 1, 2015 through December 31, 2015 and 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 (in thousands) | Total |
|---|---|---|---|
| July 1, 2015 December 31, 2015 | $ 4,757 | $ 3,698 | $ 8,455 |
| 2016 | 282,135 | 5,504 | 287,639 |
| 2017 | 6,402 | 4,139 | 10,541 |
| 2018 | 790,645 | 4,151 | 794,796 |
| 2019 | 2,465 | 4,165 | 6,630 |
| 2020 and beyond | 710,323 | 630,383 | 1,340,706 |
| Total | $ 1,796,727 | $ 652,040 | $ 2,448,767 |

**Loss on Early Retirement of Debt**

On March 4, 2014, Select amended the Select term loans under the Select credit facilities. During the six months ended June 30, 2014, the Company 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 loans modifications.

## 7. 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 $1,069.8 million at December 31, 2014 and June 30, 2015, respectively. The fair value of the Select credit facilities was $816.6 million and $1,049.7 million at December 31, 2014 and June 30, 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 $711.4 million at December 31, 2014 and June 30, 2015, respectively. The fair value of Select s 6.375% senior notes was $722.4 million and $711.8 million at December 31, 2014 and June 30, 2015, respectively. The fair value of this debt was based on quoted market prices.

The carrying value of the Concentra term loans, was $646.9 million at June 30, 2015. The fair value of the Concentra term loans, was $645.7 million at June 30, 2015. The fair value of Concentra term loans 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.

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## 8. 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 other income (expense).

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

| | Three Months Ended June 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Specialty Hospitals | Outpatient Rehabilitation | Concentra(1) | Other | Total |
| | | | (in thousands) | | |
| Net operating revenues | $ 557,833 | $ 214,798 | | $ 131 | $ 772,762 |
| Adjusted EBITDA | 88,688 | 30,432 | | (17,766) | 101,354 |
| Total assets | 2,271,256 | 532,529 | | 99,986 | 2,903,771 |
| Capital expenditures | 19,800 | 2,546 | | 848 | 23,194 |

| | Three Months Ended June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Specialty Hospitals | Outpatient Rehabilitation | Concentra(1) | Other | Total |
| | | | (in thousands) | | |
| Net operating revenues | $ 592,336 | $ 207,795 | $ 86,829 | $ 105 | $ 887,065 |
| Adjusted EBITDA | 91,447 | 28,722 | 11,199 | (16,471) | 114,897 |
| Total assets | 2,372,723 | 538,586 | 1,320,941 | 109,085 | 4,341,335 |
| Capital expenditures | 31,042 | 3,103 | 3,854 | 3,065 | 41,064 |

| | Six Months Ended June 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Specialty Hospitals | Outpatient Rehabilitation | Concentra(1) | Other | Total |
| | | | (in thousands) | | |
| Net operating revenues | $ 1,122,458 | $ 412,648 | | $ 234 | $ 1,535,340 |
| Adjusted EBITDA | 180,838 | 51,421 | | (34,077) | 198,182 |
| Total assets | 2,271,256 | 532,529 | | 99,986 | 2,903,771 |
| Capital expenditures | 41,298 | 6,176 | | 3,019 | 50,493 |

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| | Six Months Ended June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Specialty Hospitals | Outpatient Rehabilitation | Concentra(1) (in thousands) | Other | Total |
| Net operating revenues | $ 1,191,117 | $ 404,238 | $ 86,829 | $ 224 | $ 1,682,408 |
| Adjusted EBITDA | 187,919 | 50,855 | 11,199 | (36,136) | 213,837 |
| Total assets | 2,372,723 | 538,586 | 1,320,941 | 109,085 | 4,341,335 |
| Capital expenditures | 53,835 | 7,025 | 3,854 | 4,198 | 68,912 |

