SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

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Report of Independent Registered Public Accounting Firm

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Select Medical Holdings Corporation and its subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations and comprehensive income, of changes in equity and income, and of cash flows for each of the three years in the period ended December 31, 2018, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2018 appearing under Item 15(a) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for revenue from contracts with customers as of January 1, 2018.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded U.S. HealthWorks from its assessment of internal control over financial reporting as of December 31, 2018 because it was acquired by the Company in a purchase business combination during 2018. We have also excluded U.S. HealthWorks from our audit of internal control over financial reporting. U.S. HealthWorks is a joint-venture subsidiary whose total assets and total revenues excluded from management's assessment and our audit of internal control over financial reporting represent approximately 3% and 10%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2018.

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ PricewaterhouseCoopers LLP

Harrisburg, Pennsylvania
February 21, 2019

We have served as the Company's auditor since 2005.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder
of Select Medical Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Select Medical Corporation and its subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations and comprehensive income, of changes in equity and income, and of cash flows for each of the three years in the period ended December 31, 2018, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2018 appearing under Item 15(a) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

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As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for revenue from contracts with customers as of January 1, 2018.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

/s/ PricewaterhouseCoopers LLP

Harrisburg, Pennsylvania
February 21, 2019

We have served as the Company's auditor since 1999, which includes periods before the Company became subject to SEC reporting requirements.

PART I FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	Select Medical Holdings Corporation		Select Medical Corporation	
	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2018
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 122,549	$ 175,178	$ 122,549	$ 175,178
Accounts receivable	691,732	706,676	691,732	706,676
Prepaid income taxes	31,387	20,539	31,387	20,539
Other current assets	75,158	90,131	75,158	90,131
Total Current Assets	920,826	992,524	920,826	992,524
Property and equipment, net	912,591	979,810	912,591	979,810
Goodwill	2,782,812	3,320,726	2,782,812	3,320,726
Identifiable intangible assets, net	326,519	437,693	326,519	437,693
Other assets	184,418	233,512	184,418	233,512
Total Assets	$ 5,127,166	$ 5,964,265	$ 5,127,166	$ 5,964,265
LIABILITIES AND EQUITY				
Current Liabilities:				
Overdrafts	$ 29,463	$ 25,083	$ 29,463	$ 25,083
Current portion of long-term debt and notes payable	22,187	43,865	22,187	43,865
Accounts payable	128,194	146,693	128,194	146,693
Accrued payroll	160,562	172,386	160,562	172,386
Accrued vacation	92,875	110,660	92,875	110,660
Accrued interest	19,885	12,137	19,885	12,137
Accrued other	143,166	190,691	143,166	190,691
Income taxes payable	9,071	3,671	9,071	3,671
Total Current Liabilities	605,403	705,186	605,403	705,186
Long-term debt, net of current portion	2,677,715	3,249,516	2,677,715	3,249,516
Non-current deferred tax liability	124,917	153,895	124,917	153,895
Other non-current liabilities	145,709	158,940	145,709	158,940
Total Liabilities	3,553,744	4,267,537	3,553,744	4,267,537
Commitments and contingencies (Note 17)				
Redeemable non-controlling interests	640,818	780,488	640,818	780,488
Stockholders' Equity:				
Common stock of Holdings, $0.001 par value, 700,000,000 shares authorized, 134,114,715 and 135,265,864 shares issued and outstanding at 2017 and 2018, respectively	134	135	—	—
Common stock of Select, $0.01 par value, 100 shares issued and outstanding	—	—	0	0
Capital in excess of par	463,499	482,556	947,370	970,156
Retained earnings (accumulated deficit)	359,735	320,351	(124,002)	(167,114)
Total Select Medical Holdings Corporation and Select Medical Corporation Stockholders' Equity	823,368	803,042	823,368	803,042
Non-controlling interests	109,236	113,198	109,236	113,198
Total Equity	932,604	916,240	932,604	916,240
Total Liabilities and Equity	$ 5,127,166	$ 5,964,265	$ 5,127,166	$ 5,964,265

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

Select Medical Holdings Corporation

Consolidated Statements of Operations and Comprehensive Income

(in thousands, except per share amounts)

	For the Year Ended December 31,		
	2016	2017	2018
Net operating revenues	$ 4,217,460	$ 4,365,245	$ 5,081,258
Costs and expenses:			
Cost of services, exclusive of depreciation and amortization	3,665,375	3,735,309	4,341,056
General and administrative	106,927	114,047	121,268
Depreciation and amortization	145,311	160,011	201,655
Total costs and expenses	3,917,613	4,009,367	4,663,979
Income from operations	299,847	355,878	417,279
Other income and expense:			
Loss on early retirement of debt	(11,626)	(19,719)	(14,155)
Equity in earnings of unconsolidated subsidiaries	19,943	21,054	21,905
Non-operating gain (loss)	42,651	(49)	9,016
Interest expense	(170,081)	(154,703)	(198,493)
Income before income taxes	180,734	202,461	235,552
Income tax expense (benefit)	55,464	(18,184)	58,610
Net income	125,270	220,645	176,942
Less: Net income attributable to non-controlling interests	9,859	43,461	39,102
Net income attributable to Select Medical Holdings Corporation	$ 115,411	$ 177,184	$ 137,840
Earnings per common share (Note 16):			
Basic	$ 0.88	$ 1.33	$ 1.02
Diluted	$ 0.87	$ 1.33	$ 1.02

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

Select Medical Corporation
Consolidated Statements of Operations and Comprehensive Income
(in thousands)

	For the Year Ended December 31,		
	2016	2017	2018
Net operating revenues	$ 4,217,460	$ 4,365,245	$ 5,081,258
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Net income attributable to Select Medical Corporation	$ 115,411	$ 177,184	$ 137,840

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

Select Medical Holdings Corporation
Consolidated Statements of Changes in Equity and Income
(in thousands)

	Redeemable Non-controlling interests	Select Medical Holdings Corporation Stockholders						
		Common Stock Issued	Common Stock Par Value	Capital in Excess of Par	Retained Earnings	Total Stockholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2015	$ 238,221	131,283	$ 131	$ 424,506	$ 434,616	$ 859,253	$ 49,264	$ 908,517
Net income attributable to Select Medical Holdings Corporation					115,411	115,411		115,411
Net income (loss) attributable to non-controlling interests	12,479					—	(2,620)	(2,620)
Issuance of restricted stock		1,426	1	(1)		—		—
Forfeitures of unvested restricted stock		(82)	0	0		—		—
Vesting of restricted stock				16,640		16,640		16,640
Repurchase of common shares		(232)	0	(1,333)	(1,596)	(2,929)		(2,929)
Stock option expense				4		4		4
Exercise of stock options		202	0	1,672		1,672		1,672
Issuance of non-controlling interests				2,377		2,377	47,801	50,178
Acquired non-controlling interests						—	2,514	2,514
Distributions to and purchases of non-controlling interests	(5,984)			75	579	654	(7,324)	(6,670)
Redemption adjustment on non-controlling interests	177,216				(177,216)	(177,216)		(177,216)
Other	227			(32)	(109)	(141)	541	400
Balance at December 31, 2016	$ 422,159	132,597	$ 132	$ 443,908	$ 371,685	$ 815,725	$ 90,176	$ 905,901
Net income attributable to Select Medical Holdings Corporation					177,184	177,184		177,184
Net income attributable to non-controlling interests	35,639					—	7,822	7,822
Issuance of restricted stock		1,598	2	(2)		—		—
Forfeitures of unvested restricted stock		(27)	0	0		—		—
Vesting of restricted stock				18,291		18,291		18,291
Repurchase of common shares		(280)	0	(2,666)	(2,087)	(4,753)		(4,753)
Exercise of stock options		227	0	2,017		2,017		2,017
Issuance of non-controlling interests				1,951		1,951	16,329	18,280
Distributions to and purchases of non-controlling interests	(5,334)				7	7	(5,293)	(5,286)
Redemption adjustment on non-controlling interests	187,506				(187,506)	(187,506)		(187,506)
Other	848				452	452	202	654
Balance at December 31, 2017	$ 640,818	134,115	$ 134	$ 463,499	$ 359,735	$ 823,368	$ 109,236	$ 932,604
Net income attributable to Select Medical Holdings Corporation					137,840	137,840		137,840
Net income attributable to non-controlling interests	27,775					—	11,327	11,327
Issuance of restricted stock		1,491	1	(1)		—		—
Forfeitures of unvested restricted stock		(168)	0	0		—		—
Vesting of restricted stock				20,443		20,443		20,443
Repurchase of common shares		(357)	0	(3,728)	(3,109)	(6,837)		(6,837)
Exercise of stock options		185	0	1,722		1,722		1,722
Issuance and exchange of non-controlling interests	163,659			1,553	74,341	75,894	1,921	77,815
Distributions to and purchases of non-controlling interests	(217,570)			(932)	(83,617)	(84,549)	(10,839)	(95,388)
Redemption adjustment on non-controlling interests	164,476				(164,476)	(164,476)		(164,476)
Other	1,330				(363)	(363)	1,553	1,190
Balance at December 31, 2018	$ 780,488	135,266	$ 135	$ 482,556	$ 320,351	$ 803,042	$ 113,198	$ 916,240

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

Select Medical Corporation
Consolidated Statements of Changes in Equity and Income
(in thousands)

	Redeemable Non-controlling interests	Select Medical Corporation Stockholders: Common Stock Issued	Common Stock Par Value	Capital in Excess of Par	Retained Earnings	Total Stockholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2015	$ 238,221	0	$ 0	$ 904,375	$ (45,122)	$ 859,253	$ 49,264	$ 908,517
Net income attributable to Select Medical Corporation					115,411	115,411		115,411
Net income (loss) attributable to non-controlling interests	12,479					—	(2,620)	(2,620)
Additional investment by Holdings				1,672		1,672		1,672
Dividends declared and paid to Holdings					(2,929)	(2,929)		(2,929)
Contribution related to restricted stock award and stock option issuances by Holdings				16,644		16,644		16,644
Issuance of non-controlling interests				2,377		2,377	47,801	50,178
Acquired non-controlling interests						—	2,514	2,514
Distributions to and purchases of non-controlling interests	(5,984)			75	579	654	(7,324)	(6,670)
Redemption adjustment on non-controlling interests	177,216				(177,216)	(177,216)		(177,216)
Other	227			(32)	(109)	(141)	541	400
Balance at December 31, 2016	$ 422,159	0	$ 0	$ 925,111	$ (109,386)	$ 815,725	$ 90,176	$ 905,901
Net income attributable to Select Medical Corporation					177,184	177,184		177,184
Net income attributable to non-controlling interests	35,639					—	7,822	7,822
Additional investment by Holdings				2,017		2,017		2,017
Dividends declared and paid to Holdings					(4,753)	(4,753)		(4,753)
Contribution related to restricted stock award issuances by Holdings				18,291		18,291		18,291
Issuance of non-controlling interests				1,951		1,951	16,329	18,280
Distributions to and purchases of non-controlling interests	(5,334)				7	7	(5,293)	(5,286)
Redemption adjustment on non-controlling interests	187,506				(187,506)	(187,506)		(187,506)
Other	848				452	452	202	654
Balance at December 31, 2017	$ 640,818	0	$ 0	$ 947,370	$ (124,002)	$ 823,368	$ 109,236	$ 932,604
Net income attributable to Select Medical Corporation					137,840	137,840		137,840
Net income attributable to non-controlling interests	27,775					—	11,327	11,327
Additional investment by Holdings				1,722		1,722		1,722
Dividends declared and paid to Holdings					(6,837)	(6,837)		(6,837)
Contribution related to restricted stock award issuances by Holdings				20,443		20,443		20,443
Issuance and exchange of non-controlling interests	163,659			1,553	74,341	75,894	1,921	77,815
Distributions to and purchases of non-controlling interests	(217,570)			(932)	(83,617)	(84,549)	(10,839)	(95,388)
Redemption adjustment on non-controlling interests	164,476				(164,476)	(164,476)		(164,476)
Other	1,330				(363)	(363)	1,553	1,190
Balance at December 31, 2018	$ 780,488	0	$ 0	$ 970,156	$ (167,114)	$ 803,042	$ 113,198	$ 916,240

