SELECT MEDICAL HOLDINGS CORP
Form S-1/A
June 18, 2009

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As filed with the Securities and Exchange Commission on June 18, 2009
Registration No. 333-152514

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Amendment No. 4 to
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SELECT MEDICAL HOLDINGS CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**8060**	**20-1764048**
(State or Other Jurisdiction of Incorporation or Organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

4714 Gettysburg Road
Mechanicsburg, Pennsylvania 17055
(717) 972-1100
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Michael E. Tarvin, Esq.
Executive Vice President, General Counsel and Secretary
4714 Gettysburg Road
P.O. Box 2034
Mechanicsburg, Pennsylvania 17055
(717) 972-1100

(Name, address including zip code, and telephone number, including area code, of agent for service)

With copies to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box: o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 þ (Do not check if a smaller reporting company)	Smaller reporting company o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee
Common Stock, par value $0.001 per share	$ 575,000,000	$ 30,435(3)

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

(2) Including shares of common stock which may be purchased by the underwriters to cover over-allotments, if any.

(3) $3,930 of the registration fee has been previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold until the registration statement is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated , 2009

Shares

Select Medical Holdings Corporation

Common Stock

This is an initial public offering of shares of common stock of Select Medical Holdings Corporation. We are offering shares of our common stock.

There is no existing public market for our common stock. It is currently estimated that the initial public offering price will be between $ and $ per share. We have applied to have our common stock approved for quotation on the Nasdaq Global Select Market under the symbol SLMC.

See Risk Factors beginning on page 13 to read about factors you should consider before buying shares of the common stock.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Select Medical Holdings Corporation
Per Share	$	$	$
Total	$	$	$

To the extent the underwriters sell more than shares of common stock, the underwriters have the option to purchase up to an additional shares from Select Medical Holdings Corporation at the initial public offering price

less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on , 2009.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

Morgan Stanley **Merrill Lynch & Co.** **Goldman, Sachs & Co.** **J.P.Morgan**

Wachovia Securities **RBC Capital Markets** **Credit Suisse**

Prospectus dated , 2009

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You should rely only on the information contained in this prospectus. Neither we nor the underwriters have authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. Neither we nor the underwriters are making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus or other date stated in this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date, and we have an obligation to provide updates to this prospectus only to the extent that the information contained in this prospectus becomes materially deficient or misleading after the date on the front cover.

As used in this prospectus, unless the context otherwise indicates, the references to Holdings refer to Select Medical Holdings Corporation, and the references to Select refer to Select Medical Corporation (a wholly-owned subsidiary of Holdings) and references to our company, us, we and our refer to Holdings together with Select and its subsidiaries

Unless otherwise indicated or the context otherwise requires, financial data in this prospectus reflects the consolidated business and operations of Select Medical Holdings Corporation and its wholly-owned subsidiaries. Except where otherwise indicated, $ indicates U.S. dollars.

Until , 2009 (25 days after the date of this prospectus), all dealers that buy, sell or trade our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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PROSPECTUS SUMMARY

The following summary highlights information contained elsewhere in this prospectus and is qualified in its entirety by more detailed information and consolidated financial statements included elsewhere in this prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing in our common stock. You should read this prospectus carefully, including the section entitled Risk Factors and the consolidated financial statements and the related notes to those statements included elsewhere in this prospectus. The information in this prospectus, other than historical financial information, gives effect to a reverse 1 to common stock split, which will be completed prior to the completion of this offering.

Our Business

Overview

We believe that we are one of the largest operators of both specialty hospitals and outpatient rehabilitation clinics in the United States based on number of facilities. As of March 31, 2009, we operated 87 long term acute care hospitals and five inpatient rehabilitation facilities in 25 states, and 948 outpatient rehabilitation clinics in 37 states and the District of Columbia. We also provide medical rehabilitation services on a contract basis at nursing homes, hospitals, assisted living and senior care centers, schools and worksites. We began operations in 1997 under the leadership of our current management team, including our co-founders, Rocco A. Ortenzio and Robert A. Ortenzio, who have a combined 68 years of experience in the healthcare industry. Under this leadership, we have grown our business from its founding to a business that generated net operating revenue of $2,153.4 million for the year ended December 31, 2008.

