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, 2016

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

For the Transition Period From to .

Commission File Number: 001 34465 and 001 31441

SELECT MEDICAL HOLDINGS CORPORATION

SELECT MEDICAL CORPORATION

(Exact name of Registrant as specified in its charter)

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

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

(Address of principal executive offices and zip code)

(717) 972-1100

(Registrants telephone number, including area code)

Indicate by check mark whether the Registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods as such Registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

YES x NO o

Indicate by check mark whether the Registrants have submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrants were required to submit and post such files).

YES x NO o

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

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (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 June 30, 2016, Select Medical Holdings Corporation had outstanding 131,472,188 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, 2015	June 30, 2016	December 31, 2015	June 30, 2016
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 14,435	$ 78,420	$ 14,435	$ 78,420
Accounts receivable, net of allowance for doubtful accounts of $61,133 and $56,664 at 2015 and 2016, respectively	603,558	613,790	603,558	613,790
Current deferred tax asset	28,688	43,955	28,688	43,955
Prepaid income taxes	16,694		16,694	
Other current assets	85,779	88,862	85,779	88,862
Total Current Assets	749,154	825,027	749,154	825,027
Property and equipment, net	864,124	889,171	864,124	889,171
Goodwill	2,314,624	2,638,286	2,314,624	2,638,286
Other identifiable intangibles, net	318,675	343,928	318,675	343,928
Other assets	142,101	141,937	142,101	141,937
Total Assets	$ 4,388,678	$ 4,838,349	$ 4,388,678	$ 4,838,349
Current Liabilities:				
Bank overdrafts	$ 28,615	$ 26,477	$ 28,615	$ 26,477
Current portion of long-term debt and notes payable	225,166	10,511	225,166	10,511
Accounts payable	137,409	118,420	137,409	118,420
Accrued payroll	120,989	135,552	120,989	135,552
Accrued vacation	73,977	81,074	73,977	81,074
Accrued interest	9,401	16,927	9,401	16,927
Accrued other	133,728	134,085	133,728	134,085
Income taxes payable		12,314		12,314
Total Current Liabilities	729,285	535,360	729,285	535,360
Long-term debt, net of current portion	2,160,730	2,707,311	2,160,730	2,707,311
Non-current deferred tax liability	218,705	201,538	218,705	201,538
Other non-current liabilities	133,220	131,699	133,220	131,699
Total Liabilities	3,241,940	3,575,908	3,241,940	3,575,908
Commitments and contingencies (Note 11)				

Redeemable non-controlling interests	238,221	245,784	238,221	245,784
Stockholders Equity:				
Common stock of Holdings, $0.001 par value, 700,000,000 shares authorized, 131,282,798 and 131,472,188 shares issued and outstanding at 2015 and 2016, respectively	131	131		
Common stock of Select, $0.01 par value, 100 shares issued and outstanding			0	0
Capital in excess of par	424,506	432,951	904,375	913,058
Retained earnings (accumulated deficit)	434,616	522,995	(45,122)	43,019
Total Select Medical Holdings Corporation and Select Medical Corporation Stockholders Equity	859,253	956,077	859,253	956,077
Non-controlling interest	49,264	60,580	49,264	60,580
Total Equity	908,517	1,016,657	908,517	1,016,657
Total Liabilities and Equity	$ 4,388,678	$ 4,838,349	$ 4,388,678	$ 4,838,349

The accompanying notes are an integral part of these condensed 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, 2015	2016	Select Medical Corporation For the Three Months Ended June 30, 2015	2016
Net operating revenues	$ 887,065	$ 1,097,631	$ 887,065	$ 1,097,631
Costs and expenses:				
Cost of services	743,879	916,985	743,879	916,985
General and administrative	24,041	25,870	24,041	25,870
Bad debt expense	12,286	17,517	12,286	17,517
Depreciation and amortization	21,848	36,205	21,848	36,205
Total costs and expenses	802,054	996,577	802,054	996,577
Income from operations	85,011	101,054	85,011	101,054
Other income and expense:				
Equity in earnings of unconsolidated subsidiaries	3,848	4,546	3,848	4,546
Non-operating gain		13,035		13,035
Interest expense	(25,288)	(44,332)	(25,288)	(44,332)
Income before income taxes	63,571	74,303	63,571	74,303
Income tax expense	23,517	33,450	23,517	33,450
Net income	40,054	40,853	40,054	40,853
Less: Net income attributable to non-controlling interests	3,114	6,918	3,114	6,918
Net income attributable to Select Medical Holdings Corporation and Select Medical Corporation	$ 36,940	$ 33,935	$ 36,940	$ 33,935
Basic	$ 0.28	$ 0.26		
Diluted	$ 0.28	$ 0.26		
Weighted average shares outstanding:				
Basic	127,674	127,626		
Diluted	128,009	127,820		