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

Select Medical Holdings Corporation

Consolidated Statements of Cash Flows

(in thousands)

	For the Year Ended December 31,		
	2016	2017	2018
Operating activities			
Net income	$ 125,270	$ 220,645	$ 176,942
Adjustments to reconcile net income to net cash provided by operating activities:			
Distributions from unconsolidated subsidiaries	20,476	20,006	15,721
Depreciation and amortization	145,311	160,011	201,655
Provision for bad debts	532	1,133	(103)
Equity in earnings of unconsolidated subsidiaries	(19,943)	(21,054)	(21,905)
Loss on extinguishment of debt	11,626	6,527	2,999
Gain on sale of assets and businesses	(46,488)	(10,349)	(9,168)
Gain on sale of equity investment	(2,779)	—	—
Impairment of equity investment	5,339	—	—
Stock compensation expense	17,413	19,284	23,326
Amortization of debt discount, premium and issuance costs	15,656	11,130	13,112
Deferred income taxes	(12,591)	(72,324)	7,217
Changes in operating assets and liabilities, net of effects of business combinations:			
Accounts receivable	29,241	(118,833)	54,575
Other current assets	17,450	1,597	(4,152)
Other assets	9,290	(886)	7,857
Accounts payable	(15,492)	3,903	(1,778)
Accrued expenses	46,292	17,341	27,896
Net cash provided by operating activities	346,603	238,131	494,194
Investing activities			
Business combinations, net of cash acquired	(472,206)	(27,390)	(523,134)
Purchases of property and equipment	(161,633)	(233,243)	(167,281)
Investment in businesses	(4,723)	(12,682)	(13,482)
Proceeds from sale of assets and businesses	80,463	80,350	6,760
Proceeds from sale of equity investment	3,779	—	—
Net cash used in investing activities	(554,320)	(192,965)	(697,137)
Financing activities			
Borrowings on revolving facilities	575,000	970,000	595,000
Payments on revolving facilities	(655,000)	(960,000)	(805,000)
Proceeds from term loans	795,344	1,139,487	779,823
Payments on term loans	(438,034)	(1,179,442)	(11,500)
Revolving facility debt issuance costs	—	(4,392)	(1,639)
Borrowings of other debt	27,721	46,621	42,218
Principal payments on other debt	(21,401)	(20,647)	(25,242)
Repurchase of common stock	(2,929)	(4,753)	(6,837)
Proceeds from exercise of stock options	1,672	2,017	1,722
Increase (decrease) in overdrafts	10,746	(9,899)	(4,380)
Proceeds from issuance of non-controlling interests	11,846	9,982	2,926
Distributions to and purchases of non-controlling interests	(12,654)	(10,620)	(311,519)
Net cash provided by (used in) financing activities	292,311	(21,646)	255,572
Net increase in cash and cash equivalents	84,594	23,520	52,629
Cash and cash equivalents at beginning of period	14,435	99,029	122,549
Cash and cash equivalents at end of period	$ 99,029	$ 122,549	$ 175,178
Supplemental information:			
Cash paid for interest	$ 142,640	$ 149,156	$ 193,406
Cash paid for taxes	70,756	64,991	48,153
Non-cash investing and financing activities:			
Liabilities for purchases of property and equipment	$ 32,861	$ 30,043	$ 29,134
Non-cash equity exchange for acquisition of U.S. HealthWorks	—	—	238,000

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

Select Medical Corporation
Consolidated Statements of Cash Flows
(in thousands)

	For the Year Ended December 31,		
	2016	2017	2018
Operating activities			
Net income	$ 125,270	$ 220,645	$ 176,942
Adjustments to reconcile net income to net cash provided by operating activities:			
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Depreciation and amortization	145,311	160,011	201,655
Provision for bad debts	532	1,133	(103)
Equity in earnings of unconsolidated subsidiaries	(19,943)	(21,054)	(21,905)
Loss on extinguishment of debt	11,626	6,527	2,999
Gain on sale of assets and businesses	(46,488)	(10,349)	(9,168)
Gain on sale of equity investment	(2,779)	—	—
Impairment of equity investment	5,339	—	—
Stock compensation expense	17,413	19,284	23,326
Amortization of debt discount, premium and issuance costs	15,656	11,130	13,112
Deferred income taxes	(12,591)	(72,324)	7,217
Changes in operating assets and liabilities, net of effects of business combinations:			
Accounts receivable	29,241	(118,833)	54,575
Other current assets	17,450	1,597	(4,152)
Other assets	9,290	(886)	7,857
Accounts payable	(15,492)	3,903	(1,778)
Accrued expenses	46,292	17,341	27,896
Net cash provided by operating activities	346,603	238,131	494,194
Investing activities			
Business combinations, net of cash acquired	(472,206)	(27,390)	(523,134)
Purchases of property and equipment	(161,633)	(233,243)	(167,281)
Investment in businesses	(4,723)	(12,682)	(13,482)
Proceeds from sale of assets and businesses	80,463	80,350	6,760
Proceeds from sale of equity investment	3,779	—	—
Net cash used in investing activities	(554,320)	(192,965)	(697,137)
Financing activities			
Borrowings on revolving facilities	575,000	970,000	595,000
Payments on revolving facilities	(655,000)	(960,000)	(805,000)
Proceeds from term loans	795,344	1,139,487	779,823
Payments on term loans	(438,034)	(1,179,442)	(11,500)
Revolving facility debt issuance costs	—	(4,392)	(1,639)
Borrowings of other debt	27,721	46,621	42,218
Principal payments on other debt	(21,401)	(20,647)	(25,242)
Dividends paid to Holdings	(2,929)	(4,753)	(6,837)
Equity investment by Holdings	1,672	2,017	1,722
Increase (decrease) in overdrafts	10,746	(9,899)	(4,380)
Proceeds from issuance of non-controlling interests	11,846	9,982	2,926
Distributions to and purchases of non-controlling interests	(12,654)	(10,620)	(311,519)
Net cash provided by (used in) financing activities	292,311	(21,646)	255,572
Net increase in cash and cash equivalents	84,594	23,520	52,629
Cash and cash equivalents at beginning of period	14,435	99,029	122,549
Cash and cash equivalents at end of period	$ 99,029	$ 122,549	$ 175,178
Supplemental information:			
Cash paid for interest	$ 142,640	$ 149,156	$ 193,406
Cash paid for taxes	70,756	64,991	48,153
Non-cash investing and financing activities:			
Liabilities for purchases of property and equipment	$ 32,861	$ 30,043	$ 29,134
Non-cash equity exchange for acquisition of U.S. HealthWorks	—	—	238,000

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

SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Significant Accounting Policies

Business Description

Select Medical Corporation ("Select") was formed in December 1996 and commenced operations during February 1997. Select Medical Holdings Corporation ("Holdings") was formed in October 2004 and on February 24, 2005, Select merged with a subsidiary of Holdings, which resulted in Select becoming a wholly owned subsidiary of Holdings. On September 30, 2009, Holdings completed its initial public offering of common stock. Holdings and Select and their subsidiaries are collectively referred to as the "Company." The consolidated financial statements of Holdings include the accounts of its wholly owned subsidiary Select. Holdings conducts its business through Select and its subsidiaries.

The Company is, based on number of facilities, one of the largest operators of critical illness recovery hospitals (previously referred to as long term acute care hospitals), rehabilitation hospitals (previously referred to as inpatient rehabilitation facilities), outpatient rehabilitation clinics, and occupational health centers in the United States. As of December 31, 2018, the Company had operations in 47 states and the District of Columbia. As of December 31, 2018, the Company operated 96 critical illness recovery hospitals, 26 rehabilitation hospitals, and 1,662 outpatient rehabilitation clinics. As of December 31, 2018, Concentra, a joint venture subsidiary, operated 524 occupational health centers. Concentra also operated 124 onsite clinics at employer worksites and 31 Department of Veterans Affairs CBOCs.

The Company is managed through four business segments: the critical illness recovery hospital segment (previously referred to as the long term acute care segment), the rehabilitation hospital segment (previously referred to as the inpatient rehabilitation segment), the outpatient rehabilitation segment, and the Concentra segment. The Company's critical illness recovery hospital segment consists of hospitals designed to serve the needs of patients recovering from critical illnesses, often with complex medical needs, and the rehabilitation hospital segment consists of hospitals designed to serve patients that require intensive physical rehabilitation care. Patients are typically admitted to the Company's critical illness recovery hospitals and rehabilitation hospitals from general acute care hospitals. The Company's outpatient rehabilitation segment consists of clinics that provide physical, occupational, and speech rehabilitation services. The Company's Concentra segment consists of occupational health centers and contract services provided at employer worksites and Department of Veterans Affairs community-based outpatient clinics ("CBOCs") that deliver occupational medicine, physical therapy, veteran's healthcare, and consumer health services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including disclosure of contingencies, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to: amounts realizable for services performed, estimated useful lives of assets, the valuation of intangible assets, amounts payable for self-insured losses, and the computation of income taxes. Future events and their effects cannot be predicted with certainty; accordingly, the Company's accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the financial statements will change as new events occur, as more experience is acquired, as additional information is obtained, and as the Company's operating environment changes. The Company's management evaluates and updates assumptions and estimates on an ongoing basis. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the subsidiaries, limited liability companies, and limited partnerships in which the Company has a controlling financial interest. All intercompany balances and transactions are eliminated in consolidation.

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Organization and Significant Accounting Policies (Continued)

Non-Controlling Interests

The ownership interests held by outside parties in subsidiaries, limited liability companies and limited partnerships controlled by the Company are classified as non-controlling interests. Net income or loss is attributed to the Company's non-controlling interests in accordance with Accounting Standards Codification ("ASC") Topic 810, *Consolidation*. Some of the Company's non-controlling ownership interests consist of outside parties that have certain redemption rights that, if exercised, require the Company to purchase the parties' ownership interests. These interests are classified and reported as redeemable non-controlling interests and have been adjusted to their approximate redemption values, after the attribution of net income or loss, in accordance with ASC Topic 480, *Distinguishing liabilities from equity*.

The Company's redeemable non-controlling interest is comprised primarily of the Class A interests owned by outside members of Concentra Group Holdings Parent, LLC ("Concentra Group Holdings Parent"), each which have put rights with respect to their interests in Concentra Group Holdings Parent. The redemption value of these interests is approximately $613.3 million and $750.6 million as of December 31, 2017 and 2018, respectively.

Earnings per Share

The Company's capital structure includes common stock and unvested restricted stock awards. To compute earnings per share ("EPS"), the Company applies the two-class method because the Company's unvested restricted stock awards are participating securities which are entitled to participate equally with the Company's common stock in undistributed earnings. Application of the Company's two-class method is as follows:

(i) Net income attributable to the Company is reduced by the amount of dividends declared and the contractual amount of dividends in the current period for each class of stock, if any.

(ii) The remaining undistributed net income of the Company is then equally allocated to its common stock and unvested restricted stock awards, as if all of the earnings for the period had been distributed. The total net income allocated to each security is determined by adding both distributed and undistributed net income for the period.

(i) The net income allocated to each security is then divided by the weighted average number of outstanding shares for the period to which the earnings are allocated to determine the EPS for each security considered in the two-class method.

Segment Reporting

The Company identifies its operating segments according to how the chief operating decision maker evaluates financial performance and allocates resources. Prior to 2017, the Company's reportable segments were specialty hospitals, outpatient rehabilitation, and Concentra. During the year ended December 31, 2017, the Company changed its internal segment reporting structure to reflect how the Company now manages its business operations, reviews operating performance, and allocates resources. The Company's reportable segments include the critical illness recovery hospital segment, the rehabilitation hospital segment, the outpatient rehabilitation segment, and the Concentra segment. Prior year results presented herein conform to the current reportable segment structure.