Business Segments and Strategy

We manage our company through two business segments, our specialty hospital and our outpatient rehabilitation segments, which accounted for approximately 69% and 31%, respectively, of our net operating revenues for the year ended December 31, 2008. Our specialty hospital segment consists of hospitals designed to serve the needs of long term stay acute patients and hospitals designed to serve patients who require intensive inpatient medical rehabilitation. Our outpatient rehabilitation business consists of clinics and contract services that provide physical, occupational and speech rehabilitation services.

Specialty Hospitals

The key elements of our specialty hospital strategy are to:

Focus on Specialized Inpatient Services. We serve highly acute patients and patients with debilitating injuries that cannot be adequately cared for in a less medically intensive environment, such as a skilled nursing facility. Generally, patients in our specialty hospitals require longer stays and higher levels of clinical care than patients treated in general acute care hospitals. Our patients average length of stay in our specialty hospitals was 24 days for the three months ended March 31, 2009.

Provide High Quality Care and Service. We believe that our specialty hospitals serve a critical role in comprehensive healthcare delivery. Through our specialized treatment programs and staffing models, we treat patients with acute, complex and specialized medical needs who are typically referred to us by general acute care hospitals. Our specialized treatment programs focus on specific patient needs and medical conditions such

as ventilator weaning programs, wound care protocols and rehabilitation programs for brain trauma and spinal cord injuries. Our responsive staffing models ensure that patients have the appropriate clinical resources over the course of their stay. We believe that we are recognized for providing quality care and service, as evidenced by accreditation by The Joint Commission and the Commission on Accreditation of Rehabilitation Facilities. We also believe we develop brand loyalty in the local areas we serve allowing us to strengthen our relationships with physicians and other referral sources and drive additional patient volume to our hospitals.

Reduce Operating Costs. We continually seek to improve operating efficiency and reduce costs at our hospitals by standardizing operations and centralizing key administrative functions. These initiatives include optimizing staffing based on our occupancy and the clinical needs of our patients, centralizing

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administrative functions, standardizing management information systems and participating in group purchasing arrangements.

Increase Higher Margin Commercial Volume. With reimbursement rates from commercial insurers typically higher than the federal Medicare program, we have focused on continued expansion of our relationships with commercial insurers to increase our volume of patients with commercial insurance in our specialty hospitals. Although the level of care we provide is complex and staff intensive, we typically have lower relative operating expenses than a general acute care hospital because we provide a much narrower range of patient services at our hospitals. We believe that commercial payors seek to contract with our hospitals because we offer patients high quality, cost-effective care at more attractive rates than general acute care hospitals.

Develop New Inpatient Rehabilitation Facilities. By leveraging the experience of our senior management and dedicated development team, we intend to pursue new inpatient rehabilitation hospital development opportunities.

Pursue Opportunistic Acquisitions. In addition to our development initiatives, we may grow our network of specialty hospitals through opportunistic acquisitions. Our immediate focus is on acquisitions of inpatient rehabilitation facilities, although we will still consider acquisitions of long term acute care hospitals if they are at attractive valuations.

Outpatient Rehabilitation

The key elements of our outpatient rehabilitation strategy are to:

Provide High Quality Care and Service. We are focused on providing a high level of service to our patients throughout their entire course of treatment. This high quality of care and service allows us to strengthen our relationships with referring physicians, employers and health insurers and drive additional patient volume.

Increase Market Share. We strive to establish a leading presence within the local areas we serve. This allows us to realize economies of scale, heightened brand loyalty, workforce continuity and increased leverage when negotiating payor contracts.

Expand Rehabilitation Programs and Services. Through our local clinical directors of operations and clinic managers within their service areas, we assess the healthcare needs of the areas we serve. Based on these assessments, we implement additional programs and services specifically targeted to meet demand in the local community.

Optimize the Profitability of Our Payor Contracts. We rigorously review payor contracts up for renewal and potential new payor contracts to optimize our profitability. We believe that our size and our strong reputation enables us to negotiate favorable outpatient contracts with commercial insurers.

Maintain Strong Employee Relations. We seek to retain, motivate and educate our employees whose relationships with referral sources are key to our success.