The accompanying notes are an integral part of these condensed 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, 2015	Select Medical Holdings Corporation For the Six Months Ended June 30, 2016	Select Medical Corporation For the Six Months Ended June 30, 2015	Select Medical Corporation For the Six Months Ended June 30, 2016
Net operating revenues	$ 1,682,408	$ 2,185,961	$ 1,682,408	$ 2,185,961
Costs and expenses:				
Cost of services	1,408,264	1,839,247	1,408,264	1,839,247
General and administrative	45,716	54,138	45,716	54,138
Bad debt expense	24,956	33,914	24,956	33,914
Depreciation and amortization	39,196	70,722	39,196	70,722
Total costs and expenses	1,518,132	1,998,021	1,518,132	1,998,021
Income from operations	164,276	187,940	164,276	187,940
Other income and expense:				
Loss on early retirement of debt		(773)		(773)
Equity in earnings of unconsolidated subsidiaries	6,440	9,198	6,440	9,198
Non-operating gain		38,122		38,122
Interest expense	(46,676)	(83,180)	(46,676)	(83,180)
Income before income taxes	124,040	151,307	124,040	151,307
Income tax expense	46,701	50,510	46,701	50,510
Net income	77,339	100,797	77,339	100,797
Less: Net income attributable to non-controlling interests	5,336	12,029	5,336	12,029
Net income attributable to Select Medical Holdings Corporation and Select Medical Corporation	$ 72,003	$ 88,768	$ 72,003	$ 88,768
Basic	$ 0.55	$ 0.68		
Diluted	$ 0.55	$ 0.68		
Dividends paid per share	$ 0.10	$		
Weighted average shares outstanding:				
Basic	127,620	127,563		
Diluted	127,944	127,709		

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

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Condensed Consolidated Statement of Changes in Equity and Income

(unaudited)

(in thousands)

			Select Medical Holdings Corporation Stockholders				Non-controlling Interests
	Comprehensive Income	**Total**	**Common Stock Issued**	**Common Stock Par Value**	**Capital in Excess of Par**	**Retained Earnings**	
Balance at December 31, 2015		$ 908,517	131,283	$ 131	$ 424,506	$ 434,616	$ 49,264
Net income	$ 90,774	90,774				88,768	2,006
Net income - attributable to redeemable non-controlling interests	10,023						
Total comprehensive income	$ 100,797						
Issuance and vesting of restricted stock		7,786	149	0	7,786		
Tax benefit from stock based awards		269			269		
Repurchase of common shares		(506)	(38)	0	(238)	(268)	
Stock option expense		4			4		
Exercise of stock options		657	78	0	657		
Non-controlling interests acquired in business combination		2,514					2,514
Distributions to non-controlling interests		(3,505)					(3,505)
Issuance of non-controlling interests		9,831					9,831
Purchase of redeemable non-controlling interests		320				320	
Other		(4)			(33)	(441)	470
Balance at June 30, 2016		$ 1,016,657	131,472	$ 131	$ 432,951	$ 522,995	$ 60,580

			Select Medical Corporation Stockholders				Non-controlling Interests
	Comprehensive Income	**Total**	**Common Stock Issued**	**Common Stock Par Value**	**Capital in Excess of Par**	**Retained Earnings (Accumulated Deficit)**	
Balance at December 31, 2015		$ 908,517	0	$ 0	$ 904,375	$ (45,122)	$ 49,264
Net income	$ 90,774	90,774				88,768	2,006
Net income - attributable to redeemable non-controlling interests	10,023						
Total comprehensive income	$ 100,797						
Additional investment by Holdings		657			657		
Dividends declared and paid to Holdings		(506)				(506)	
Contribution related to restricted stock awards and stock option issuances by Holdings		7,790			7,790		
Tax benefit from stock based awards		269			269		
		2,514					2,514

Non-controlling interests acquired in business combination						
Distributions to non-controlling interests	(3,505)					(3,505)
Issuance of non-controlling interests	9,831					9,831
Purchase of redeemable non-controlling interests	320				320	
Other	(4)			(33)	(441)	470
Balance at June 30, 2016	$ 1,016,657	0	$ 0	$ 913,058	$ 43,019	$ 60,580