Cash and Cash Equivalents

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

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Organization and Significant Accounting Policies (Continued)

Accounts Receivable

Substantially all of the Company's accounts receivable are related to providing healthcare services to patients whose costs are primarily paid by federal and state governmental authorities, managed care health plans, commercial insurance companies, and workers' compensation and employer programs. The Company reports accounts receivable at an amount equal to the consideration the Company expects to receive in exchange for providing healthcare services to its patients, which is estimated using contractual provisions associated with specific payors, historical reimbursement rates, and an analysis of past experience to estimate potential adjustments. The Company writes-off amounts that have been deemed to be uncollectible because of circumstances that affect the ability of payors to make payments as they occur.

Credit Risk and Payor Concentrations

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash balances and trade receivables. The Company's excess cash is held with large financial institutions. The Company grants unsecured credit to its patients, most of whom reside in the service area of the Company's facilities and are insured under third-party payor agreements. The Company's general policy is to verify insurance coverage prior to the date of admission for patients admitted to the Company's critical illness recovery hospitals and rehabilitation hospitals. Within the Company's outpatient rehabilitation clinics, the Company verifies insurance coverage prior to the patient's visit. Within the Company's Concentra centers, the Company verifies insurance coverage or receives authorization from the patient's employer prior to the patient's visit.

Because of the geographic diversity of the Company's facilities and non-governmental third-party payors, Medicare represents the Company's only significant concentration of credit risk. Approximately 27% and 16% of the Company's accounts receivable are from Medicare at December 31, 2017 and 2018, respectively. The Company's primary collection risks relate to non-governmental payors and deductibles, co-payments, and amounts owed by the patient. Deductibles, co-payments, and self-insured amounts owed by the patient are an immaterial portion of the Company's accounts receivable balance. Approximately 0.3% of the Company's accounts receivable were from deductibles, co-payments, and self-insured amounts owed by patients at both December 31, 2017 and 2018.

A significant portion of the Company's net operating revenues are generated directly from the Medicare program. Net operating revenues generated directly from the Medicare program represented approximately 30%, 30%, and 27% of the Company's total net operating revenues for the years ended December 31, 2016, 2017, and 2018, respectively. As a provider of services under the Medicare program, the Company is subject to extensive regulations. The inability of any of the Company's critical illness recovery hospitals, rehabilitation hospitals, or outpatient rehabilitation clinics to comply with Medicare regulations can result in significant changes in the net operating revenues generated from the Medicare program.

Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable, and indebtedness. The carrying amount of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value because of the short-term maturity of these instruments. The principal outstanding, carrying values, and fair values of the Company's indebtedness are presented in Note 9.

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Organization and Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Maintenance and repairs of property and equipment are expensed as incurred. Improvements that increase the estimated useful life of an asset are capitalized. Direct internal and external costs of developing software for internal use, including programming and enhancements, are capitalized and depreciated over the estimated useful lives once the software is placed in service. Capitalized software costs are included within furniture and equipment. Software training costs, maintenance, and repairs are expensed as incurred. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets or the term of the lease, as appropriate. The general range of useful lives is as follows:

Land improvements	2 — 25 years
Leasehold improvements	1 — 15 years
Buildings	40 years
Building improvements	5 — 30 years
Furniture and equipment	1 — 20 years

The Company reviews the realizability of long-lived assets whenever events or circumstances occur which indicate recorded costs may not be recoverable. If it is determined that a long-lived asset or asset group is not recoverable, an impairment charge is recognized based on the excess of the carrying amount of the long-lived asset or asset group over its fair value.

Intangible Assets

Goodwill and indefinite-lived identifiable intangible assets

Goodwill and other indefinite-lived intangible assets are recognized primarily as the result of business combinations. Goodwill is assigned to reporting units based upon the specific nature of the business acquired. When a business combination contains business components related to more than one reporting unit, goodwill is assigned to each reporting unit based upon an allocation determined by the relative fair values of the business acquired. When we dispose of a business, goodwill is allocated to the gain or loss on disposition using the relative fair value methodology.

Goodwill and other indefinite-lived intangible assets are not amortized, but instead are subject to periodic impairment evaluations. Impairment tests are required to be conducted at least annually or when events or conditions occur that might suggest a possible impairment. These events or conditions include, but are not limited to: a significant adverse change in the business environment, regulatory environment, or legal factors; a current period operating or cash flow loss combined with a history of such losses or a projection of continuing losses; or a sale or disposition of a significant portion of a reporting unit. The occurrence of one of these events or conditions could significantly impact an impairment assessment, necessitating an impairment charge.

The Company may first assess qualitatively if it can conclude whether goodwill is more likely than not impaired. If goodwill is more likely than not impaired, the Company is then required to complete a quantitative analysis of whether a reporting unit's fair value is less than its carrying amount. In evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company considers relevant events or circumstances that affect the fair value or carrying amount of a reporting unit. The Company considers both the income and market approach in determining the fair value of its reporting units when performing a quantitative analysis.

At December 31, 2018, the Company's other indefinite-lived intangible assets consist of certain trademarks, certificates of need, and accreditations. To determine the fair value of the trademark, the Company uses a relief from royalty income approach. For the Company's certificates of need and accreditations, the Company performs qualitative assessments. As part of these assessments, the Company evaluates the current business environment, regulatory environment, legal and other company-specific factors. If it is more likely than not that the fair values are less than the carrying values, the Company performs a quantitative impairment test.

**SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

1. Organization and Significant Accounting Policies (Continued)

The Company's most recent impairment assessments were completed during the fourth quarter of 2018 utilizing information as of October 1, 2018. The Company did not identify any instances of impairment with respect to goodwill or other indefinite-lived intangible assets as of October 1, 2018.

Finite-lived identifiable intangible assets

At December 31, 2018, the Company's finite-lived intangible assets consist of certain trademarks, customer relationships, non-compete agreements, and leasehold interests. Finite-lived intangible assets are amortized based on the pattern in which the economic benefits are consumed or otherwise depleted. If such a pattern cannot be reliably determined, finite-lived intangible assets are amortized on a straight-line basis over their estimated lives. Management believes that the below estimated useful lives are reasonable based on the economic factors applicable to each class of finite-lived intangible asset.

Customer relationships	5 — 17 years
Non-compete agreements	1 — 15 years
Leasehold interests	1 — 15 years
Trademarks	1 year

The Company reviews the realizability of finite-lived intangible assets whenever events or circumstances occur which indicate recorded amounts may not be recoverable. If the expected undiscounted future cash flows are less than the carrying amount of such assets, the Company recognizes an impairment loss to the extent the carrying amount of the assets exceeds their estimated fair value.

Equity Method Investments

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

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements. Deferred tax assets and liabilities are determined on the basis of the differences between the book and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company also recognizes the future tax benefits from net operating loss carryforwards as deferred tax assets. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company evaluates the realizability of deferred tax assets and reduces those assets using a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. Among the factors used to assess the likelihood of realization are projections of future taxable income streams, the expected timing of the reversals of existing temporary differences, and the impact of tax planning strategies that could be implemented to avoid the potential loss of future tax benefits.

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

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Organization and Significant Accounting Policies (Continued)

Insurance Risk Programs

Under a number of the Company's insurance programs, which include the Company's employee health insurance, workers' compensation, and professional malpractice liability insurance programs, the Company is liable for a portion of its losses before it can attempt to recover from the applicable insurance carrier. The Company accrues for losses under an occurrence-based approach whereby the Company estimates the losses that will be incurred in a respective accounting period and accrues that estimated liability using actuarial methods. These programs are monitored quarterly and estimates are revised as necessary to take into account additional information. The Company also records insurance proceeds receivable for liabilities which exceed the Company's deductibles and self-insured retention limits and are recoverable through insurance policies.

Revenue Recognition

Patient Services Revenue

Patient services revenue is recognized when obligations under the terms of the contract are satisfied; generally, this occurs as the Company provides healthcare services, as each service provided is distinct and future services rendered are not dependent on previously rendered services. Patient service revenues are recognized at an amount equal to the consideration the Company expects to receive in exchange for providing healthcare services to its patients. These amounts are due from patients; third-party payors, including health insurers and government programs; and other payors.

Medicare: Medicare is a federal program that provides medical insurance benefits to persons age 65 and over, some disabled persons, and persons with end stage renal disease. Amounts we receive for treatment of patients covered by the Medicare program are generally less than the standard billing rates; accordingly, the Company recognizes revenue based on amounts which are reimbursable by Medicare under prospective payment systems and provisions of cost-reimbursement and other payment methods. The amount reimbursed is derived based on the type of services provided.

Non-Medicare: The Company is reimbursed for healthcare services provided from various other payor sources which include insurance companies, state Medicaid programs, workers' compensation programs, health maintenance organizations, preferred provider organizations, other managed care companies and employers, as well as patients. The Company is reimbursed by these payors using a variety of payment methodologies and the amounts the Company receives are generally less than the standard billing rates.

In the critical illness recovery hospital and rehabilitation hospital segments, the Company recognizes revenue based on known contractual provisions associated with the specific payor or, where the Company has a relatively homogeneous patient population, the Company will monitor individual payors' historical reimbursement rates to derive a per diem rate which is used to determine the amount of revenue to be recognized for services rendered. In the outpatient rehabilitation and Concentra segments, the Company recognizes revenue from payors based on known contractual provisions, negotiated amounts, or usual and customary amounts associated with the specific payor or based on the service provided. The Company performs provision testing, using internally developed systems, whereby the Company monitors historical reimbursement rates and compares them against the associated gross charges for the service provided. The percentage of historical reimbursed claims to gross charges is utilized to determine the amount of revenue to be recognized for services rendered.

The Company is subject to potential retrospective adjustments to net operating revenues in future periods for administrative matters and other price concessions. These adjustments, which are estimated based on an analysis of historical experience by payor source, are accounted for as a constraint to the amount of revenue recognized by the Company in the period services are rendered.

Other Revenues

The Company recognizes revenue for services provided to healthcare institutions, principally for providing management and employee leasing services, under contractual arrangements with related parties affiliated with the Company and with other non-affiliated healthcare institutions. Revenue is recognized when the obligations under the terms of the contract are satisfied. Revenues from these services are measured as the amount of consideration the Company expects to receive for those services.

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Organization and Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

Lease Accounting

Beginning in February 2016, the Financial Accounting Standards Board (the "FASB") issued several Accounting Standards Updates ("ASU") which established Topic 842, *Leases* ("Topic 842"). Topic 842 includes a lessee accounting model that recognizes two types of leases: finance and operating. This standard requires that a lessee recognize on the balance sheet right-of-use assets and lease liabilities for all leases with lease terms of more than twelve months. 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 lessee will depend on its classification as a finance or operating lease.

The standard provides a number of optional practical expedients in transition. The Company will elect the package of practical expedients, which permits the Company not to reassess under Topic 842 the Company's prior conclusions about lease identification, lease classification, and initial direct costs. The Company will not elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to the Company. The Company will elect the short-term lease recognition exemption for its equipment leases. Consequently, the Company will not recognize right-of-use assets or lease liabilities for these leases which have terms of less than twelve months. The Company will also elect the practical expedient to not separate lease and non-lease components for all of its leases.

The Company will implement the standard using a modified retrospective approach with a cumulative-effect adjustment as of January 1, 2019. Prior comparative periods will not be adjusted under this approach. The adoption of the standard will have a material impact on the Company's consolidated balance sheets, as the Company will recognize right-of-use assets and lease liabilities for its operating leases. The adoption of this standard will not have a material impact on the Company's consolidated statements of operations and comprehensive income. The Company will not recognize a cumulative-effect adjustment to retained earnings upon adoption. The Company's accounting for its finance leases, formerly referred to as capital leases, will remain substantially unchanged.

The Company has validated the accuracy and completeness of its lease data and has implemented a new technology platform to account for leases under Topic 842. The Company's remaining implementation efforts are focused on testing the technology platform and designing disclosure processes and related controls.

Financial Instruments

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments — Credit Losses: Measurement of Credit Losses on Financial Instruments*. The current standard delays the recognition of a credit loss on a financial asset until the loss is probable of occurring. The new standard removes the requirement that a credit loss be probable of occurring for it to be recognized and requires entities to use historical experience, current conditions, and reasonable and supportable forecasts to estimate their future expected credit losses. The Company's accounts receivable derived from contracts with customers will be subject to ASU 2016-13.