Pursue Opportunistic Acquisitions. We may grow our network of outpatient rehabilitation facilities through opportunistic acquisitions. We significantly expanded our network with the 2007 acquisition of the outpatient rehabilitation division of HealthSouth Corporation, consisting of 569 clinics in 35 states and the District of Columbia, including 18 states in which we did not previously have outpatient rehabilitation facilities. We believe our size and centralized infrastructure allow us to take advantage of operational efficiencies and

increase margins at acquired facilities.

Our Competitive Strengths

We believe that the success of our business model is based on a number of competitive strengths, including:

Leading Operator in Distinct but Complementary Lines of Business. We believe that we are a leading operator in each of our principal business segments, based on number of facilities in the United States. Our leadership position and reputation as a high quality, cost-effective health care provider in each of our

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business segments allows us to attract patients and employees, aids us in our marketing efforts to payors and referral sources and helps us negotiate payor contracts.

Proven Financial Performance and Strong Cash Flow. We have established a track record of improving the financial performance of our facilities due to our disciplined approach to revenue growth, expense management and an intense focus on free cash flow generation.

Significant Scale. By building significant scale in each of our business segments, we have been able to leverage our operating costs by centralizing administrative functions at our corporate office. As a result, we have been able to minimize our general and administrative expense as a percentage of revenues, which was 2.3% for the three months ended March 31, 2009.

Well-Positioned to Capitalize on Consolidation Opportunities. We believe that we are well-positioned to capitalize on consolidation opportunities within each of our business segments and selectively augment our internal growth. With our geographically diversified portfolio of facilities in the United States, we believe that our footprint provides us with a wide-ranging perspective on multiple potential acquisition opportunities.

Experience in Successfully Completing and Integrating Acquisitions. From our inception in 1997 through March 31, 2009, we completed six significant acquisitions for approximately $894.8 million in aggregate consideration. We believe that we have improved the operating performance of these facilities over time by applying our standard operating practices and by realizing efficiencies from our centralized operations and management.

Experienced and Proven Management Team. Prior to co-founding our company with our current Chief Executive Officer, our Executive Chairman founded and operated three other healthcare companies focused on inpatient and outpatient rehabilitation services. In addition, our four senior operations executives have an average of over 31 years of experience in the healthcare industry, including extensive experience working together for our company and for past companies focused on operating acute rehabilitation hospitals and outpatient rehabilitation facilities.

Industry

In the United States, spending on healthcare was expected to be 16.6% of the gross domestic product in 2008, according to the Centers for Medicare & Medicaid Services. An important factor driving healthcare spending is increased consumption of services due to the aging of the population. The number of individuals age 65 and older has grown 1.2% compounded annually over the past 20 years and is expected to grow 2.9% compounded annually over the next 20 years, approximately three times faster than the overall population, according to the U.S. Census Bureau. We believe that an increasing number of individuals age 65 and older will drive demand for our specialized medical services.

For individuals age 65 and older, the primary source of health insurance is the federal Medicare program. Medicare utilizes distinct payment methodologies for services provided in long term acute care hospitals, inpatient rehabilitation facilities and outpatient rehabilitation clinics. In the federal fiscal year 2007, Medicare payments for long term acute care hospital services accounted for 1.0% of overall Medicare outlays and Medicare payments for inpatient rehabilitation services accounted for 1.4%, according to the Medicare Payment Advisory Commission.

Risk Factors

Before you invest in our shares, you should carefully consider all of the information in this prospectus, including matters set forth under the heading Risk Factors, such as:

Highly regulated industry. The healthcare services industry is subject to extensive federal, state and local laws and regulations. We conduct business in a heavily regulated industry and changes in regulations, new interpretations of existing regulations or violations of regulations could have a material adverse effect on our business, financial condition and results of operations.

Reliance on Medicare reimbursement. Approximately 46% and 48% of our net operating revenues for the year ended December 31, 2008 and the three months ended March 31, 2009, respectively, came from the highly regulated federal Medicare program. President Obama has proposed comprehensive reforms to the

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healthcare system, including changes to the methods for, and amounts of, Medicare reimbursement. If these or other changes are made to the rates or methods of government reimbursements for our services, our business, financial condition and results of operations could decline.