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

| | Three Months Ended June 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Specialty Hospitals | Outpatient Rehabilitation | Concentra(1) (in thousands) | Other | Total |
| Adjusted EBITDA | $ 88,688 | $ 30,432 | | $ (17,766) | |
| Depreciation and amortization | (13,067) | (3,225) | | (904) | |
| Stock compensation expense | | | | (1,965) | |
| Income (loss) from operations | $ 75,621 | $ 27,207 | | $ (20,635) | $ 82,193 |
| Equity in earnings of unconsolidated subsidiaries | | | | | 1,239 |
| Interest expense | | | | | (21,663) |
| Income before income taxes | | | | | $ 61,769 |

| | Three Months Ended June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Specialty Hospitals | Outpatient Rehabilitation | Concentra(1) (in thousands) | Other | Total |
| Adjusted EBITDA | $ 91,447 | $ 28,722 | $ 11,199 | $ (16,471) | |
| Depreciation and amortization | (13,404) | (3,177) | (4,194) | (1,073) | |
| Stock compensation expense | | | | (3,323) | |
| Concentra acquisition costs | | | (4,715) | | |
| Income (loss) from operations | $ 78,043 | $ 25,545 | $ 2,290 | $ (20,867) | $ 85,011 |
| Equity in earnings of unconsolidated subsidiaries | | | | | 3,848 |
| Interest expense | | | | | (25,288) |
| Income before income taxes | | | | | $ 63,571 |

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| | Six Months Ended June 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Specialty Hospitals | Outpatient Rehabilitation | Concentra(1) (in thousands) | Other | Total |
| Adjusted EBITDA | $ 180,838 | $ 51,421 | | $ (34,077) | |
| Depreciation and amortization | (25,162) | (6,437) | | (1,826) | |
| Stock compensation expense | | | | (4,120) | |
| Income (loss) from operations | $ 155,676 | $ 44,984 | | $ (40,023) | $ 160,637 |
| Loss on early retirement of debt | | | | | (2,277) |
| Equity in earnings of unconsolidated subsidiaries | | | | | 2,147 |
| Interest expense | | | | | (42,279) |
| Income before income taxes | | | | | $ 118,228 |

| | Six Months Ended June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Specialty Hospitals | Outpatient Rehabilitation | Concentra(1) (in thousands) | Other | Total |
| Adjusted EBITDA | $ 187,919 | $ 50,855 | $ 11,199 | $ (36,136) | |
| Depreciation and amortization | (26,627) | (6,317) | (4,194) | (2,058) | |
| Stock compensation expense | | | | (5,650) | |
| Concentra acquisition costs | | | (4,715) | | |
| Income (loss) from operations | $ 161,292 | $ 44,538 | $ 2,290 | $ (43,844) | $ 164,276 |
| Equity in earnings of unconsolidated subsidiaries | | | | | 6,440 |
| Interest expense | | | | | (46,676) |
| Income before income taxes | | | | | $ 124,040 |

(1) 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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## 9. Income per Common Share

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

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2015 | 2014 | 2015 |
| | (in thousands, except per share amounts) | | | |
| Numerator: | | | | |
| Net income attributable to Select Medical Holdings Corporation | $ 35,341 | $ 36,940 | $ 68,385 | $ 72,003 |
| Less: Earnings allocated to unvested restricted stockholders | 919 | 1,011 | 1,683 | 1,984 |
| Net income available to common stockholders | $ 34,422 | $ 35,929 | $ 66,702 | $ 70,019 |
| Denominator: | | | | |
| Weighted average shares basic | 127,038 | 127,674 | 131,266 | 127,620 |
| Effect of dilutive securities: | | | | |
| Stock options | 503 | 335 | 500 | 324 |
| Weighted average shares diluted | 127,541 | 128,009 | 131,766 | 127,944 |
| Basic income per common share | $ 0.27 | $ 0.28 | $ 0.51 | $ 0.55 |
| Diluted income per common share | $ 0.27 | $ 0.28 | $ 0.51 | $ 0.55 |

## 10. Commitment 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 June 30, 2015 are approximately as follows:

| | Select | Concentra | Total |
|---|---|---|---|
| | | (in thousands) | |
| July 1, 2015 December 31, 2015 | $ 70,816 | $ 29,440 | $ 100,256 |
| 2016 | 132,631 | 53,064 | 185,695 |
| 2017 | 110,992 | 46,927 | 157,919 |
| 2018 | 87,512 | 38,276 | 125,788 |
| 2019 | 67,736 | 30,806 | 98,542 |

| | | | |
|---|---|---|---|
| Thereafter | 328,512 | 78,008 | 406,520 |
| | $ 798,199 | $ 276,521 | $ 1,074,720 |

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Total rent expense for operating leases, including cancelable leases, for the three months ended June 30, 2015 and 2014 was $49.0 million, including $4.6 million for Concentra, and $42.2 million, respectively. Total rent expense for operating leases, including cancelable leases, for the six months ended June 30, 2015 and 2014 was $93.3 million, including $4.6 million for Concentra, and $83.8 million, respectively.