The standard will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The guidance must be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the earliest comparative period in the financial statements. Given the very high rate of collectability of the Company's accounts receivable derived from contracts with customers, the impact of ASU 2016-13 is unlikely to be material.

SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Organization and Significant Accounting Policies (Continued)

Recently Adopted Accounting Pronouncements

Revenue from Contracts with Customers

On January 1, 2018, the Company adopted Topic 606, *Revenue from Contracts with Customers* using the full retrospective transition method. Adoption of the revenue recognition standard impacted the Company's reported results as follows:

	For the Year Ended December 31, 2016			For the Year Ended December 31, 2017		
	As Reported	As Adjusted[(1)]	Adoption Impact	As Reported	As Adjusted[(1)]	Adoption Impact
	(in thousands)					
Consolidated Statements of Operations and Comprehensive Income						
Net operating revenues	$ 4,286,021	$ 4,217,460	$ (68,561)	$ 4,443,603	$ 4,365,245	$ (78,358)
Bad debt expense	69,093	532	(68,561)	79,491	1,133	(78,358)

(1) Bad debt expense is now included in cost of services on the consolidated statements of operations and comprehensive income.

	For the Year Ended December 31, 2016			For the Year Ended December 31, 2017		
	As Reported	As Adjusted	Adoption Impact	As Reported	As Adjusted	Adoption Impact
	(in thousands)					
Consolidated Statements of Cash Flows						
Provision for bad debts	$ 69,093	$ 532	$ (68,561)	$ 79,491	$ 1,133	$ (78,358)
Changes in accounts receivable	(39,320)	29,241	68,561	(197,191)	(118,833)	78,358

	December 31, 2017		
	As Reported	As Adjusted	Adoption Impact
	(in thousands)		
Consolidated Balance Sheets			
Accounts receivable	$ 767,276	$ 691,732	$ (75,544)
Allowance for doubtful accounts	75,544	—	(75,544)
Accounts receivable	$ 691,732	$ 691,732	$ —

SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Acquisitions

U.S. HealthWorks Acquisition

On February 1, 2018, Concentra acquired all of the issued and outstanding shares of stock of U.S. HealthWorks, Inc. ("U.S. HealthWorks"), an occupational medicine and urgent care provider, pursuant to the terms of an Equity Purchase and Contribution Agreement (the "Purchase Agreement") dated as of October 22, 2017, by and among Concentra, U.S. HealthWorks, Concentra Group Holdings, LLC ("Concentra Group Holdings"), Concentra Group Holdings Parent, and Dignity Health Holding Corporation ("DHHC"). For the years ended December 31, 2017 and 2018, the Company recognized $2.8 million and $2.9 million of U.S. HealthWorks acquisition costs, respectively, which are included in general and administrative expense.

In connection with the closing of the transaction, Concentra Group Holdings made distributions to its equity holders and redeemed certain of its outstanding equity interests from existing minority equity holders. Subsequently, Concentra Group Holdings and a wholly owned subsidiary of Concentra Group Holdings Parent merged, with Concentra Group Holdings surviving the merger and becoming a wholly owned subsidiary of Concentra Group Holdings Parent. As a result of the merger, the equity interests of Concentra Group Holdings outstanding after the redemption described above were exchanged for membership interests in Concentra Group Holdings Parent.

Concentra acquired U.S. HealthWorks for $753.6 million. DHHC, a subsidiary of Dignity Health, was issued a 20.0% equity interest in Concentra Group Holdings Parent, which was valued at $238.0 million. The remainder of the purchase price was paid in cash. Select retained a majority voting interest in Concentra Group Holdings Parent following the closing of the transaction.

For the U.S. HealthWorks acquisition, the Company allocated the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values in accordance with the provisions of ASC Topic 805, *Business Combinations*. During the year ended December 31, 2018, the Company finalized the purchase accounting related to this acquisition.

The following table reconciles the fair values of identifiable net assets and goodwill to the consideration given for the acquired business (in thousands):

Accounts receivable	$	68,934
Other current assets		10,810
Property and equipment		69,712
Identifiable intangible assets		140,406
Other assets		25,435
Goodwill		540,067
Total assets		855,364
Accounts payable and other current liabilities		49,925
Deferred income taxes and other long-term liabilities		51,851
Total liabilities		101,776
Consideration given	$	753,588

The fair values assigned to tangible assets were derived using a combination of the market and cost approaches. Significant judgments used in valuing tangible assets include estimated reproduction or replacement cost, useful lives of assets, and estimated selling prices. The fair values assigned to identifiable intangible assets were determined through the use of the income and cost approaches. Both valuation methods rely on management judgment including expected future cash flows, customer attrition rates, contributory effects of other assets utilized in the business, peer group cost of capital and royalty rates, and other factors. Useful lives for identifiable intangible assets were determined based upon the remaining useful economic lives of the identifiable intangible assets that are expected to contribute directly or indirectly to future cash flows.

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Acquisitions (Continued)

	Fair Value		Weighted Average Amortization Period
	(in thousands)		(in years)
Customer relationships	$	135,000	15 years
Trademark		5,000	1 year
Favorable leasehold interests		406	2.9 years
Identifiable intangible assets	$	140,406	

The customer relationships and trademarks are being amortized on a straight-line basis over their expected useful lives. Favorable leasehold interests are being amortized over their remaining lease terms at the time of acquisition.

Goodwill of $540.1 million was recognized for the business combination, representing the excess of the consideration given over the fair value of identifiable net assets acquired. The value of goodwill was derived from U.S. HealthWorks' future earnings potential and its assembled workforce. Goodwill was assigned to the Concentra reporting unit and is not deductible for tax purposes. However, prior to its acquisition by the Company, U.S. HealthWorks completed certain acquisitions that resulted in tax deductible goodwill with an estimated value of $83.1 million, which the Company will deduct through 2032.

U.S. HealthWorks contributed net operating revenues of $488.8 million for the year ended December 31, 2018, which is reflected in the Company's consolidated statements of operations and comprehensive income. Due to the integrated nature of the Company's operations, it is not practicable to separately identify earnings of U.S. HealthWorks on a stand-alone basis.

Physiotherapy Acquisition

On March 4, 2016, Select acquired all of the issued and outstanding equity securities of Physiotherapy Associates Holdings, Inc. ("Physiotherapy") for $406.3 million, net of $12.3 million of cash acquired. 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. For the year ended December 31, 2016, $3.2 million of Physiotherapy acquisition costs were recognized in general and administrative expense.

During the year ended December 31, 2016, the Company finalized the accounting for identifiable intangible assets, fixed assets, non-controlling interests, and certain pre-acquisition contingencies. During the quarter ended March 31, 2017, the Company completed the accounting for certain deferred tax matters.

The following table reconciles the fair values of identifiable net assets and goodwill to the consideration given for the acquired business (in thousands):

Cash and cash equivalents	$	12,340
Identifiable tangible assets, excluding cash and cash equivalents		87,832
Identifiable intangible assets		32,484
Goodwill		343,187
Total assets		475,843
Total liabilities		54,685
Acquired non-controlling interests		2,514
Net assets acquired		418,644
Less: Cash and cash equivalents acquired		(12,340)
Net cash paid	$	406,304

Goodwill of $343.2 million was recognized in the business combination, representing the excess of the consideration given over the fair value of identifiable net assets acquired. The value of goodwill was derived from Physiotherapy's future earnings potential and its assembled workforce. Goodwill was assigned to the outpatient rehabilitation reporting unit and is not deductible for tax purposes. However, prior to its acquisition by the Company, Physiotherapy completed certain acquisitions that resulted in tax deductible goodwill with an estimated value of $8.8 million, which the Company will deduct through 2030.

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Acquisitions (Continued)

Due to the integration of Physiotherapy into the Company's outpatient rehabilitation operations, it is not practicable to separately identify net operating revenues and earnings of Physiotherapy on a stand-alone basis.

Pro Forma Results

The following pro forma unaudited results of operations have been prepared assuming the acquisitions of Physiotherapy and U.S. HealthWorks occurred January 1, 2015 and 2017, respectively. These results are not necessarily indicative of the results of future operations nor of the results that would have occurred had the acquisitions been consummated on the aforementioned dates.

	For the Year Ended December 31,		
	2016	2017	2018
	(in thousands, except per share amounts)		
Net operating revenues	$ 4,339,551	$ 4,903,612	$ 5,128,838
Net income attributable to the Company	113,590	170,689	140,488

The Company's pro forma results were adjusted to recognize Physiotherapy and U.S. Healthworks acquisition costs as of January 1, 2015 and 2017, respectively. Accordingly, for the year ended December 31, 2016, pro forma results were adjusted to exclude $3.2 million of Physiotherapy acquisition costs. For the year ended December 31, 2017, pro forma results were adjusted to include approximately $2.9 million of U.S. HealthWorks acquisition costs. These acquisition costs were excluded from the pro forma results for the year ended December 31, 2018.

3. Variable Interest Entities

Concentra does not own many of its medical practices, as certain states prohibit the "corporate practice of medicine," which restricts business corporations from practicing medicine through the direct employment of physicians or from exercising control over medical decisions by physicians. In states which prohibit the corporate practice of medicine, Concentra typically enters into long-term management agreements with professional corporations or associations that are owned by licensed physicians, which, in turn, employ or contract with physicians who provide professional medical services in its occupational health centers.

The management agreements have terms that provide for Concentra to conduct, supervise, and manage the day-to-day non-medical operations of the occupational health centers and provide all management and administrative services. Concentra receives a management fee for these services, which is based, in part, on the performance of the professional corporation or association. Additionally, the outstanding voting equity interests of the professional corporations or associations are typically owned by licensed physicians appointed at Concentra's discretion. Concentra has the ability to direct the transfer of ownership of the professional corporation or association to a new licensed physician at any time.

Based on the provisions of these agreements, the Company has determined that it has the ability to direct the activities which most significantly impact the performance of these professional corporations and associations and have an obligation to absorb losses or receive benefits which could potentially be significant to the professional corporations and associations. Accordingly, the professional corporations and associations are variable interest entities for which the Company is the primary beneficiary.

As of December 31, 2017 and 2018, the total assets of the Company's variable interest entities were $108.2 million and $166.2 million, respectively, which is comprised principally of accounts receivable. As of December 31, 2017 and 2018, the total liabilities of the Company's variable interest entities were $105.7 million and $164.4 million, respectively, which is comprised principally of accounts payable, accrued expenses, and obligations payable for services received under the aforementioned management agreements.

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Sale of Businesses

The Company recognized a non-operating gain of $35.6 million resulting from the sale of businesses during the year ended December 31, 2016. The non-operating gain was the result of the sale of the Company's contract therapy businesses for $65.0 million, resulting in a non-operating gain of $33.9 million, and the sale of nine outpatient rehabilitation clinics to an entity the Company holds as an equity method investment, resulting in a non-operating gain of $1.7 million.

The Company recognized a non-operating gain of $8.6 million resulting from the sale of businesses during the year ended December 31, 2018. The non-operating gain was comprised of $7.0 million resulting from the sale of 41 wholly owned outpatient rehabilitation clinics to entities the Company holds as equity method investments and $1.6 million related to additional proceeds received during 2018 from the sale of the Company's contract therapy businesses, as described above.

5. Property and Equipment

The Company's property and equipment consists of the following:

	December 31,	
	2017	2018
	(in thousands)	
Land	$ 77,077	$ 87,358
Leasehold improvements	420,632	498,520
Buildings	414,704	481,375
Furniture and equipment	517,912	609,805
Construction-in-progress	112,930	67,333
Total property and equipment	1,543,255	1,744,391
Accumulated depreciation	(630,664)	(764,581)
Property and equipment, net	$ 912,591	$ 979,810

Depreciation expense was $129.0 million, $142.6 million, and $171.7 million for the years ended December 31, 2016, 2017, and 2018, respectively.