Changes in federal regulations applicable to hospitals within hospitals. At March 31, 2009, 65 of our 87 long term acute care hospitals operated as hospitals within hospitals or as satellites. Recent federal regulations have lowered rates of reimbursement for services we provide to certain Medicare patients admitted to long term acute care hospitals operated as hospitals within hospitals or as satellites. Compliance with such changes in federal regulations may have an adverse effect on our future net operating revenues and profitability.

Changes in federal regulations applicable to free-standing hospitals and grandfathered long term acute care hospitals operated as hospitals within hospitals or satellites. At March 31, 2009, 22 of our 87 long term acute care hospitals operated as free-standing hospitals and three qualified as grandfathered long term acute care hospitals operated as hospitals within hospitals or satellites. Recent federal regulations have lowered rates of reimbursement for services we provide to certain Medicare patients admitted to free-standing long term acute care hospitals and grandfathered long term acute care hospitals operated as hospitals within hospitals or satellites. Significant aspects of these federal regulations have been postponed for a three year period for annual cost reporting periods beginning on or after July 1, 2007. If these recent federal regulations are applied as currently written at the end of the three year moratorium, they will have an adverse effect on our future net operating revenues and profitability.

Failure to maintain certifications as long term acute care hospitals. All of our 87 long term acute care hospitals are currently certified by Medicare as long term acute care hospitals. If our long term acute care hospitals fail to meet or maintain the standards for certification as long term acute care hospitals, such as minimum average length of patient stay, they will receive significantly less Medicare reimbursement than they currently receive for their patient services.

Modifications to the admissions policies for our inpatient rehabilitation facilities. All of our five acute medical rehabilitation hospitals are currently certified by Medicare as inpatient rehabilitation facilities. Changes to federal regulations have made significant changes to the inpatient rehabilitation facilities certification process. In order to comply with the Medicare inpatient rehabilitation facility certification criteria, it may be necessary for us to implement more restrictive admissions policies at our inpatient rehabilitation facilities and not admit patients whose diagnoses fall outside the specified conditions. Such policies may result in a reduction of patient volume at these hospitals and, as a result, may reduce our future net operating revenues and profitability.

Company Information

Select was formed in December 1996 by Rocco A. Ortenzio and Robert A. Ortenzio and commenced operations during February 1997 upon the completion of its first acquisition. Holdings was formed in October 2004. On February 24, 2005, EGL Acquisition Corp., a wholly-owned subsidiary of Holdings, was merged with Select, with Select continuing as the surviving corporation and a wholly-owned subsidiary of Holdings. We refer to this merger and the related transactions collectively as the Merger Transactions. Holdings was formerly known as EGL Holding Company. Holdings primary asset is its investment in Select. Holdings is owned by an investor group that includes Welsh, Carson, Anderson & Stowe IX, L.P., WCAS Capital Partners IV, L.P. and WCAS Management Corporation, Thoma Cressey Bravo and members of our senior management. We refer to Welsh, Carson, Anderson & Stowe IX, L.P., WCAS Capital Partners IV, L.P. and WCAS Management Corporation, collectively as Welsh Carson and Thoma Cressey Bravo as Thoma Cressey.

Select Medical Holdings Corporation was incorporated on October 14, 2004 as a Delaware corporation. Our principal executive office is located at 4714 Gettysburg Road, Mechanicsburg, Pennsylvania 17055 and our telephone number is (717) 972-1100.

Our website address is www.selectmedicalcorp.com. Our website and the information contained therein or connected thereto shall not be deemed to be incorporated into this prospectus or the registration statement of which it forms a part.