Property rent expense to unrelated parties for the three months ended June 30, 2015 and 2014 was $36.5 million, including $4.5 million for Concentra, and $31.0 million, respectively. Property rent expense to unrelated parties for the six months ended June 30, 2015 and 2014 was $68.8 million, including $4.5 million for Concentra, and $61.6 million, respectively.

**Construction Commitments**

At June 30, 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, inpatient rehabilitation facilities, and Concentra facilities totaling approximately $63.9 million.

**Other**

A subsidiary of the Company has entered into a naming, promotional, and sponsorship agreement with a NFL team for the team s headquarters complex that requires a payment of $3.0 million in 2015, of which $1.5 million has been paid as of June 30, 2015. 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. The Department of Justice, Centers for Medicare & Medicaid Services or other federal and state enforcement and regulatory agencies may conduct additional investigations related to the Company s businesses in the future that may, either individually or in the aggregate, have a material adverse effect on the Company s business, financial position, results of operations and liquidity.

To address claims arising out of our operations, we maintain 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

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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 January 8, 2013, a federal magistrate judge unsealed an Amended Complaint in United States of America and the State of Indiana, ex rel. Doe I, Doe II and Doe III v. Select Medical Corporation, Select Specialty Hospital Evansville, LLC ( SSH-Evansville ), Evansville Physician Investment Corporation, Dr. Richard Sloan and Dr. Jeffrey Selby. The Amended Complaint, which was served on the Company on February 15, 2013, is a civil action filed under seal on September 28, 2012 in the United States District Court for the Southern District of Indiana by private plaintiff-relators on behalf of the United States and the State of Indiana under the federal False Claims Act and Indiana False Claims and Whistleblower Protection Act. Although the Amended Complaint identified the relators by fictitious pseudonyms, on March 28, 2013, the relators filed a Notice identifying themselves as the former CEO at SSH-Evansville and two former case managers at SSH-Evansville. The named defendants currently include the Company, SSH-Evansville and one physician who practices at SSH-Evansville. All deadlines in the case had been stayed once 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 Department of Justice notified the United States District Court for the Southern District of Indiana of its decision not to intervene in the case. 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, which has not yet been served on the Company, is a civil action that was filed under seal on April 29, 2014 by a respiratory therapist formerly employed at SSH-Knoxville. The Complaint alleges violations of the federal False Claims Act and the Tennessee Medicaid False Claims Act based on extending patient stays to increase reimbursement and to increase average length of stay; artificially prolonging the lives of patients to increase Medicare reimbursements and decrease inspections; admitting patients who do not require medically necessary care; performing unnecessary procedures and services; and delaying performance of procedures to increase billing. The Company intends to vigorously defend this action if the relator pursues it, but at this time the Company is unable to predict the timing and outcome of this matter.

**11. 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 ).

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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 June 30, 2015, and for the three and six months ended June 30, 2014 and 2015.

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

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 three and six months ended June 30, 2014 have been retrospectively revised based on the guarantor structure that has existed since December 31, 2014.

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**Select Medical Corporation**