The accompanying notes are an integral part of these condensed 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, 2015	Select Medical Holdings Corporation For the Six Months Ended June 30, 2016	Select Medical Corporation For the Six Months Ended June 30, 2015	Select Medical Corporation For the Six Months Ended June 30, 2016
Operating activities				
Net income	$ 77,339	$ 100,797	$ 77,339	$ 100,797
Adjustments to reconcile net income to net cash provided by operating activities:				
Distributions from unconsolidated subsidiaries	52	12,039	52	12,039
Depreciation and amortization	39,196	70,722	39,196	70,722
Amortization of leasehold interests		295		295
Provision for bad debts	24,956	33,914	24,956	33,914
Equity in earnings of unconsolidated subsidiaries	(6,440)	(9,198)	(6,440)	(9,198)
Loss on early retirement of debt		773		773
Loss on disposal of assets	251	55	251	55
Gain on sale of assets and business		(43,461)		(43,461)
Impairment of equity investment		5,339		5,339
Stock compensation expense	5,794	8,174	5,794	8,174
Amortization of debt discount, premium and issuance costs	4,027	7,077	4,027	7,077
Deferred income taxes	(4,428)	(13,286)	(4,428)	(13,286)
Changes in operating assets and liabilities, net of effects from acquisition of businesses:				
Accounts receivable	(89,265)	(44,096)	(89,265)	(44,096)
Other current assets	(8,038)	11,011	(8,038)	11,011
Other assets	3,568	4,213	3,568	4,213
Accounts payable	8,925	(15,852)	8,925	(15,852)
Accrued expenses	707	20,632	707	20,632
Income taxes	18,416	28,821	18,416	28,821
Net cash provided by operating activities	75,060	177,969	75,060	177,969
Investing activities				
Purchases of property and equipment	(68,912)	(80,258)	(68,912)	(80,258)
Proceeds from sale of assets and business		71,366		71,366
Investment in businesses	(855)	(1,590)	(855)	(1,590)
Acquisition of businesses, net of cash acquired	(1,047,997)	(421,519)	(1,047,997)	(421,519)
Net cash used in investing activities	(1,117,764)	(432,001)	(1,117,764)	(432,001)
Financing activities				
Borrowings on revolving facilities	660,000	320,000	660,000	320,000
Payments on revolving facilities	(400,000)	(380,000)	(400,000)	(380,000)
Net proceeds from Select term loans		600,127		600,127
Net proceeds from Concentra term loans	623,575		623,575	
Payments on term loans	(26,884)	(229,649)	(26,884)	(229,649)
Borrowings of other debt	9,590	22,082	9,590	22,082
Principal payments on other debt	(8,320)	(9,926)	(8,320)	(9,926)
Dividends paid to common stockholders	(13,129)			
Dividends paid to Holdings			(13,129)	(506)

Repurchase of common stock		(506)		
Proceeds from issuance of common stock	1,325	657		
Equity investment by Holdings			1,325	657
Proceeds from issuance of non-controlling interest	217,065	3,103	217,065	3,103
Proceeds from (repayments of) bank overdrafts	5,590	(2,138)	5,590	(2,138)
Tax benefit from stock based awards	11	269	11	269
Purchase of non-controlling interests		(1,294)		(1,294)
Distributions to non-controlling interests	(4,282)	(4,708)	(4,282)	(4,708)
Net cash provided by financing activities	1,064,541	318,017	1,064,541	318,017
Net increase in cash and cash equivalents	21,837	63,985	21,837	63,985
Cash and cash equivalents at beginning of period	3,354	14,435	3,354	14,435
Cash and cash equivalents at end of period	$ 25,191	$ 78,420	$ 25,191	$ 78,420
Supplemental Cash Flow Information				
Cash paid for interest	$ 39,932	$ 69,315	$ 39,932	$ 69,315
Cash paid for taxes	$ 32,702	$ 35,518	$ 32,702	$ 35,518

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

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

2. Accounting Policies

Use of Estimates

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

Recent Accounting Pronouncements

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

In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU includes a lessee accounting model that recognizes two types of leases; finance and operating. This ASU requires that a lessee recognize on the balance sheet assets and liabilities for all leases with lease terms of more than twelve months. Lessees will need to recognize almost all leases on the balance sheet as a right-of-use asset and a lease liability. For income statement purposes, the FASB retained the dual model, requiring leases to be classified as either operating or finance. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a

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lessee will depend on its classification as finance or operating lease. For short-term leases of twelve months or less, lessees are permitted to make an accounting election by class of underlying asset not to recognize right-of-use assets or lease liabilities. If the alternative is elected, lease expense would be recognized generally on the straight-line basis over the respective lease term.