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THE OFFERING

Shares of common stock offered by us	shares, or shares if the underwriters exercise their over-allotment option in full.
Conversion of preferred stock	All shares of our issued and outstanding participating preferred stock shall be converted into shares of our common stock, based upon an assumed public offering price of $ per share, the midpoint of the range set forth on the cover of this prospectus, at the time the offering is consummated.
Common stock to be outstanding after this offering	shares, or shares if the underwriters exercise their over-allotment option in full.
Use of proceeds	We estimate that we will receive net proceeds from the sale of shares of our common stock in this offering of $ million, or $ million if the underwriters exercise their over-allotment option in full, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us based on an assumed public offering price of $ per share, the midpoint of the range set forth on the cover page of this prospectus. We intend to use the net proceeds of this offering to: repay indebtedness then outstanding under our existing senior secured credit facility (including related fees, expenses and prepayment premiums, if any), in the aggregate amount of approximately $ million; pay fees and expenses associated with entering into our new senior secured credit facility, in the amount of approximately $; and make payments to executive officers under our Long Term Cash Incentive Plan in the amount of approximately $ million. Any remaining net proceeds will be used for general corporate purposes. Affiliates of J.P. Morgan Securities Inc., Wachovia Capital Markets, LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, underwriters in this offering, are parties to our existing senior secured credit facility and will receive a portion of the proceeds from this offering. In addition, we expect that will be lenders under our new senior secured credit facility and will receive fees in connection with our new senior secured credit facility from a portion of the proceeds of this offering. See Use of Proceeds, and Underwriters.
Dividend policy	We do not anticipate paying any dividends on our common stock in the foreseeable future. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on then existing conditions, including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem

relevant. In addition, our ability to declare and pay dividends is restricted by covenants in our senior secured credit facility and the indentures governing Select s senior subordinated notes due 2015, which we refer to as Select s 75/8% senior subordinated notes, and our senior floating rate notes due 2015, which we refer to as the

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	senior floating rate notes. See Description of Indebtedness Existing Senior Secured Credit Facility Restrictive Covenants and Other Matters and Risk Factors.
New senior secured credit facility	Concurrently with the consummation of this offering, we expect to terminate our existing senior secured credit facility and enter into a new senior secured credit facility. The consummation of this offering is contingent upon our entering into the new senior secured credit facility on terms acceptable to us.
Proposed Nasdaq Global Select Market symbol	SLMC.
Risk factors	Investment in our common stock involves substantial risks. You should read this prospectus carefully, including the section entitled Risk Factors and the consolidated financial statements and the related notes to those statements included elsewhere in this prospectus before investing in our common stock.

As mentioned above, each share of our outstanding preferred stock will convert into a number of common shares to be determined by:

- dividing the original cost of a share of the preferred stock ($26.90 per share of preferred stock) plus all accrued and unpaid dividends thereon less the amount of any previously declared and paid special dividends, or the accreted value of such preferred stock, by the initial public offering price per share in this offering; plus
- share of common stock for each share of participating preferred stock owned.

The number of shares of our common stock to be outstanding after this offering is based on shares outstanding as of March 31, 2009 and excludes:

- shares of our common stock issuable upon exercise of options granted under our director stock option plan. See Management Compensation Discussion and Analysis Director Compensation Table Option Awards ; and
- shares of our common stock issuable upon exercise of options granted under the Select Medical Holdings Corporation 2005 Equity Incentive Plan. See Management Compensation Discussion and Analysis Elements of Compensation Equity Compensation.

Unless otherwise noted, all information in this prospectus:

- other than historical financial information, gives effect to a reverse 1 to common stock split;
- assumes that the underwriters do not exercise their over-allotment option; and
- other than historical financial information, reflects the conversion of shares of our issued and outstanding preferred stock into shares of common stock, based upon an assumed public offering price of $ per share, the midpoint of the range set forth on the cover page of this prospectus.

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SUMMARY HISTORICAL AND OTHER FINANCIAL DATA

The following table sets forth, for the periods and dates indicated, our summary historical and other financial data. We have derived the statements of operations data for the years ended December 31, 2006, 2007 and 2008, and the balance sheet data as of December 31, 2007 and 2008 from our audited consolidated financial statements appearing elsewhere in this prospectus. We have derived the statements of operations data for the three months ended March 31, 2008 and 2009 and balance sheet data as of March 31, 2009 from our unaudited consolidated financial statements appearing elsewhere in this prospectus. The summary financial data presented below represent portions of our financial statements and are not complete. You should read this information in conjunction with Use of Proceeds, Capitalization, Selected Historical Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes included elsewhere in this prospectus.