**Condensed Consolidating Balance Sheet**

**June 30, 2015**

**(unaudited)**

| | Select (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Non-Guarantor Concentra | Eliminations | Consolidated Select Medical Corporation |
|---|---|---|---|---|---|---|
| | | | ( in thousands) | | | |
| **Assets** | | | | | | |
| Current Assets: | | | | | | |
| Cash and cash equivalents | $ 3,071 | $ 2,942 | $ 390 | $ 18,788 | $ | $ 25,191 |
| Accounts receivable, net | | 431,473 | 81,872 | 120,276 | | 633,621 |
| Current deferred tax asset | 9,023 | 1,548 | 3,612 | 3,172 | | 17,355 |
| Intercompany receivables | | 1,884,180 | 135,976 | | (2,020,156)(a) | |
| Other current assets | 12,776 | 31,514 | 3,882 | 29,981 | | 78,153 |
| Total Current Assets | 24,870 | 2,351,657 | 225,732 | 172,217 | (2,020,156) | 754,320 |
| | | | | | | |
| Property and equipment, net | 31,700 | 485,017 | 56,233 | 198,460 | | 771,410 |
| Investment in affiliates | 4,050,979 | 90,368 | | | (4,141,347)(b)(c) | |
| Goodwill | | 1,651,952 | | 702,023 | | 2,353,975 |
| Non-current deferred tax asset | 15,812 | | | | (15,812)(d) | |
| Other identifiable intangibles | | 72,676 | | 188,966 | | 261,642 |
| Other assets | 29,010 | 110,967 | 736 | 59,275 | | 199,988 |
| | | | | | | |
| **Total Assets** | $ 4,152,371 | $ 4,762,637 | $ 282,701 | $ 1,320,941 | $ (6,177,315) | $ 4,341,335 |
| | | | | | | |
| **Liabilities and Equity** | | | | | | |
| Current Liabilities: | | | | | | |
| Bank overdrafts | $ 27,337 | $ | $ | $ | $ | $ 27,337 |
| Current portion of long-term debt and notes payable | 8,430 | 1,713 | 168 | 7,137 | | 17,448 |
| Accounts payable | 9,039 | 79,433 | 12,145 | 4,752 | | 105,369 |
| Intercompany payables | 1,884,180 | 135,976 | | | (2,020,156)(a) | |
| Accrued payroll | 10,893 | 71,334 | 238 | 40,242 | | 122,707 |
| Accrued vacation | 5,717 | 52,034 | 9,843 | 8,668 | | 76,262 |
| Accrued interest | 11,121 | 24 | | 3,007 | | 14,152 |
| Accrued other | 40,293 | 37,388 | 9,345 | 35,775 | | 122,801 |
| Income taxes payable | 2,303 | (817) | | 817 | | 2,303 |
| Total Current Liabilities | 1,999,313 | 377,085 | 31,739 | 100,398 | (2,020,156) | 488,379 |
| | | | | | | |
| Long-term debt, net of current portion | 1,293,955 | 399,459 | 93,001 | 644,904 | | 2,431,319 |
| Non-current deferred tax liability | | 111,405 | 7,375 | 64,940 | (15,812)(d) | 167,908 |
| Other non-current liabilities | 53,170 | 40,661 | 4,804 | 43,748 | | 142,383 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total Liabilities | 3,346,438 | 928,610 | 136,919 | 853,990 | (2,035,968) | 3,229,989 |
| | | | | | | |
| Redeemable non-controlling interests | | | 12,731 | 244,456 | | 257,187 |
| | | | | | | |
| Stockholder s Equity: | | | | | | |
| Common stock | 0 | | | | | 0 |
| Capital in excess of par | 894,225 | | | | | 894,225 |
| Retained earnings (accumulated deficit) | (88,292) | 1,142,407 | 7,227 | (408) | (1,149,226)(c) | (88,292) |
| Subsidiary investment | | 2,691,620 | 82,566 | 217,935 | (2,992,121)(b) | |
| Total Select Medical Corporation Stockholder s Equity | 805,933 | 3,834,027 | 89,793 | 217,527 | (4,141,347) | 805,933 |
| | | | | | | |
| Non-controlling interests | | | 43,258 | 4,968 | | 48,226 |
| Total Equity | 805,933 | 3,834,027 | 133,051 | 222,495 | (4,141,347) | 854,159 |
| | | | | | | |
| **Total Liabilities and Equity** | $ 4,152,371 | $ 4,762,637 | $ 282,701 | $ 1,320,941 | $ (6,177,315) | $ 4,341,335 |

(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 Corporation**

**Condensed Consolidating Statement of Operations**

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

**(unaudited)**

| | Select (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Non-Guarantor Concentra | Eliminations | Consolidated Select Medical Corporation |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Net operating revenues | $ 105 | $ 675,847 | $ 124,284 | $ 86,829 | $ | $ 887,065 |
| Costs and expenses: | | | | | | |
| Cost of services | 574 | 564,198 | 104,355 | 74,752 | | 743,879 |
| General and administrative | 19,467 | (141) | | 4,715 | | 24,041 |
| Bad debt expense | | 9,244 | 2,164 | 878 | | 12,286 |
| Depreciation and amortization | 1,073 | 13,909 | 2,672 | 4,194 | | 21,848 |
| Total costs and expenses | 21,114 | 587,210 | 109,191 | 84,539 | | 802,054 |
| Income (loss) from operations | (21,009) | 88,637 | 15,093 | 2,290 | | 85,011 |
| Other income and expense: | | | | | | |
| Intercompany interest and royalty fees | (311) | 305 | 6 | | | |
| Intercompany management fees | (2,167) | 8,449 | (6,282) | | | |
| Equity in earnings of unconsolidated subsidiaries | | 3,828 | 20 | | | 3,848 |
| Interest expense | (14,280) | (6,081) | (1,558) | (3,369) | | (25,288) |
| Income (loss) from operations before income taxes | (37,767) | 95,138 | 7,279 | (1,079) | | 63,571 |
| Income tax expense (benefit) | (13,338) | 38,520 | (970) | (695) | | 23,517 |
| Equity in earnings of subsidiaries | 61,369 | 5,012 | | | (66,381)(a) | |
| Net income (loss) | 36,940 | 61,630 | 8,249 | (384) | (66,381) | 40,054 |
| Less: Net income attributable to non-controlling interests | | | 3,090 | 24 | | 3,114 |
| Net income (loss) attributable to Select Medical Corporation | $ 36,940 | $ 61,630 | $ 5,159 | $ (408) | $ (66,381) | $ 36,940 |