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

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

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

Recently Adopted Accounting Pronouncements

In April and August 2015, the FASB issued ASU 2015-03 and ASU 2015-15, each titled *Interest- Imputation of Interest*, to simplify the presentation of debt issuance costs. The standard requires debt issuance costs be presented in the balance sheet as a direct deduction from the carrying value of the debt liability. The FASB clarified that debt issuance costs related to line-of-credit arrangements can be presented as an asset and amortized over the term of the arrangement. The Company adopted the standard at the beginning of the first quarter of 2016. The balance sheet as of December 31, 2015 was retrospectively conformed to reflect the adoption of the standard and approximately $38.0 million of unamortized debt issuance costs are now classified as a direct reduction of debt, rather than a component of other assets.

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3. Acquisitions

Physiotherapy Acquisition

On March 4, 2016, Select acquired 100% of the issued and outstanding equity securities of Physiotherapy Associates Holdings, Inc. (Physiotherapy) for $408.7 million, which is subject to a post closing purchase price adjustment, net of $12.3 million of cash acquired. Select financed the acquisition using a combination of cash on hand and proceeds from an incremental term loan facility under the Select credit facilities, as defined below (see note 7 for more details). During the six months ended June 30, 2016, $3.2 million of Physiotherapy acquisition costs were recognized in general and administrative expense.

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

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

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

Cash and cash equivalents	$	12,340
Identifiable tangible assets, excluding cash and cash equivalents		93,426
Identifiable intangible assets		33,495
Goodwill		319,203
Total assets		458,464
Total liabilities		34,956
Acquired non-controlling interests		2,514
Net assets acquired		420,994
Less: Cash and cash equivalents acquired		(12,340)
Net cash paid	$	408,654

Goodwill of $319.2 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 factors considered in determining the goodwill that resulted from the Physiotherapy purchase price included Physiotherapy s future earnings potential and the value of the assembled workforce. The goodwill has been allocated to the outpatient rehabilitation segment and is not deductible for tax purposes. However, prior to its acquisition by the Company, Physiotherapy completed certain acquisitions that resulted in goodwill with an estimated value of $8.8 million that is deductible for tax purposes, which the Company will deduct through 2030.

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

Concentra Acquisition

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

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

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

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

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

For the three months ended June 30, 2016, Concentra contributed net revenue of $254.9 million and net income of approximately $4.7 million, which are reflected in the Company s consolidated statements of operations. For the six months ended June 30, 2016, Concentra contributed net revenue of $505.7 million and net income of approximately $7.0 million, which are reflected in the Company s consolidated statements of operations.

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Pro Forma Results

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

	For the Three Months Ended June 30, 2015	For the Six Months Ended June 30, 2015	2016
	(in thousands, except per share amounts)		
Net revenue	$ 1,135,268	$ 2,250,274	$ 2,239,491
Net income attributable to Holdings	38,671	64,069	85,820
Income per common share:			
Basic	$ 0.29	$ 0.49	$ 0.64
Diluted	$ 0.29	$ 0.49	$ 0.64

The pro forma financial information is based on the preliminary allocation of the purchase price of the Physiotherapy acquisition, 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 and Physiotherapy had been subsidiaries of the Company as of January 1, 2014 and 2015, respectively.

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

Other Acquisitions

In addition to the acquisition of Physiotherapy, during the six months ended June 30, 2016, the Company acquired interests in several businesses. The Company provided total consideration of $49.7 million, consisting of cash amounting to $12.5 million (net of cash acquired), minority interest issued of $9.8 million, and liabilities assumed of $1.3 million, for identifiable tangible net assets consisting principally of accounts receivable and property and equipment with an aggregate fair value of $11.0 million. Based on the preliminary purchase price allocations, these acquisitions resulted in recognition of goodwill of $14.6 million in the specialty hospital segment, $0.5 million in the outpatient rehabilitation segment and $3.5 million in the Concentra segment.

4. Sale of Businesses

The Company recognized a non-operating gain of $43.4 million for the six months ended June 30, 2016. The Company sold its contract therapy businesses for $65.0 million, resulting in a non-operating gain of $33.9 million. The Company also transferred five specialty hospitals in an exchange transaction and sold nine outpatient rehabilitation clinics, which resulted in non-operating gains of $7.8 million and $1.7 million, respectively.

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5. Impairment of Equity Investment

During the six months ended June 30, 2016, the Company recognized an impairment loss of $5.3 million on one of its equity investments. The loss, which was triggered by a planned sale of the investee by the controlling interest, is reflected as part of non-operating gain on the Company s consolidated statements of operations.