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Intangible Assets

Goodwill

The following table shows changes in the carrying amounts of goodwill by reporting unit for the years ended December 31, 2017 and 2018:

	Critical Illness Recovery Hospital[(1)]	Rehabilitation Hospital[(1)]	Specialty Hospitals	Outpatient Rehabilitation	Concentra	Total
	(in thousands)					
Balance as of January 1, 2017	$ —	$ —	$ 1,447,406	$ 643,557	$ 660,037	$ 2,751,000
Acquired	—	12,887	797	3,797	14,505	31,986
Measurement period adjustment	—	—	(342)	168	—	(174)
Reorganization of reporting units	1,045,220	402,641	(1,447,861)	—	—	—
Balance as of December 31, 2017	$ 1,045,220	$ 415,528	$ —	$ 647,522	$ 674,542	$ 2,782,812
Acquired	—	1,118	—	4,309	537,424	542,851
Measurement period adjustment	—	—	—	—	4,472	4,472
Sold	—	—	—	(9,409)	—	(9,409)
Balance as of December 31, 2018	$ 1,045,220	$ 416,646	$ —	$ 642,422	$ 1,216,438	$ 3,320,726

(1) The critical illness recovery hospital reporting unit was previously referred to as the long term acute care reporting unit. The rehabilitation hospital reporting unit was previously referred to as the inpatient rehabilitation reporting unit.

Identifiable Intangible Assets

The following table provides the gross carrying amounts, accumulated amortization, and net carrying amounts for the Company's identifiable intangible assets:

	December 31,					
	2017			2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in thousands)					
Indefinite-lived intangible assets:						
Trademarks	$ 166,698	$ —	$ 166,698	$ 166,698	$ —	$ 166,698
Certificates of need	19,155	—	19,155	19,174	—	19,174
Accreditations	1,895	—	1,895	1,857	—	1,857
Finite-lived intangible assets:						
Trademarks	—	—	—	5,000	(4,583)	417
Customer relationships	143,953	(38,281)	105,672	280,710	(61,900)	218,810
Favorable leasehold interests	13,295	(4,319)	8,976	13,553	(6,064)	7,489
Non-compete agreements	28,023	(3,900)	24,123	29,400	(6,152)	23,248
Total identifiable intangible assets	$ 373,019	$ (46,500)	$ 326,519	$ 516,392	$ (78,699)	$ 437,693

The Company's accreditations and trademarks have renewal terms. The costs to renew these intangibles are expensed as incurred. At December 31, 2018, the accreditations and trademarks have a weighted average time until next renewal of 1.5 years and 8.2 years, respectively.

6. Intangible Assets (Continued)

The Company's finite-lived customer relationships, non-compete agreements, and trademarks amortize over their estimated useful lives. Amortization expense was $16.3 million, $17.4 million, and $29.9 million for the years ended December 31, 2016, 2017, and 2018, respectively. The Company's leasehold interests have finite lives and 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.

Estimated amortization expense of the Company's finite-lived customer relationships, non-compete agreements, and trademarks for each of the five succeeding years is as follows:

	2019	2020	2021	2022	2023
			(in thousands)		
Amortization expense	$ 26,620	$ 25,994	$ 25,778	$ 25,568	$ 25,417

7. Equity Method Investments

The Company's equity method investments consist principally of minority ownership interests in rehabilitation businesses. Equity method investments of $114.2 million and $146.9 million are presented as part of other assets on the consolidated balance sheets as of December 31, 2017 and 2018, respectively. As of December 31, 2017 and 2018, these businesses consist primarily of the following ownership interests:

BIR JV, LLP	49.0%
OHRH, LLC	49.0%
GlobalRehab—Scottsdale, LLC	49.0%
Rehabilitation Institute of Denton, LLC	50.0%
ES Rehabilitation, LLC	49.0%
Coastal Virginia Rehabilitation, LLC	49.0%
BHSM Rehabilitation, LLC	49.0%

Summarized combined financial information of the rehabilitation entities in which the Company has a minority ownership interest is as follows:

	December 31,	
	2017	2018
	(in thousands)	
Current assets	$ 102,908	$ 125,435
Non-current assets	79,364	118,270
Total assets	$ 182,272	$ 243,705
Current liabilities	$ 37,113	$ 43,792
Non-current liabilities	13,751	16,338
Equity	131,408	183,575
Total liabilities and equity	$ 182,272	$ 243,705

	For the Year Ended December 31,		
	2016	2017	2018
		(in thousands)	
Revenues	$ 320,078	$ 336,349	$ 393,034
Operating costs and expenses	274,952	289,224	342,603
Net income	43,410	45,648	48,535

SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Equity Method Investments (Continued)

The Company provides contracted services, principally employee leasing services, and charges management fees to related parties affiliated through its equity investments. Net operating revenues generated from contracted services and management fees charged to related parties affiliated through the Company's equity investments were $164.2 million, $178.1 million, and $216.9 million for the years ended December 31, 2016, 2017, and 2018, respectively.

During the year ended December 31, 2016, the Company recognized a non-operating loss of $5.1 million related to the sale of an equity method investment. Additionally, the Company received contingent proceeds related to the final settlement of its 2015 sale of an equity method investment, resulting in a non-operating gain of $2.5 million recognized during the year ended December 31, 2016.

8. Insurance Risk Programs

Under a number of the Company's insurance programs, which include the Company's employee health insurance, workers' compensation, and professional malpractice liability insurance programs, the Company is liable for a portion of its losses before it can attempt to recover from the applicable insurance carrier. The Company accrues for losses under an occurrence-based approach whereby the Company estimates the losses that will be incurred in a respective accounting period and accrues that estimated liability using actuarial methods. At December 31, 2017 and 2018, provisions for losses for professional liability risks retained by the Company have been discounted at 3%. The Company recorded a liability of $157.1 million and $175.2 million related to these programs at December 31, 2017 and 2018, respectively. If the Company did not discount the provisions for losses for professional liability risks, the aggregate liability for all of the insurance risk programs would be approximately $162.1 million and $180.7 million at December 31, 2017 and 2018, respectively. The Company also recorded insurance proceeds receivable of $25.8 million and $32.4 million at December 31, 2017 and 2018, respectively, for liabilities which exceed its deductibles and self-insured retention limits and are recoverable through insurance policies.

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Long-Term Debt and Notes Payable

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

As of December 31, 2018, the Company's long-term debt and notes payable were as follows (in thousands):

	Principal Outstanding	Unamortized Premium (Discount)	Unamortized Issuance Costs	Carrying Value	Fair Value
Select:					
6.375% senior notes	$ 710,000	$ 550	$ (4,642)	$ 705,908	$ 706,450
Credit facilities:					
Revolving facility	20,000	—	—	20,000	18,400
Term loan	1,129,875	(9,690)	(9,321)	1,110,864	1,076,206
Other	56,415	—	(484)	55,931	55,931
Total Select debt	1,916,290	(9,140)	(14,447)	1,892,703	1,856,987
Concentra:					
Credit facilities:					
Term loans	1,414,175	(2,765)	(18,648)	1,392,762	1,357,802
Other	7,916	—	—	7,916	7,916
Total Concentra debt	1,422,091	(2,765)	(18,648)	1,400,678	1,365,718
Total debt	$ 3,338,381	$ (11,905)	$ (33,095)	$ 3,293,381	$ 3,222,705

Principal maturities of the Company's long-term debt and notes payable are approximately as follows (in thousands):

	2019	2020	2021	2022	2023	Thereafter	Total
Select:							
6.375% senior notes	$ —	$ —	$ 710,000	$ —	$ —	$ —	$ 710,000
Credit facilities:							
Revolving facility	—	—	—	20,000	—	—	20,000
Term loan	—	—	—	98,812	—	1,031,063	1,129,875
Other	6,612	25,706	221	—	—	23,876	56,415
Total Select debt	6,612	25,706	710,221	118,812	—	1,054,939	1,916,290
Concentra:							
Credit facilities:							
Term loans	33,878	—	—	1,140,297	240,000	—	1,414,175
Other	3,375	346	346	349	335	3,165	7,916
Total Concentra debt	37,253	346	346	1,140,646	240,335	3,165	1,422,091
Total debt	$ 43,865	$ 26,052	$ 710,567	$ 1,259,458	$ 240,335	$ 1,058,104	$ 3,338,381

9. Long-Term Debt and Notes Payable (Continued)

As of December 31, 2017, the Company's long-term debt and notes payable were as follows (in thousands):

	Principal Outstanding	Unamortized Premium (Discount)	Unamortized Issuance Costs	Carrying Value	Fair Value
Select:					
6.375% senior notes	$ 710,000	$ 778	$ (6,553)	$ 704,225	$ 727,750
Credit facilities:					
Revolving facility	230,000	—	—	230,000	211,600
Term loan	1,141,375	(12,445)	(12,500)	1,116,430	1,154,215
Other	36,877	—	(533)	36,344	36,344
Total Select debt	2,118,252	(11,667)	(19,586)	2,086,999	2,129,909
Concentra:					
Credit facilities:					
Term loan	619,175	(2,257)	(10,668)	606,250	625,173
Other	6,653	—	—	6,653	6,653
Total Concentra debt	625,828	(2,257)	(10,668)	612,903	631,826
Total debt	$ 2,744,080	$ (13,924)	$ (30,254)	$ 2,699,902	$ 2,761,735

2017 Select Credit Facilities

On March 6, 2017, Select entered into a new senior secured credit agreement (the "Select credit agreement") that provided for $1.6 billion in senior secured credit facilities comprising a $1.15 billion, seven-year term loan (the "Select term loan") and a $450.0 million, five-year revolving credit facility (the "Select revolving facility" and, together with the Select term loan, the "Select credit facilities"), including a $75.0 million sublimit for the issuance of standby letters of credit.

Select used borrowings under the Select credit facilities to: (i) repay the series E tranche B term loans due June 1, 2018, the series F tranche B term loans due March 3, 2021, and the revolving facility, maturing March 1, 2018, under Select's 2011 credit facilities, and (ii) pay fees and expenses in connection with the refinancing.

Borrowings under the Select credit facilities initially had an interest rate equal to: (i) in the case of the Select term loan, the Adjusted LIBO Rate (as defined in the Select credit agreement) plus 3.50% (subject to an Adjusted LIBO Rate floor of 1.00%), or the Alternate Base Rate (as defined in the Select credit agreement) plus 2.50% (subject to an Alternate Base Rate floor of 2.00%), and (ii) in the case of the Select revolving facility, the Adjusted LIBO Rate plus a percentage ranging from 3.00% to 3.25% or the Alternate Base Rate plus a percentage ranging from 2.00% to 2.25%, in each case subject to a specified leverage ratio.

On March 22, 2018, Select entered into Amendment No. 1 to the Select credit agreement. Amendment No. 1 (i) decreased the applicable interest rate on the Select term loan from the Adjusted LIBO Rate plus 3.50% to the Adjusted LIBO Rate plus a percentage ranging from 2.50% to 2.75%, or from the Alternate Base Rate plus 2.50% to the Alternate Base Rate plus a percentage ranging from 1.50% to 1.75%, in each case subject to a specified leverage ratio, (ii) decreased the applicable interest rate on the loans outstanding under the Select revolving facility from the Adjusted LIBO Rate plus a percentage ranging from 3.00% to 3.25% to the Adjusted LIBO Rate plus a percentage ranging from 2.50% to 2.75%, or from the Alternate Base Rate plus a percentage ranging from 2.00% to 2.25% to the Alternate Base Rate plus a percentage ranging from 1.50% to 1.75%, in each case subject to a specified leverage ratio, (iii) extended the maturity date for the Select term loan to March 6, 2025, and (iv) made certain other technical amendments to the Select credit agreement as set forth therein.

**SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

9. Long-Term Debt and Notes Payable (Continued)

On October 26, 2018, Select entered into Amendment No. 2 to the Select credit agreement. Among other things, Amendment No. 2 (i) decreased the applicable interest rate on the Select term loan from the Adjusted LIBO Rate plus a percentage ranging from 2.50% to 2.75% to the Adjusted LIBO Rate plus a percentage ranging from 2.25% to 2.50%, or from the Alternate Base Rate plus a percentage ranging from 1.50% to 1.75% to the Alternate Base Rate plus a percentage ranging from 1.25% to 1.50%, in each case subject to a specified leverage ratio, and (ii) decreased the applicable interest rate on the loans outstanding under the Select revolving facility from the Adjusted LIBO Rate plus a percentage ranging from 2.50% to 2.75% to the Adjusted LIBO Rate plus a percentage ranging from 2.25% to 2.50%, or from the Alternate Base Rate plus a percentage ranging from 1.50% to 1.75% to the Alternate Base Rate plus a percentage ranging from 1.25% to 1.50%, in each case subject to a specified leverage ratio. As amended, the Adjusted LIBO Rate and Alternate Base Rate under the Select credit agreement are no longer subject to the floor.

As of December 31, 2018, the applicable interest rate for the Select term loan was the Adjusted LIBO Rate plus 2.50% or the Alternate Base Rate plus 1.50%. The applicable interest rate for the Select revolving facility was the Adjusted LIBO Rate plus 2.50% or the Alternate Base Rate plus 1.50%.

The balance of the Select term loan will be payable on March 6, 2025; however, if Select's 6.375% senior notes, which are due June 1, 2021, are outstanding on March 1, 2021, the maturity date for the Select term loan will become March 1, 2021. The Select revolving facility will be payable on March 6, 2022; however, if Select's 6.375% senior notes are outstanding on February 1, 2021, the maturity date for the Select revolving facility will become February 1, 2021.

Select will be required to prepay borrowings under the Select credit facilities with (i) 100% of the net cash proceeds received from non-ordinary course asset sales or other dispositions, or as a result of a casualty or condemnation, subject to reinvestment provisions and other customary carveouts and, to the extent required, the payment of certain indebtedness secured by liens having priority over the debt under the Select credit facilities or subject to a first lien intercreditor agreement, (ii) 100% of the net cash proceeds received from the issuance of debt obligations other than certain permitted debt obligations, and (iii) 50% of excess cash flow (as defined in the Select credit agreement) if Select's leverage ratio, as specified in the Select credit agreement, is greater than 4.50 to 1.00 and 25% of excess cash flow if Select's leverage ratio is less than or equal to 4.50 to 1.00 and greater than 4.00 to 1.00, in each case, reduced by the aggregate amount of term loans, revolving loans and certain other debt optionally prepaid during the applicable fiscal year. Select will not be required to prepay borrowings with excess cash flow if Select's leverage ratio is less than or equal to 4.00 to 1.00.

The Select revolving facility requires Select to maintain a leverage ratio, as specified in the Select credit agreement, not to exceed 6.25 to 1.00. The leverage ratio is tested quarterly. After March 31, 2019, the leverage ratio must not exceed 6.00 to 1.00. Failure to comply with this covenant would result in an event of default under the Select revolving facility and, absent a waiver or an amendment from the revolving lenders, preclude Select from making further borrowings under the Select revolving facility and permit the revolving lenders to accelerate all outstanding borrowings under the Select revolving facility. The termination of the Select revolving facility commitments and the acceleration of amounts outstanding thereunder would constitute an event of default with respect to the Select term loan. For each of the four fiscal quarters during the year ended December 31, 2018, Select was required to maintain its leverage ratio at less than 6.25 to 1.00. As of December 31, 2018, Select's leverage ratio was 4.64 to 1.00.

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

Borrowings under the Select credit facilities are guaranteed by Holdings and substantially all of Select's current domestic subsidiaries and will be guaranteed by substantially all of Select's future domestic subsidiaries. Borrowings under the Select credit facilities are secured by substantially all of Select's existing and future property and assets and by a pledge of Select's capital stock, the capital stock of Select's domestic subsidiaries, and up to 65% of the capital stock of Select's foreign subsidiaries held directly by Select or a domestic subsidiary.

On the last day of each calendar quarter, Select is required to pay each lender a commitment fee in respect of any unused commitments under the revolving facility, which is currently 0.50% per annum and subject to adjustment based on Select's leverage ratio, as specified in the Select credit agreement.

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Long-Term Debt and Notes Payable (Continued)

At December 31, 2018, Select had outstanding borrowings under the Select credit facilities consisting of a $1,129.9 million Select term loan (excluding unamortized original issue discounts and debt issuance costs totaling $19.0 million) which matures on March 6, 2025, and borrowings of $20.0 million (excluding letters of credit) under the Select revolving facility which matures on March 6, 2022. At December 31, 2018, Select had $392.5 million of availability under the Select revolving facility after giving effect to $37.5 million of outstanding letters of credit.

Excess Cash Flow

For the year ended December 31, 2018, the Select credit agreement will require a prepayment of borrowings of 50% of excess cash flow. This will result in a prepayment of approximately $98.8 million. The Company expects to have the borrowing capacity and intends to use borrowings under the Select revolving facility, which has a maturity date of March 6, 2022, to make all or a portion of the required prepayment during the quarter ended March 31, 2019; accordingly, the prepayment is reflected in long-term debt, net of current portion on the consolidated balance sheet as of December 31, 2018. Upon prepayment during the quarter ended March 31, 2019, the remaining principal outstanding under the Select term loan will be due at maturity on March 6, 2025.

The Company was not required to make prepayments of borrowings as a result of excess cash flow from the years ended December 31, 2016 and 2017.

Senior Notes

On May 28, 2013, Select issued and sold $600.0 million aggregate principal amount of 6.375% senior notes due June 1, 2021. On March 11, 2014, Select issued and sold $110.0 million aggregate principal amount of additional 6.375% senior notes, due June 1, 2021, at 101.5% of the aggregate principal amount (the "additional notes"). The notes were issued as additional notes under the indenture pursuant to which it previously issued $600.0 million of 6.375% senior notes due June 1, 2021 (the "existing notes" and, together with the additional notes, the "senior notes"). The additional notes are treated as a single series with the existing notes and have the same terms as those of the existing notes.

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

Select may redeem some or all of the senior notes at the following redemption prices (expressed in percentages of principal amount on the redemption date), plus accrued interest, if any, if redeemed during the twelve-month period beginning on June 1 of the years indicated below:

Year	Redemption Price
2018	101.594%
2019 and thereafter	100.000%

Select is obligated to offer to repurchase the senior notes at a price of 101% of their principal amount plus accrued and unpaid interest, if any, as a result of certain change of control events. These restrictions and prohibitions are subject to certain qualifications and exceptions.

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Long-Term Debt and Notes Payable (Continued)

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

Concentra credit facilities

Concentra First Lien Credit Agreement

On June 1, 2015, the Concentra first lien credit agreement provided for $500.0 million in first lien loans comprised of a $450.0 million, seven-year term loan (the "existing Concentra first lien term loan") and a $50.0 million, five-year revolving credit facility (the "Concentra revolving facility").

Borrowings under the Concentra first lien credit agreement had an interest rate equal to: (i) in the case of the existing Concentra first lien term loan, the Adjusted LIBO Rate (as defined in the Concentra first lien credit agreement) plus 3.00% (subject to an Adjusted LIBO Rate floor of 1.00%), or the Alternate Base Rate (as defined in the Concentra first lien credit agreement) plus 2.00% (subject to an Alternate Base Rate floor of 2.00%), and (ii) in the case of the Concentra revolving facility, the Adjusted LIBO Rate plus a percentage ranging from 2.75% to 3.00%, or the Alternate Base Rate plus a percentage ranging from 1.75% to 2.00%, in each case based on Concentra's leverage ratio, as specified in the Concentra first lien credit agreement.

On September 26, 2016, Concentra amended the Concentra first lien credit agreement. The credit agreement amendment provided an additional $200.0 million of first lien term loans due June 1, 2022, the proceeds of which were used to prepay in full Concentra's then-outstanding $200.0 million eight-year second lien term loan due June 1, 2023, which was provided under a second lien credit agreement, and also amended certain restrictive covenants to give Concentra greater operational flexibility. Borrowings under the then-outstanding second lien term loan had an interest rate equal to the Adjusted LIBO Rate (as defined in the second lien credit agreement) plus 8.00% (subject to an Adjusted LIBO Rate floor of 1.00%), or the Alternate Base Rate (as defined in the second lien credit agreement) plus 7.00% (subject to an Alternate Base Rate floor of 2.00%).

On February 1, 2018, Concentra amended the Concentra first lien credit agreement to, among other things, provide for (i) an additional $555.0 million in first lien term loans that, along with the existing Concentra first lien term loan, have a maturity date of June 1, 2022 (collectively, the "Concentra first lien term loan") and (ii) an additional $25.0 million of revolving loans, that along with the existing $50.0 million revolving loans, comprise the five-year Concentra revolving facility under the terms of the existing Concentra first lien credit agreement. The amendment also decreased the applicable interest rate on the Concentra first lien term loan to the Adjusted LIBO Rate plus 2.75% (subject to an Adjusted LIBO Rate floor of 1.00%), or to the Alternate Base Rate plus 1.75% (subject to an Alternate Base Rate floor of 2.00%). Concentra used borrowings under the Concentra first lien credit agreement and the Concentra second lien credit agreement, as described below, together with cash on hand, to pay the cash purchase price for the issued and outstanding stock of U.S. HealthWorks to DHHC and to finance the redemption and reorganization transactions executed under the Purchase Agreement (as described in Note 2), as well as to pay fees and expenses associated with the financing.

On October 26, 2018, Concentra amended the Concentra first lien credit agreement to, among other things, provide for (i) an applicable interest rate on the Concentra first lien term loan of the Adjusted LIBO Rate plus a percentage ranging from 2.50% to 2.75% (with 2.75% being the initial rate), or the Alternate Base Rate plus a percentage ranging from 1.50% to 1.75% (with 1.75% being the initial rate), in each case subject to a specified credit rating, and (ii) decrease the applicable interest rate on the loans outstanding under the Concentra revolving facility from the Adjusted LIBO Rate plus a percentage ranging from 2.75% to 3.00% to the Adjusted LIBO Rate plus a percentage ranging from 2.25% to 2.50%, or from the Alternate Base Rate plus a percentage ranging from 1.75% to 2.00% to the Alternate Base Rate plus a percentage ranging from 1.25% to 1.50%, in each case subject to Concentra's leverage ratio. As amended, the Adjusted LIBO Rate and Alternate Base Rate under the Concentra first lien credit agreement are no longer subject to a floor.

SELECT MEDICAL HOLDINGS CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Long-Term Debt and Notes Payable (Continued)

As of December 31, 2018, the applicable interest rate for the Concentra first lien term loan was the Adjusted LIBO Rate plus 2.75% or the Alternate Base Rate plus 1.75%.

The Concentra first lien credit agreement requires Concentra to maintain a leverage ratio, as specified in the Concentra first lien credit agreement, of 5.75 to 1.00 which is tested quarterly, but only if Revolving Exposure (as defined in the Concentra first lien credit agreement) exceeds 30% of Revolving Commitments (as defined in the Concentra first lien credit agreement) on such day. Failure to comply with this covenant would result in an event of default under the Concentra revolving facility only and, absent a waiver or an amendment from the revolving lenders, preclude Concentra from making further borrowings under the Concentra revolving facility and permit the revolving lenders to accelerate all outstanding borrowings under the Concentra revolving facility. Upon such acceleration, Concentra's failure to comply with the financial covenant would result in an event of default with respect to the Concentra first lien term loan. Upon the acceleration of the revolving loans and the Concentra first lien term loan, an event of default would result with respect to the Concentra second lien credit agreement.

Concentra Second Lien Credit Agreement

On February 1, 2018, Concentra entered into a second lien credit agreement (the "Concentra second lien credit agreement" and, together with the Concentra first lien credit agreement, the "Concentra credit facilities") with Concentra Holdings, Inc., Wells Fargo Bank, National Association, as the administrative agent and the collateral agent, and the other lenders party thereto.

The Concentra second lien credit agreement provided for $240.0 million in term loans (the "Concentra second lien term loan" and, together with the Concentra first lien term loan, the "Concentra term loans") with a maturity date of June 1, 2023. Borrowings under the Concentra second lien credit agreement bear interest at a rate equal to the Adjusted LIBO Rate (as defined in the Concentra second lien credit agreement) plus 6.50% (subject to an Adjusted LIBO Rate floor of 1.00%), or the Alternate Base Rate (as defined in the Concentra second lien credit agreement) plus 5.50% (subject to an Alternate Base Rate floor of 2.00%).