(a) Elimination of equity in earnings of subsidiaries.

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**Select Medical Corporation**

**Condensed Consolidating Statement of Operations**

**For the Six Months Ended June 30, 2015**

**(unaudited)**

| | Select (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Non-Guarantor Concentra | Eliminations | Consolidated Select Medical Corporation |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| Net operating revenues | $ 224 | $ 1,349,596 | $ 245,759 | $ 86,829 | $ | $ 1,682,408 |
| Costs and expenses: | | | | | | |
| Cost of services | 1,010 | 1,125,291 | 207,211 | 74,752 | | 1,408,264 |
| General and administrative | 41,218 | (217) | | 4,715 | | 45,716 |
| Bad debt expense | | 18,717 | 5,361 | 878 | | 24,956 |
| Depreciation and amortization | 2,058 | 27,681 | 5,263 | 4,194 | | 39,196 |
| Total costs and expenses | 44,286 | 1,171,472 | 217,835 | 84,539 | | 1,518,132 |
| Income (loss) from operations | (44,062) | 178,124 | 27,924 | 2,290 | | 164,276 |
| Other income and expense: | | | | | | |
| Intercompany interest and royalty fees | (597) | 585 | 12 | | | |
| Intercompany management fees | 39,287 | (26,798) | (12,489) | | | |
| Equity in earnings of unconsolidated subsidiaries | | 6,399 | 41 | | | 6,440 |
| Interest expense | (28,181) | (12,084) | (3,042) | (3,369) | | (46,676) |
| Income (loss) from operations before income taxes | (33,553) | 146,226 | 12,446 | (1,079) | | 124,040 |
| Income tax expense (benefit) | (11,936) | 60,566 | (1,234) | (695) | | 46,701 |
| Equity in earnings of subsidiaries | 93,620 | 8,292 | | | (101,912)(a) | |
| Net income (loss) | 72,003 | 93,952 | 13,680 | (384) | (101,912) | 77,339 |
| Less: Net income attributable to non-controlling interests | | | 5,312 | 24 | | 5,336 |
| Net income (loss) attributable to Select Medical Corporation | $ 72,003 | $ 93,952 | $ 8,368 | $ (408) | $ (101,912) | $ 72,003 |

(a) Elimination of equity in earnings of subsidiaries.

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**Select Medical Corporation**