6. Intangible Assets

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

	December 31, 2015		June 30, 2016	
	(in thousands)			
Goodwill	$	2,314,624	$	2,638,286
Identifiable intangibles Indefinite lived assets:				
Trademarks		162,609		166,419
Certificates of need		13,022		13,156
Accreditations		2,045		2,135
Identifiable intangibles Finite lived assets:				
Customer relationships		132,751		125,765
Favorable leasehold interests		8,248		11,699
Non-compete agreements				24,754
Total identifiable intangibles	$	2,633,299	$	2,982,214

The Company s customer relationships and non-compete agreement assets amortize over their estimated useful lives. Amortization expense for the Company s customer relationships and non-compete agreements was $4.3 million and $1.1 million for the three months ended June 30, 2016 and 2015, respectively. Amortization expense was $8.1 million and $1.2 million for the six months ended June 30, 2016 and 2015, respectively. Estimated amortization expense of the Company s customer relationships and non-compete agreements for each of the five succeeding years is $16.4 million.

In addition, the Company has recognized unfavorable leasehold interests which are recorded as liabilities. The net carrying value of unfavorable leasehold interests was $4.3 million and $3.0 million as of June 30, 2016 and December 31, 2015, respectively.

The Company s favorable leasehold assets and unfavorable leasehold liabilities are amortized to rent expense over the remaining term of their respective leases to reflect a market rent per period based upon the market conditions present at the acquisition date. The net effect of this amortization increased rent expense by $0.2 million for the three months ended June 30, 2016 and $0.3 million for the six months ended June 30, 2016.

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

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

	Specialty Hospitals	Outpatient Rehabilitation	Concentra	Total
		(in thousands)		
Balance as of December 31, 2015	$ 1,357,379	$ 306,595	$ 650,650	$ 2,314,624
Acquired	14,600	357,808	3,545	375,953
Measurement period adjustment		(38,090)	4,825	(33,265)
Disposed	(10,633)	(8,393)		(19,026)
Balance as of June 30, 2016	$ 1,361,346	$ 617,920	$ 659,020	$ 2,638,286

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

7. Indebtedness

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

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

	December 31, 2015	June 30, 2016
	(in thousands)	
Select 6.375% senior notes(1)	$ 700,867	$ 701,703
Select credit facilities:		
Select revolving facility	295,000	240,000
Select term loans(2)	743,071	1,121,105
Other Select	11,987	24,158
Total Select debt	1,750,925	2,086,966
Less: Select current maturities	222,905	6,778
Select long-term debt maturities	$ 1,528,020	$ 2,080,188
Concentra credit facilities:		
Concentra revolving facility	$ 5,000	$
Concentra term loans(3)	624,659	624,113
Other Concentra	5,312	6,743
Total Concentra debt	634,971	630,856
Less: Concentra current maturities	2,261	3,733
Concentra long-term debt maturities	$ 632,710	$ 627,123
Total current maturities	$ 225,166	$ 10,511
Total long-term debt maturities	2,160,730	2,707,311
Total debt	$ 2,385,896	$ 2,717,822

(1) Includes unamortized premium of $1.2 million and $1.1 million at December 31, 2015 and June 30, 2016, respectively. Includes unamortized debt issuance costs of $10.4 million and $9.4 million at December 31, 2015 and June 30, 2016, respectively.

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(2) Includes unamortized discounts of $2.8 million and $13.8 million at December 31, 2015 and June 30, 2016, respectively. Includes unamortized debt issuance costs of $7.4 million and $16.0 million at December 31, 2015 and June 30, 2016, respectively.

(3) Includes unamortized discounts of $2.9 million and $2.7 million at December 31, 2015 and June 30, 2016, respectively. Includes unamortized debt issuance costs of $20.2 million and $18.7 million at December 31, 2015 and June 30, 2016, respectively.

Maturities of Long-Term Debt and Notes Payable

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

	Select	Concentra (in thousands)	Total
July 1, 2016 December 31, 2016	$ 8,880	$ 3,559	$ 12,439
2017	15,257	5,871	21,128
2018	771,228	4,597	775,825
2019	18,070	4,615	22,685
2020	6,288	4,636	10,924
2021 and beyond	1,305,313	628,965	1,934,278
Total principal	2,125,036	652,243	2,777,279
Unamortized discounts and premiums	(12,663)	(2,677)	(15,340)
Unamortized debt issuance costs	(25,407)	(18,710)	(44,117)
Total	$ 2,086,966	$ 630,856	$ 2,717,822

Excess Cash Flow Payment

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

Select Credit Facilities

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

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

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

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

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

8. Fair Value

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

	December 31, 2015			June 30, 2016		
	Face Value	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value
	(in thousands)					
Select 6.375% senior notes(1)	$ 710,000	$ 700,867	$ 623,948	$ 710,000	$ 701,703	$ 674,926
Select credit facilities(2)	1,048,277	1,038,071	1,023,616	1,390,877	1,361,105	1,376,415
Concentra credit facilities(3)	652,750	629,659	645,392	645,500	624,113	638,159

(1) The carrying value includes unamortized premium of $1.2 million and $1.1 million at December 31, 2015 and June 30, 2016, respectively. Includes unamortized debt issuance costs of $10.4 million and $9.4 million at December 31, 2015 and June 30, 2016, respectively.