The pro forma as adjusted consolidated statements of operations for the year ended December 31, 2008 and for the three months ended March 31, 2009 give effect to (1) the assumed 1 for reverse split of our common stock to occur prior to the closing of this offering, (2) the conversion of all shares of our issued and outstanding preferred stock into shares of common stock based upon an assumed public offering price of $ per share, the midpoint of the range set forth on the cover page of this prospectus, (3) the issuance of shares of our common stock at an assumed initial public offering price of $ per share, the midpoint of the range set forth on the cover page of this prospectus, (4) the termination of our existing senior secured credit facility and the borrowings under our new senior secured credit facility, and (5) the application of the estimated net proceeds from this offering as if they had occurred on January 1, 2008. The pro forma as adjusted balance sheet data as of March 31, 2009 gives effect to (1) the assumed 1 for reverse split of our common stock to occur prior to the closing of this offering, (2) the conversion of all shares of our preferred stock based upon an assumed public offering price of per share, the midpoint of the range set forth on the cover page of this prospectus, (3) the issuance of shares of our common stock at an assumed initial public offering price of $ per share, the midpoint of the range set forth on the cover page of this prospectus, (4) the termination of our existing senior secured credit facility and the borrowings under our new senior secured credit facility, and (5) the application of the estimated net proceeds from this offering as if they had occurred on March 31, 2009. The pro forma consolidated financial statement of operations excludes non-recurring charges directly attributable to this offering, including $ million (net of tax) related to payments under our Long Term Cash Incentive Plan and $ million (net of tax) related to the write-off of deferred financing costs associated with our existing senior secured credit facility. You should read this information in conjunction with Unaudited Pro Forma Consolidated Financial Information included elsewhere in this prospectus.

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	Year Ended December 31,			
	2006[1]	2007[1]	2008[1]	Pro Forma As Adjusted 2008
	(in thousands, except per share data)			
Statement of Operations Data:				
Net operating revenues	$ 1,851,498	$ 1,991,666	$ 2,153,362	$
Operating expenses[2][3]	1,546,956	1,740,484	1,885,168	
Depreciation and amortization	46,668	57,297	71,786	
Income from operations	257,874	193,885	196,408	
Gain on early retirement of debt[4]			912	
Other expense		(167)		
Interest expense, net[5]	(130,538)	(138,052)	(145,423)	
Income from continuing operations before income taxes	127,336	55,666	51,897	
Income tax expense	43,521	18,699	26,063	
Income from continuing operations	83,815	36,967	25,834	
Income from discontinued operations, net of tax	12,818			
Net income	96,633	36,967	25,834	
Less: Net income attributable to non-controlling interests[6]	1,754	1,537	3,393	
Net income attributable to Select Medical Holdings Corporation	94,879	35,430	22,441	
Less: Preferred dividends	22,663	23,807	24,972	
Net income (loss) available to common and preferred stockholders	$ 72,216	$ 11,623	$ (2,531)	$
Income (loss) per common share[7]:				
Basic:				
Income (loss) from continuing operations	$ 0.26	$ 0.05	$ (0.01)	
Income from discontinued operations, net of tax	0.06			
Net income (loss)	$ 0.32	$ 0.05	$ (0.01)	
Diluted:				
Income (loss) from continuing operations	$ 0.26	$ 0.05	$ (0.01)	
Income from discontinued operations, net of tax	0.06			
Net income (loss)	$ 0.32	$ 0.05	$ (0.01)	

Income (loss) per common share assuming the reverse stock split contemplated by this offering:				
Basic:				
Income (loss) from continuing operations	$	$	$	$
Income from discontinued operations, net of tax				
Net income (loss)	$	$	$	$
Diluted:				
Income (loss) from continuing operations	$	$	$	$
Income from discontinued operations, net of tax				
Net income (loss)	$	$	$	$
Balance Sheet Data (at end of period):				
Cash and cash equivalents	$ 81,600	$ 4,529	$ 64,260	
Working capital	59,468	14,730	118,370	
Total assets	2,182,524	2,495,046	2,579,469	
Total debt	1,538,503	1,755,635	1,779,925	
Preferred stock	467,395	491,194	515,872	
Total Select Medical Holdings Corporation stockholders equity	(169,139)	(165,889)	(174,204)	
Segment Data:				
Specialty Hospitals[8]:				
Net operating revenue	$ 1,378,543	$ 1,386,410	$ 1,488,412	
Adjusted EBITDA[9]	283,270	217,175	236,388	
Outpatient Rehabilitation:				
Net operating revenue	470,339	603,413	664,760	
Adjusted EBITDA[9]	64,823	75,437	77,279	