In the event that, on or prior to February 1, 2019, Concentra voluntarily prepays any of the Concentra second lien term loan or refinances such term loans with net proceeds of other indebtedness, Concentra will pay a premium of 2.00% of the aggregate principal amount of the Concentra second lien term loan prepaid. If, on or prior to February 1, 2020, Concentra voluntarily prepays any of the Concentra second lien term loan or refinances such term loans with net proceeds of other indebtedness, Concentra will pay a premium of 1.00% of the aggregate principal amount of the Concentra second lien term loan prepaid.

Concentra Credit Facilities

Concentra will be required to prepay borrowings under the Concentra credit facilities with (i) 100% of the net cash proceeds received from non-ordinary course asset sales or other dispositions, or as a result of a casualty or condemnation, subject to reinvestment provisions and other customary carveouts and the payment of certain indebtedness secured by liens, (ii) 100% of the net cash proceeds received from the issuance of debt obligations (other than certain permitted debt obligations), and (iii) 50% of excess cash flow (as defined in the Concentra credit facilities) if Concentra's leverage ratio is greater than 4.25 to 1.00 and 25% of excess cash flow if Concentra's leverage ratio is less than or equal to 4.25 to 1.00 and greater than 3.75 to 1.00, in each case, reduced by the aggregate amount of term loans and certain debt secured on a pari passu basis optionally prepaid during the applicable fiscal year and the aggregate amount of revolving commitments reduced permanently during the applicable fiscal year (other than in connection with a refinancing). Concentra will not be required to prepay borrowings with excess cash flow if Concentra's leverage ratio is less than or equal to 3.75 to 1.00. No mandatory prepayment is required under the Concentra second lien credit agreement to the extent any mandatory prepayment is applied to indebtedness secured by liens ranking prior to the Concentra second lien credit agreement (and to the extent such debt is revolving indebtedness, such prepayment is accompanied by a permanent reduction of the applicable commitments).

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

SELECT MEDICAL HOLDINGS CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Long-Term Debt and Notes Payable (Continued)

The borrowings under the Concentra first lien credit agreement are guaranteed, on a first lien basis, and the borrowings under the Concentra second lien credit agreement are guaranteed, on a second lien basis, by Concentra Holdings, Inc., Concentra, and certain domestic subsidiaries of Concentra (subject, in each case, to permitted liens). These borrowings will also be guaranteed by certain of Concentra's future domestic subsidiaries. The borrowings under the Concentra credit facilities are secured by substantially all of Concentra's and its domestic subsidiaries' existing and future property and assets and by a pledge of Concentra's capital stock, the capital stock of certain of Concentra's domestic subsidiaries and up to 65% of the voting capital stock and 100% of the non-voting capital stock of Concentra's foreign subsidiaries, if any.

At December 31, 2018, Concentra had outstanding borrowings under the Concentra credit facilities consisting of the $1,414.2 million Concentra term loans (excluding unamortized discounts and debt issuance costs totaling $21.4 million). Concentra did not have any borrowings under the Concentra revolving facility. At December 31, 2018, Concentra had $62.3 million of availability under the Concentra revolving facility after giving effect to $12.7 million of outstanding letters of credit.

Excess Cash Flow Payment

For the year ended December 31, 2016, the Concentra first lien credit agreement required a prepayment of borrowings of $23.1 million as a result of excess cash flow. The prepayment was made on March 1, 2017. Concentra was not required to make a prepayment of borrowings as a result of excess cash flow from the year ended December 31, 2017.

For the year ended December 31, 2018, the Concentra first lien credit agreement will require a prepayment of borrowings of 50% of excess cash flow. This will result in a prepayment of approximately $33.9 million. Concentra expects to use cash on hand to make all or a portion of the required prepayment during the quarter ended March 31, 2019; accordingly, the prepayment is reflected in current portion of long-term debt and notes payable on the consolidated balance sheet as of December 31, 2018. Upon prepayment during the quarter ended March 31, 2019, the remaining principal outstanding under the Concentra first lien term loan will be due at maturity on June 1, 2022.

Fair Value

The Company considers the inputs in the valuation process to be Level 2 in the fair value hierarchy for Select's 6.375% senior notes and for its credit facilities. 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.

The fair values of the Select credit facilities and the Concentra credit facilities were based on quoted market prices for this debt in the syndicated loan market. The fair value of Select's 6.375% senior notes was based on quoted market prices. The carrying amount of other debt, principally short-term notes payable, approximates fair value.

Loss on Early Retirement of Debt

During the year ended December 31, 2016, the Company refinanced a portion of the term loans outstanding under the 2011 Select credit facilities, which resulted in a loss on early retirement of debt of $0.8 million. Additionally, Concentra prepaid its second lien term loan, which resulted in a loss on early retirement of debt of $10.9 million.

During the year ended December 31, 2017, the Company refinanced the 2011 Select credit facilities which resulted in a loss on early retirement of debt of $19.7 million. The loss on early retirement of debt consisted of $6.5 million of debt extinguishment losses and $13.2 million of debt modification losses.

During the year ended December 31, 2018, the Company refinanced the Select and Concentra credit facilities which resulted in losses on early retirement of debt of $14.2 million. The losses on early retirement of debt consisted of $3.0 million of debt extinguishment losses and $11.2 million of debt modification losses.

SELECT MEDICAL HOLDINGS CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Stockholders' Equity

The following table summarizes the share activity for Holdings:

	For the Year Ended December 31,		
	2016	2017	2018
	(in thousands)		
Restricted stock granted	1,426	1,598	1,491
Common stock issued through stock option exercise	202	227	185
Unvested restricted stock forfeitures	82	27	168
Stock repurchases for satisfaction of tax obligations	232	280	357

Holdings' board of directors has authorized a common stock repurchase program to repurchase up to $500.0 million worth of shares of its common stock. The program has been extended until December 31, 2019, and will remain in effect until then, unless further extended or earlier terminated by the board of directors. Stock repurchases under this program may be made in the open market or through privately negotiated transactions, and at times and in such amounts as Holdings deems appropriate. Holdings is funding this program with cash on hand and borrowings under the Select revolving facility.

Holdings did not repurchase shares during the years ended December 31, 2016, 2017, and 2018. The common stock repurchase program has available capacity of $185.2 million as of December 31, 2018.

11. Segment Information

The Company's reportable segments consist of the critical illness recovery hospital segment (previously referred to as the long term acute care segment), rehabilitation hospital segment (previously referred to as the inpatient rehabilitation segment), outpatient rehabilitation segment, and Concentra segment. Other activities include the Company's corporate shared 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, acquisition costs associated with Physiotherapy and U.S. HealthWorks, non-operating gain (loss), and equity in earnings (losses) of unconsolidated subsidiaries. The Company has provided additional information regarding its reportable segments, such as total assets, which contributes to the understanding of the Company and provides useful information to the users of the consolidated financial statements.

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

	For the Year Ended December 31, 2016					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation[4]	Concentra	Other	Total
	(in thousands)					
Net operating revenues[1]	$ 1,756,961	$ 498,100	$ 979,363	$ 982,495	$ 541	$ 4,217,460
Adjusted EBITDA	224,609	56,902	129,830	143,009	(88,543)	465,807
Total assets[2][3]	1,910,013	621,105	969,014	1,313,176	107,318	4,920,626
Capital expenditures	48,626	60,513	21,286	15,946	15,262	161,633

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Segment Information (Continued)

	For the Year Ended December 31, 2017					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Net operating revenues[1]	$ 1,725,022	$ 622,469	$ 1,003,830	$ 1,013,224	$ 700	$ 4,365,245
Adjusted EBITDA	252,679	90,041	132,533	157,561	(94,822)	537,992
Total assets[3]	1,848,783	868,517	954,661	1,340,919	114,286	5,127,166
Capital expenditures	49,720	96,477	27,721	28,912	30,413	233,243

	For the Year Ended December 31, 2018					
	Critical Illness Recovery Hospitals	Rehabilitation Hospitals	Outpatient Rehabilitation	Concentra[5]	Other	Total
	(in thousands)					
Net operating revenues[1]	$ 1,753,584	$ 707,514	$ 1,062,487	$ 1,557,673	$ —	$ 5,081,258
Adjusted EBITDA	243,015	108,927	142,005	251,977	(100,769)	645,155
Total assets[3]	1,771,605	894,192	1,002,819	2,178,868	116,781	5,964,265
Capital expenditures	40,855	42,389	30,553	42,205	11,279	167,281

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

	For the Year Ended December 31, 2016					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation[4]	Concentra	Other	Total
	(in thousands)					
Adjusted EBITDA	$ 224,609	$ 56,902	$ 129,830	$ 143,009	$ (88,543)	
Depreciation and amortization	(43,862)	(12,723)	(22,661)	(60,717)	(5,348)	
Stock compensation expense	—	—	—	(770)	(16,643)	
Physiotherapy acquisition costs	—	—	—	—	(3,236)	
Income (loss) from operations	$ 180,747	$ 44,179	$ 107,169	$ 81,522	$ (113,770)	$ 299,847
Loss on early retirement of debt						(11,626)
Equity in earnings of unconsolidated subsidiaries						19,943
Non-operating gain						42,651
Interest expense						(170,081)
Income before income taxes						$ 180,734

	For the Year Ended December 31, 2017					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Adjusted EBITDA	$ 252,679	$ 90,041	$ 132,533	$ 157,561	$ (94,822)	
Depreciation and amortization	(45,743)	(20,176)	(24,607)	(61,945)	(7,540)	
Stock compensation expense	—	—	—	(993)	(18,291)	
U.S. HealthWorks acquisition costs	—	—	—	(2,819)	—	
Income (loss) from operations	$ 206,936	$ 69,865	$ 107,926	$ 91,804	$ (120,653)	$ 355,878
Loss on early retirement of debt						(19,719)
Equity in earnings of unconsolidated subsidiaries						21,054
Non-operating loss						(49)
Interest expense						(154,703)
Income before income taxes						$ 202,461

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Segment Information (Continued)

	For the Year Ended December 31, 2018					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra[5]	Other	Total
	(in thousands)					
Adjusted EBITDA	$ 243,015	$ 108,927	$ 142,005	$ 251,977	$ (100,769)	
Depreciation and amortization	(45,797)	(24,101)	(27,195)	(95,521)	(9,041)	
Stock compensation expense	—	—	—	(2,883)	(20,443)	
U.S. HealthWorks acquisition costs	—	—	—	(2,895)	—	
Income (loss) from operations	$ 197,218	$ 84,826	$ 114,810	$ 150,678	$ (130,253)	$ 417,279
Loss on early retirement of debt						(14,155)
Equity in earnings of unconsolidated subsidiaries						21,905
Non-operating gain						9,016
Interest expense						(198,493)
Income before income taxes						$ 235,552

(1) Net operating revenues were retrospectively conformed to reflect the adoption of Topic 606, *Revenue from Contracts with Customers.*

(2) Total assets were retrospectively conformed to reflect the adoption of ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*, which resulted in a reduction to total assets of $23.8 million.

(3) The critical illness recovery hospital segment includes $24.4 million, $9.8 million, and $9.8 million in real estate assets held for sale on December 31, 2016, 2017, and 2018, respectively.

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

(5) The Concentra segment includes the operating results of U.S. HealthWorks beginning February 1, 2018.