**Condensed Consolidating Statement of Cash Flows**

**For the Six Months Ended June 30, 2015**

**(unaudited)**

| | Select (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Non-Guarantor Concentra | Eliminations | Consolidated Select Medical Corporation |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| **Operating activities** | | | | | | |
| Net income (loss) | $ 72,003 | $ 93,952 | $ 13,680 | $ (384) | $ (101,912)(a) | $ 77,339 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | | | |
| Distributions from unconsolidated subsidiaries | | | 52 | | | 52 |
| Depreciation and amortization | 2,058 | 27,681 | 5,263 | 4,194 | | 39,196 |
| Provision for bad debts | | 18,717 | 5,361 | 878 | | 24,956 |
| Equity in earnings of unconsolidated subsidiaires | | (6,399) | (41) | | | (6,440) |
| Loss from disposal of assets | | 251 | | | | 251 |
| Non-cash stock compensation expense | 5,794 | | | | | 5,794 |
| Amortization of debt discount and issuance costs | 3,717 | | | 310 | | 4,027 |
| Deferred income taxes | (4,428) | | | | | (4,428) |
| Changes in operating assets and liabilities, net of effects from acquisition of businesses: | | | | | | |
| Equity in earnings of subsidiaries | (93,620) | (8,292) | | | 101,912(a) | |
| Accounts receivable | | (73,409) | (19,744) | 3,888 | | (89,265) |
| Other current assets | (4,916) | 1,416 | 1,481 | (6,019) | | (8,038) |
| Other assets | 3,453 | (96) | 211 | | | 3,568 |
| Accounts payable | (846) | 7,731 | (2,198) | 4,238 | | 8,925 |
| Accrued expenses | (4,099) | 2,899 | 1,907 | | | 707 |
| Income taxes | 19,111 | | | (695) | | 18,416 |
| Net cash provided by (used in) operating activities | (1,773) | 64,451 | 5,972 | 6,410 | | 75,060 |
| | | | | | | |
| **Investing activities** | | | | | | |
| Purchases of property and equipment | (4,525) | (56,763) | (3,770) | (3,854) | | (68,912) |
| Investment in businesses | | (855) | | | | (855) |
| Acquisition of businesses, net of cash acquired | | | (2,686) | (1,045,311) | | (1,047,997) |
| Net cash used in investing activities | (4,525) | (57,618) | (6,456) | (1,049,165) | | (1,117,764) |
| | | | | | | |
| **Financing activities** | | | | | | |
| Borrowings on revolving facilities | 650,000 | | | 10,000 | | 660,000 |
| Payments on revolving facilities | (390,000) | | | (10,000) | | (400,000) |
| Payments on Select term loans | (26,884) | | | | | (26,884) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Proceeds from Concentra term loans, net of discounts | | | | 646,875 | | 646,875 |
| Borrowings of other debt | 6,486 | | 96 | 3,008 | | 9,590 |
| Principal payments on other debt | (6,591) | (1,296) | (393) | (40) | | (8,320) |
| Debt issuance costs | | | | (23,300) | | (23,300) |
| Proceeds from bank overdrafts | 5,590 | | | | | 5,590 |
| Equity investment by Holdings | 1,325 | | | | | 1,325 |
| Dividends paid to Holdings | (13,129) | | | | | (13,129) |
| Intercompany | (217,509) | (5,049) | 4,623 | 217,935 | | |
| Proceeds from issuance of non-controlling interests | | | | 217,065 | | 217,065 |
| Tax benefit from stock based awards | 11 | | | | | 11 |
| Distributions to non-controlling interests | | | (4,282) | | | (4,282) |
| Net cash provided by (used in) financing activities | 9,299 | (6,345) | 44 | 1,061,543 | | 1,064,541 |
| Net increase (decrease) in cash and cash equivalents | 3,001 | 488 | (440) | 18,788 | | 21,837 |
| Cash and cash equivalents at beginning of period | 70 | 2,454 | 830 | | | 3,354 |
| Cash and cash equivalents at end of period | $ 3,071 | $ 2,942 | $ 390 | $ 18,788 | $ | $ 25,191 |

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

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**Select Medical Corporation**

**Condensed Consolidating Balance Sheet**

**December 31, 2014**

| | Select (Parent Company Only) | Subsidiary Guarantors | Non-Guarantor Subsidiaries ( in thousands) | Eliminations | Consolidated Select Medical Corporation |
|---|---|---|---|---|---|
| **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 | | 1,698,600 | 121,447 | (1,820,047)(a) | |
| Other current assets | 7,860 | 32,919 | 5,363 | | 46,142 |
| Total Current Assets | 36,004 | 2,113,211 | 198,476 | (1,820,047) | 527,644 |
| | | | | | |
| Property and equipment, net | 17,521 | 468,138 | 56,651 | | 542,310 |
| Investment in affiliates | 3,725,915 | 82,514 | | )(b)<br>(3,808,429(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** | $ 3,823,133 | $ 4,485,308 | $ 256,074 | $ (5,639,706) | $ 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 | 1,820,047 | | | (1,820,047)(a) | |
| Accrued payroll | 17,410 | 79,435 | 245 | | 97,090 |
| Accrued vacation | 5,070 | 49,315 | 8,747 | | 63,132 |
| Accrued interest | 10,596 | 78 | | | 10,674 |
| Accrued other | 39,801 | 34,107 | 8,468 | | 82,376 |
| Total Current Liabilities | 1,933,051 | 249,083 | 32,337 | (1,820,047) | 394,424 |
| | | | | | |
| Long-term debt, net of current portion | 1,098,151 | 364,794 | 79,157 | | |