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	Three Months Ended March 31,		
	2008[1][7]	2009	Pro Forma As Adjusted 2009
	(in thousands, except per share data)		
Statement of Operations Data:			
Net operating revenues	$ 548,278	$ 561,172	$
Operating expenses[2][3]	476,537	475,815	
Depreciation and amortization	17,397	17,731	
Income from operations	54,344	67,626	
Gain on early retirement of debt[4]		11,754	
Interest expense, net[5]	(36,793)	(34,620)	
Income from operations before income taxes	17,551	44,760	
Income tax expense	8,542	18,743	
Net income	9,009	26,017	
Less: Net income attributable to non-controlling interests[6]	309	1,021	
Net income attributable to Select Medical Holdings Corporation	8,700	24,996	
Less: Preferred dividends	6,084	6,362	
Net income available to common and preferred stockholders	$ 2,616	$ 18,634	$
Net income per common share:			
Basic	$ 0.01	$ 0.08	
Diluted	$ 0.01	$ 0.08	
Net income per common share assuming the reverse stock split contemplated by this offering:			
Basic	$	$	$
Diluted	$	$	$
Balance Sheet Data (at end of period):			
Cash and cash equivalents	$ 8,180	$ 12,686	
Working capital	105,278	125,800	
Total assets	2,554,414	2,558,897	
Total debt	1,826,364	1,749,946	
Preferred stock	496,983	522,232	
Total Select Medical Holdings Corporation stockholders equity	(174,203)	(156,419)	
Segment Data:			
Specialty Hospitals[8]:			
Net operating revenue	$ 378,604	$ 393,232	
Adjusted EBITDA[9]	63,243	76,781	
Outpatient Rehabilitation:			
Net operating revenue	169,577	167,819	
Adjusted EBITDA[9]	20,097	21,284	

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Operating Statistics

The following tables set forth operating statistics for our specialty hospitals and our outpatient rehabilitation clinics for each of the periods presented. The data in the table reflect the changes in the number of specialty hospitals and outpatient rehabilitation clinics we operate that resulted from acquisitions, start-up activities, closures, sales and consolidations. The operating statistics reflect data for the period of time these operations were managed by us.

	Year Ended December 31, 2006	Year Ended December 31, 2007	Year Ended December 31, 2008
Specialty hospital data[8]:			
Number of hospitals start of period	101	96	87
Number of hospital start-ups	3	3	7
Number of hospitals acquired			2
Number of hospitals closed/sold	(4)	(8)	(1)
Number of hospitals consolidated	(4)	(4)	(2)
Number of hospitals end of period	96	87	93
Available licensed beds	3,867	3,819	4,222
Admissions	39,668	40,008	41,177
Patient days	969,590	987,624	1,005,719
Average length of stay (days)	24	25	24
Net revenue per patient day[10]	$ 1,392	$ 1,378	$ 1,453
Occupancy rate	69%	69%	67%
Percent patient days Medicare	73%	69%	65%
Outpatient rehabilitation data[11]:			
Number of clinics owned start of period	553	477	918
Number of clinics acquired		570	4
Number of clinic start-ups	12	15	17
Number of clinics closed/sold[12]	(88)	(144)	(59)
Number of clinics owned end of period	477	918	880
Number of clinics managed end of period	67	81	76
Total number of clinics (all) end of period	544	999	956
Number of visits	2,972,243	4,032,197	4,533,727
Net revenue per visit[13]	$ 94	$ 100	$ 102

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	Three Months Ended March 31,	
	2008	2009
Specialty hospital data[8]:		
Number of hospitals start of period	87	93
Number of hospital start-ups	5	
Number of hospitals closed/sold		(1)
Number of hospitals end of period	92	92
Available licensed beds	4,111	4,172
Admissions	10,736	10,805
Patient days	259,559	256,273
Average length of stay (days)	25	24
Net revenue per patient day[10]	$ 1,432	$ 1,508
Occupancy rate	71%	68%
Percent patient days Medicare	67%	65%
Outpatient rehabilitation data:		
Number of clinics owned start of period	918	880
Number of clinics acquired		1
Number of clinic start-ups	5	
Number of clinics closed/sold	(18)	(6)
Number of clinics owned end of period	905	875
Number of clinics managed end of period	80	73
Total number of clinics (all) end of period	985	948
Number of visits	1,155,907	1,096,296
Net revenue per visit[13]	$ 103	$ 103

(1) Adjusted for the adoption of SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. See Note 1, Organization and Significant Accounting Policies Recent Accounting Pronouncements, in our audited consolidated financial statements and Note 2, Accounting Policies Recent Accounting Pronouncements, in our interim unaudited consolidated financial statements for additional information.