(2) The carrying value includes unamortized discounts of $2.8 million and $13.8 million at December 31, 2015 and June 30, 2016, respectively. Includes unamortized debt issuance costs of $7.4 million and

$16.0 million at December 31, 2015 and June 30, 2016, respectively.

(3) The carrying value includes unamortized discounts of $2.9 million and $2.7 million at December 31, 2015 and June 30, 2016, respectively. Includes unamortized debt issuance costs of $20.2 million and $18.7 million at December 31, 2015 and June 30, 2016, respectively.

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

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

9. Segment Information

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

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, 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

	Three Months Ended June 30, 2016				
	Specialty Hospitals	Outpatient Rehabilitation	Concentra	Other	Total
			(in thousands)		
Net operating revenues	$ 585,816	$ 256,928	$ 254,868	$ 19	$ 1,097,631
Adjusted EBITDA	82,739	38,132	43,039	(22,453)	141,457
Total assets	2,448,390	984,140	1,333,293	72,526	4,838,349
Capital expenditures	21,313	3,825	4,716	3,636	33,490

	Six Months Ended June 30, 2015				
	Specialty Hospitals	Outpatient Rehabilitation	Concentra(1)	Other	Total
			(in thousands)		
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

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	Six Months Ended June 30, 2016				
	Specialty Hospitals	Outpatient Rehabilitation(2)	Concentra	Other	Total
			(in thousands)		
Net operating revenues	$ 1,184,770	$ 495,010	$ 505,745	$ 436	$ 2,185,961
Adjusted EBITDA	169,495	67,011	77,192	(43,626)	270,072
Total assets	2,448,390	984,140	1,333,293	72,526	4,838,349
Capital expenditures	54,988	8,798	7,927	8,545	80,258

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

	Three Months Ended June 30, 2015				
	Specialty Hospitals	Outpatient Rehabilitation	Concentra(1)	Other	Total
			(in thousands)		
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

	Three Months Ended June 30, 2016				
	Specialty Hospitals	Outpatient Rehabilitation	Concentra	Other	Total
			(in thousands)		
Adjusted EBITDA	$ 82,739	$ 38,132	$ 43,039	$ (22,453)	
Depreciation and amortization	(13,812)	(6,202)	(14,916)	(1,275)	
Stock compensation expense			(192)	(4,006)	
Income (loss) from operations	$ 68,927	$ 31,930	$ 27,931	$ (27,734)	$ 101,054
Equity in earnings of unconsolidated subsidiaries					4,546
Non-operating gain					13,035
Interest expense					(44,332)
Income before income taxes					$ 74,303

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	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

	Six Months Ended June 30, 2016				
	Specialty Hospitals	Outpatient Rehabilitation(2)	Concentra (in thousands)	Other	Total
Adjusted EBITDA	$ 169,495	$ 67,011	$ 77,192	$ (43,626)	
Depreciation and amortization	(27,705)	(10,238)	(30,292)	(2,487)	
Stock compensation expense			(384)	(7,790)	
Physiotherapy acquisition costs				(3,236)	
Income (loss) from operations	$ 141,790	$ 56,773	$ 46,516	$ (57,139)	$ 187,940
Loss on early retirement of debt					(773)
Equity in earnings of unconsolidated subsidiaries					9,198
Non-operating gain					38,122
Interest expense					(83,180)
Income before income taxes					$ 151,307

(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.

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

10. Income per Common Share

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

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	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2016	2015	2016
	(in thousands, except per share amounts)			
Numerator:				
Net income attributable to Select Medical Holdings Corporation	$ 36,940	$ 33,935	$ 72,003	$ 88,768
Less: Earnings allocated to unvested restricted stockholders	1,011	972	1,984	2,552
Net income available to common stockholders	$ 35,929	$ 32,963	$ 70,019	$ 86,216
Denominator:				
Weighted average shares basic	127,674	127,626	127,620	127,563
Effect of dilutive securities:				
Stock options	335	194	324	146
Weighted average shares diluted	128,009	127,820	127,944	127,709
Basic income per common share	$ 0.28	$ 0.26	$ 0.55	$ 0.68
Diluted income per common share	$ 0.28	$ 0.26	$ 0.55	$ 0.68

11. Commitments and Contingencies

Litigation

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

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

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

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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 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 defendants filed a Motion to Dismiss the Second Amended 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 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, and the court approved such Motion and dismissed the lawsuit in June 2016. In July 2016, the plaintiff filed a Notice of Appeal to the United States Court of Appeals for the Sixth Circuit. 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.