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

(3) Includes compensation expense related to restricted stock and stock options for the years ended December 31, 2006, 2007, and 2008 and for the three months ended March 31, 2008 and 2009.

(4) In the year ended December 31, 2008, we paid approximately $1.0 million to repurchase and retire a portion of Select s 75/8% senior subordinated notes. These notes had a carrying value of $2.0 million. The gain on early retirement of debt recognized was net of the write-off of unamortized deferred financing costs related to the debt. During the three months ended March 31, 2009, we paid approximately $19.0 million to repurchase and retire a portion of Select s 75/8% senior subordinated notes. These notes had a carrying value of $31.5 million. The gain on early retirement of debt recognized was net of the write-off of unamortized deferred financing costs related to

the debt.

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

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

(7) Adjusted for the adoption of FASB Staff Position EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities. See Note 14 in our audited consolidated financial statements and Note 8 in our interim unaudited consolidated financial statements for additional information.

(8) Specialty hospitals consist of long term acute care hospitals and inpatient rehabilitation facilities.

(9) We define Adjusted EBITDA as net income before interest, income taxes, depreciation and amortization, income from discontinued operations, gain on early retirement of debt, stock compensation expense, other expense and non-controlling interests. We believe that the presentation of Adjusted EBITDA is important to investors because Adjusted EBITDA is commonly used as an analytical indicator of performance by investors within the healthcare industry. Adjusted EBITDA is used by management to evaluate financial performance and determine resource allocation for each of our operating units. Adjusted EBITDA is not a measure of financial performance under generally accepted accounting principles. Items excluded from Adjusted EBITDA are significant components in understanding and assessing

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financial performance. Adjusted EBITDA should not be considered in isolation or as an alternative to, or substitute for, net income, cash flows generated by operations, investing or financing activities, or other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity. Because Adjusted EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, Adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies. See footnote 13 to our audited consolidated financial statements and footnote 7 to our interim unaudited consolidated financial statements for the period ended March 31, 2009 for a reconciliation of net income to Adjusted EBITDA as utilized by us in reporting our segment performance in accordance with SFAS No. 131.

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

(11) Outpatient rehabilitation data has been restated to remove the clinics operated by Canadian Back Institute Limited, which we refer to as CBIL, which was sold on March 31, 2006 and is being reported as a discontinued operation in 2006.

(12) The number of clinics closed/sold for the year ended December 31, 2007 relate primarily to clinics closed in connection with the restructuring plan for integrating the acquisition of HealthSouth Corporation s outpatient rehabilitation division.

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

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should consider carefully the following risk factors and the other information in this prospectus, including our consolidated financial statements and related notes, before you decide to purchase our common stock. If any of the following risks actually occur, our business, financial condition and operating results could be adversely affected. As a result, the trading price of our common stock could decline and you could lose part or all of your investment.

Risks Relating to Our Business and Industry

If there are changes in the rates or methods of government reimbursements for our services, our net operating revenues and profitability could decline.

Approximately 46% and 48% of our net operating revenues for the year ended December 31, 2008 and the three months ended March 31, 2009, respectively, came from the highly regulated federal Medicare program. In recent years, through legislative and regulatory actions, the federal government has made substantial changes to various payment systems under the Medicare program. President Obama has proposed comprehensive reforms to the healthcare system, including changes to the methods for, and amounts of, Medicare reimbursement. President Obama s proposals would significantly reduce payments from Medicare and Medicaid over the next ten years. Reforms or other changes to these payment systems, including modifications to the conditions on qualification for payment, bundling payments to cover both acute and post-acute care or the imposition of enrollment limitations on new providers, may be proposed or could be adopted, either by the U.S. Congress or by the Centers for Medicare & Medicaid Services, or CMS. If revised regulations are adopted, the availability, methods and rates of Medicare reimbursemen