Construction Commitments

At June 30, 2016, the Company had outstanding commitments under construction contracts related to new construction, improvements and renovations at the Company s long term acute care properties, inpatient rehabilitation facilities, and Concentra centers totaling approximately $9.4 million

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

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

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

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

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

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Select Medical Corporation

Condensed Consolidating Balance Sheet

June 30, 2016

(unaudited)

	Select (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Eliminations	Consolidated Select Medical Corporation
			(in thousands)			
Assets						
Current Assets:						
Cash and cash equivalents	$ 4,071	$ 8,111	$ 5,374	$ 60,864	$	$ 78,420
Accounts receivable, net		420,863	74,638	118,289		613,790
Current deferred tax asset	9,106	21,379	4,432	9,038		43,955
Intercompany receivables		2,065,057	162,585		(2,227,642)(a)	
Other current assets	13,459	41,891	6,691	26,821		88,862
Total Current Assets	26,636	2,557,301	253,720	215,012	(2,227,642)	825,027
Property and equipment, net	44,793	582,067	61,493	200,818		889,171
Investment in affiliates	4,547,761	66,319			(4,614,080)(b) (c)	
Goodwill		1,979,267		659,019		2,638,286
Other identifiable intangibles, net		105,280		238,648		343,928
Non-current deferred tax asset	15,175				(15,175)(d)	
Other assets	8,110	112,864	1,167	19,796		141,937
Total Assets	$ 4,642,475	$ 5,403,098	$ 316,380	$ 1,333,293	$ (6,856,897)	$ 4,838,349
Liabilities and Equity						
Current Liabilities:						
Bank overdrafts	$ 26,477	$	$	$	$	$ 26,477
Current portion of long-term debt and notes payable	6,112	508	158	3,733		10,511
Accounts payable	8,204	79,941	13,815	16,460		118,420
Intercompany payables	2,065,057	162,585			(2,227,642)(a)	
Accrued payroll	8,569	79,177	8,358	39,448		135,552
Accrued vacation	3,352	49,989	15,191	12,542		81,074
Accrued interest	13,933	2	7	2,985		16,927
Accrued other	39,267	55,732	9,109	29,977		134,085
Income taxes payable	1,040			11,274		12,314
Total Current Liabilities	2,172,011	427,934	46,638	116,419	(2,227,642)	535,360
Long-term debt, net of current portion	1,467,920	491,355	120,914	627,122		2,707,311
Non-current deferred tax liability		106,571	8,969	101,173	(15,175)(d)	201,538
Other non-current liabilities	46,467	49,000	4,391	31,841		131,699
Total Liabilities	3,686,398	1,074,860	180,912	876,555	(2,242,817)	3,575,908
Redeemable non-controlling interests			11,328	234,456		245,784
Stockholder s Equity:						
Common stock	0					0

Capital in excess of par	913,058					913,058
Retained earnings (accumulated deficit)	43,019	1,250,956	(16,937)	835	(1,234,854)(c)	43,019
Subsidiary investment		3,077,282	84,009	217,935	(3,379,226)(b)	
Total Select Medical Corporation Stockholder s Equity	956,077	4,328,238	67,072	218,770	(4,614,080)	956,077
Non-controlling interest			57,068	3,512		60,580
Total Equity	956,077	4,328,238	124,140	222,282	(4,614,080)	1,016,657
Total Liabilities and Equity	$ 4,642,475	$ 5,403,098	$ 316,380	$ 1,333,293	$ (6,856,897)	$ 4,838,349

(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, 2016

(unaudited)

	Select (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Eliminations	Consolidated Select Medical Corporation
			(in thousands)			
Net operating revenues	$ 20	$ 720,404	$ 122,339	$ 254,868	$	$ 1,097,631
Costs and expenses:						
Cost of services	606	571,001	138,496	206,882		916,985
General and administrative	25,844	26				25,870
Bad debt expense		10,265	2,113	5,139		17,517
Depreciation and amortization	1,276	17,184	2,829	14,916		36,205
Total costs and expenses	27,726	598,476	143,438	226,937		996,577
Income (loss) from operations	(27,706)	121,928	(21,099)	27,931		101,054
Other income and expense:						
Intercompany interest and royalty fees	(1,532)	(50,979)	52,511			
Intercompany management fees	38,783	(32,280)	(6,503)			
Equity in earnings of unconsolidated subsidiaries		4,519	27			4,546
Non-operating gain	10,463	2,572				13,035
Interest expense	(25,544)	(6,685)	(1,851)	(10,252)		(44,332)
Income (loss) from operations before income taxes	(5,536)	39,075	23,085	17,679		74,303
Income tax expense (benefit)	(473)	26,370	672	6,881		33,450
Equity in earnings of subsidiaries	38,998	21,526			(60,524)(a)	
Net income	33,935	34,231	22,413	10,798	(60,524)	40,853
Less: Net income attributable to non-controlling interests			842	6,076		6,918
Net income attributable to Select Medical Corporation	$ 33,935	$ 34,231	$ 21,571	$ 4,722	$ (60,524)	$ 33,935

(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, 2016

(unaudited)

	Select (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Eliminations	Consolidated Select Medical Corporation
			(in thousands)			
Net operating revenues	$ 437	$ 1,431,918	$ 247,861	$ 505,745	$	$ 2,185,961
Costs and expenses:						
Cost of services	950	1,149,011	269,202	420,084		1,839,247
General and administrative	54,231	(93)				54,138
Bad debt expense		20,963	4,098	8,853		33,914
Depreciation and amortization	2,487	32,381	5,562	30,292		70,722
Total costs and expenses	57,668	1,202,262	278,862	459,229		1,998,021
Income (loss) from operations	(57,231)	229,656	(31,001)	46,516		187,940
Other income and expense:						
Intercompany interest and royalty fees	(2,590)	(49,946)	52,536			
Intercompany management fees	94,139	(81,804)	(12,335)			
Equity in earnings of unconsolidated subsidiaries		9,146	52			9,198
Loss on early retirement of debt	(773)					(773)
Non-operating gain (loss)	40,895	(2,773)				38,122
Interest expense	(45,890)	(13,319)	(3,490)	(20,481)		(83,180)
Income from operations before income taxes	28,550	90,960	5,762	26,035		151,307
Income tax expense	8,139	31,985	607	9,779		50,510
Equity in earnings of subsidiaries	68,357	2,294			(70,651)(a)	
Net income	88,768	61,269	5,155	16,256	(70,651)	100,797
Less: Net income attributable to non-controlling interests			2,728	9,301		12,029
Net income attributable to Select Medical Corporation	$ 88,768	$ 61,269	$ 2,427	$ 6,955	$ (70,651)	$ 88,768

(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, 2016

(unaudited)

	Select (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Eliminations	Consolidated Select Medical Corporation
			(in thousands)			
Operating activities						
Net income	$ 88,768	$ 61,269	$ 5,155	$ 16,256	$ (70,651)(a)	$ 100,797
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Distributions from unconsolidated subsidiaries		12,000	39			12,039
Depreciation and amortization	2,487	32,381	5,562	30,292		70,722
Amortization of leasehold interests		34		261		295
Provision for bad debts		20,963	4,098	8,853		33,914
Equity in earnings of unconsolidated subsidiaries		(9,146)	(52)			(9,198)
Loss on early retirement of debt	773					773
Loss from disposal of assets		37	12	6		55
Gain on sale of businesses	(40,895)	(2,566)				(43,461)
Impairment of equity investment		5,339				5,339
Stock compensation expense	7,790			384		8,174
Amortization of debt discount, premium and issuance costs	5,371		2	1,704		7,077
Deferred income taxes	997			(14,283)		(13,286)
Changes in operating assets and liabilities, net of effects from acquisition of businesses:						
Equity in earnings of subsidiaries	(68,357)	(2,294)			70,651(a)	
Accounts receivable		(22,202)	(10,405)	(11,489)		(44,096)
Other current assets	(2,938)	7,029	(960)	7,880		11,011
Other assets	(4,268)	(291)	(508)	9,280		4,213
Accounts payable	(2,241)	(17,885)	(3,181)	7,455		(15,852)
Accrued expenses	(10,175)	24,534	9,113	(2,840)		20,632
Income taxes	8,832			19,989		28,821
Net cash provided by (used in) operating activities	(13,856)	109,202	8,875	73,748		177,969
Investing activities						
Purchases of property and equipment	(8,545)	(41,851)	(21,935)	(7,927)		(80,258)
Proceeds from sale of assets and business	63,418	7,942	6			71,366
Investment in businesses		(1,590)				(1,590)
Acquisition of businesses, net of cash acquired	(408,654)	(605)	(8,395)	(3,865)		(421,519)
Net cash used in investing activities	(353,781)	(36,104)	(30,324)	(11,792)		(432,001)

Financing activities			
Borrowings on revolving facilities	320,000		320,000
Payments on revolving facilities	(375,000)	(5,000)	(380,000)
Net proceeds from Select term loans	600,127		600,127