SELECT MEDICAL HOLDINGS CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Revenue from Contracts with Customers

The following tables disaggregate the Company's net operating revenues by operating segment:

	For the Year Ended December 31, 2016			
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra
	(in thousands)			
Patient service revenues:				
Medicare	$ 936,083	$ 191,037	$ 136,283	$ 2,235
Non-Medicare	797,431	161,821	739,102	969,682
Total patient services revenues	1,733,514	352,858	875,385	971,917
Other revenues	23,447	145,242	103,978	10,578
Total net operating revenues	$ 1,756,961	$ 498,100	$ 979,363	$ 982,495

	For the Year Ended December 31, 2017			
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra
	(in thousands)			
Patient service revenues:				
Medicare	$ 903,503	$ 259,221	$ 148,403	$ 2,128
Non-Medicare	810,723	207,196	739,531	1,002,787
Total patient services revenues	1,714,226	466,417	887,934	1,004,915
Other revenues	10,796	156,052	115,896	8,309
Total net operating revenues	$ 1,725,022	$ 622,469	$ 1,003,830	$ 1,013,224

	For the Year Ended December 31, 2018			
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra
	(in thousands)			
Patient service revenues:				
Medicare	$ 893,429	$ 293,913	$ 161,054	$ 2,168
Non-Medicare	847,447	254,215	762,247	1,545,852
Total patient services revenues	1,740,876	548,128	923,301	1,548,020
Other revenues	12,708	159,386	139,186	9,653
Total net operating revenues	$ 1,753,584	$ 707,514	$ 1,062,487	$ 1,557,673

13. Stock-based Compensation

Holdings awards stock-based compensation in the form of stock options and restricted stock awards under its equity incentive plans. On June 2, 2016, Holdings adopted the Select Medical Holdings Corporation 2016 Equity Incentive Plan (the "Plan") and its existing plans were frozen. The total capacity for restricted stock and stock option awards under the Plan is 7,698,700 awards, as adjusted for forfeited restricted stock and stock options awards through December 31, 2018. As of December 31, 2018, Holdings has capacity to issue 3,184,185 restricted stock and stock option awards under the Plan. Holdings' equity plan allows for authorized but previously unissued shares or shares previously issued and outstanding and reacquired by Holdings to satisfy these awards.

On November 8, 2005, the board of directors of Holdings adopted a director equity incentive plan ("Director Plan") and on August 12, 2009, the board of directors and stockholders of Holdings approved an amendment and restatement of the Director Plan. This amendment authorized Holdings to issue under the Director Plan options to purchase up to 75,000 shares of its common stock and restricted stock awards covering up to 150,000 shares of its common stock. On June 2, 2016, upon the adoption of the Select Medical Holdings Corporation 2016 Equity Incentive Plan, the Director Plan was frozen.

SELECT MEDICAL HOLDINGS CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Stock-based Compensation (Continued)

The Company measures the compensation costs of stock-based compensation arrangements based on the grant-date fair value and recognizes the costs over the period during which employees are required to provide services. The Company values restricted stock awards by using the closing market price of its stock on the date of grant. The Company values stock options using the Black-Scholes option-pricing model. There were no options granted during the year ended December 31, 2018. The Company recognizes any forfeitures as they occur.

Transactions related to restricted stock awards are as follows:

	Shares	Weighted Average Grant Date Fair Value
	(share amounts in thousands)	
Unvested balance, January 1, 2018	4,468	$ 13.85
Granted	1,491	19.72
Vested	(1,341)	14.22
Forfeited	(168)	14.47
Unvested balance, December 31, 2018	4,450	$ 15.68

For the years ended December 31, 2016, 2017, and 2018, the weighted average grant date fair value of restricted stock awards granted was $11.57, $15.84, and $19.72, respectively. For the years ended December 31, 2016, 2017, and 2018, the total fair value of restricted stock awards vested was $8.4 million, $17.1 million, and $19.1 million, respectively.

As of December 31, 2018, there were 105,000 stock options outstanding and exercisable. The outstanding and exercisable shares have a weighted average exercise price of $9.18 and a weighted average remaining contractual life of 0.9 years. As of December 31, 2017, there were 291,775 stock options outstanding and exercisable which had a weighted average exercise price of $9.26.

During the year ended December 31, 2018, 185,275 options were exercised, which had a weighted average exercise price of $9.30, and 1,500 options were canceled, which had a weighted average exercise price of $10.00. For the years ended December 31, 2016, 2017, and 2018, the total intrinsic value of options exercised was $0.8 million, $1.6 million, and $1.8 million, respectively. At December 31, 2018, the aggregate intrinsic value of options outstanding and options exercisable was $0.6 million.

Stock compensation expense recognized by the Company was as follows:

	For the Year Ended December 31,		
	2016	2017	2018
		(in thousands)	
Stock compensation expense:			
Included in general and administrative	$ 14,607	$ 15,706	$ 17,604
Included in cost of services	2,806	3,578	5,722
Total	$ 17,413	$ 19,284	$ 23,326

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

	2019	2020	2021	2022	2023
			(in thousands)		
Stock compensation expense	$ 22,998	$ 16,566	$ 8,976	$ 3,302	$ 213

SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Income Taxes

The components of the Company's income tax expense for the years ended December 31, 2016, 2017, and 2018 were as follows:

	For the Year Ended December 31,		
	2016	2017	2018
		(in thousands)	
Current income tax expense:			
Federal	$ 54,726	$ 45,809	$ 36,072
State and local	13,329	8,331	15,321
Total current income tax expense	68,055	54,140	51,393
Deferred income tax expense (benefit)	(12,591)	(72,324)	7,217
Total income tax expense (benefit)	$ 55,464	$ (18,184)	$ 58,610

Reconciliations of the statutory federal income tax rate to the effective income tax rate are as follows:

	For the Year Ended December 31,		
	2016	2017	2018
Federal income tax at statutory rate	35.0%	35.0 %	21.0%
State and local income taxes, less federal income tax benefit	3.6	3.7	5.0
Permanent differences	1.4	1.7	2.1
Tax benefit from the sale of businesses	(6.7)	—	—
Valuation allowance	0.2	(7.3)	0.5
Uncertain tax positions	(1.3)	(0.6)	(0.8)
Non-controlling interest	(0.5)	0.5	(2.1)
Stock-based compensation	(0.7)	(1.3)	(2.2)
Deferred income taxes - state income tax rate adjustment	—	(2.8)	0.4
Deferred income taxes - tax legislation rate adjustment	—	(37.5)	—
Other	(0.3)	(0.4)	1.0
Total effective income tax rate	30.7%	(9.0)%	24.9%

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law which made significant changes to the Internal Revenue Code. These changes included a corporate tax rate decrease to 21% from 35% effective after December 31, 2017. ASC Topic 740, *Income Taxes*, requires the effects of changes in tax rates and laws on deferred tax balances to be recognized in the period in which the legislation is enacted at the income tax rates in which the deferred tax balances are expected to reverse. While the effective date of the new corporate tax rate was January 1, 2018, the Company recorded the effect on its deferred tax balances as of December 31, 2017. The Company recognized an income tax benefit of $71.5 million to reflect these effects during the year ended December 31, 2017. The Company's accounting for the effects of the Tax Cuts and Jobs Act is complete as of December 31, 2018.

14. Income Taxes (Continued)

The Company's deferred tax assets and liabilities are as follows:

	December 31, 2017	December 31, 2018
	(in thousands)	
Deferred tax assets		
Allowance for doubtful accounts	$ 8,792	$ 10,313
Compensation and benefit-related accruals	50,936	51,900
Professional malpractice liability insurance	11,036	13,644
Deferred revenue	319	209
Federal and state net operating loss and state tax credit carryforwards	36,112	40,163
Interest limitation carryforward	—	4,675
Stock awards	6,591	5,695
Equity investments	1,452	2,055
Other	3,543	3,271
Deferred tax assets	$ 118,781	$ 131,925
Valuation allowance	(12,986)	(17,893)
Deferred tax assets, net of valuation allowance	$ 105,795	$ 114,032
Deferred tax liabilities		
Deferred income	$ (19,608)	$ (13,891)
Investment in unconsolidated affiliates	(4,457)	(5,653)
Depreciation and amortization	(179,055)	(217,950)
Deferred financing costs	(4,528)	(8,324)
Other	(3,673)	(3,488)
Deferred tax liabilities	$ (211,321)	$ (249,306)
Deferred tax liabilities, net of deferred tax assets	$ (105,526)	$ (135,274)

The Company's deferred tax assets and liabilities are included in the consolidated balance sheet captions as follows:

	December 31, 2017	December 31, 2018
	(in thousands)	
Other assets	$ 19,391	$ 18,621
Non-current deferred tax liability	(124,917)	(153,895)
	$ (105,526)	$ (135,274)

As of December 31, 2017 and 2018, the Company's valuation allowance is primarily attributable to the uncertainty regarding the realization of state net operating losses and other net deferred tax assets of loss entities. The state net deferred tax assets have a full valuation allowance recorded for entities that have a cumulative history of pre-tax losses (current year in addition to the two prior years).

For the year ended December 31, 2017, the Company recorded a net valuation allowance release of $13.4 million which was comprised of a valuation release of $14.1 million related to federal net operating losses acquired as part of the Physiotherapy acquisition and $0.2 million of expired state net operating losses, partially offset by a $0.9 million increase in the valuation allowance for newly generated state net operating losses. For the year ended December 31, 2018, the Company recorded a net valuation allowance increase of $4.9 million. This increase was comprised of a $3.9 million valuation allowance recognized on net operating losses acquired and recorded as part of U.S. HealthWorks' opening balance sheet, and a $1.0 million valuation allowance recognized as a result of a net change in state net operating losses for the year ended December 31, 2018. The changes in the Company's valuation allowance were recognized as a result of management's reassessment of the amount of its deferred tax assets that are more likely than not to be realized.

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Income Taxes (Continued)

At December 31, 2017 and 2018, the Company's net deferred tax liabilities of approximately $105.5 million and $135.3 million, respectively, consist of items which have been recognized for tax reporting purposes, but which will increase tax on returns to be filed in the future, and include the use of net operating loss carryforwards. The Company has performed an assessment of positive and negative evidence regarding the realization of the net deferred tax assets. This assessment included a review of legal entities with three years of cumulative losses, estimates of projected future taxable income, the effects on future taxable income resulting from the reversal of existing deferred tax liabilities in future periods, and the impact of tax planning strategies that management would and could implement in order to keep deferred tax assets from expiring unused. Although realization is not assured, based on the Company's assessment, it has concluded that it is more likely than not that such assets, net of the determined valuation allowance, will be realized.

The total state net operating losses are approximately $698.1 million. State net operating loss carryforwards expire and are subject to valuation allowances as follows:

	State Net Operating Losses	Gross Valuation Allowance
	(in thousands)	
2019	$ 11,508	$ 5,830
2020	16,798	14,619
2021	12,103	11,395
2022	36,556	35,564
Thereafter through 2037	621,161	447,368

15. Retirement Savings Plan

Select sponsors a defined contribution retirement savings plan for substantially all of its employees. Employees who are not classified as highly compensated employees ("HCE's") may contribute up to 30% of their salary; HCE's may contribute up to 8% of their salary. The plan provides a discretionary company match which is determined annually. Currently, Select matches 25% of the first 6% of compensation employees contribute to the plan. The employees vest in the employer contributions over a three-year period beginning on the employee's hire date. The expense incurred by Select related to this plan was $14.7 million, $15.2 million, and $19.5 million during the years ended December 31, 2016, 2017, and 2018, respectively.

16. Earnings per Share

The following table sets forth the net income attributable to the Company, its common shares outstanding, and its participating securities outstanding. There were no dividends declared or contractual dividends paid for the years ended December 31, 2016, 2017, and 2018.

	Basic EPS			Diluted EPS		
	For the Year Ended December 31,			For the Year Ended December 31,		
	2016	2017	2018	2016	2017	2018
	(in thousands)					
Net income	$ 125,270	$ 220,645	$ 176,942	$ 125,270	$ 220,645	$ 176,942
Less: net income attributable to non-controlling interests	9,859	43,461	39,102	9,859	43,461	39,102
Net income attributable to the Company	115,411	177,184	137,840	115,411	177,184	137,840
Less: net income attributable to participating securities	3,521	5,758	4,551	3,517	5,751	4,548
Net income attributable to common shares	$ 111,890	$ 171,426	$ 133,289	$ 111,894	$ 171,433	$ 133,292

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Earnings per Share (Continued)

The following tables set forth the computation of EPS under the two-class method:

	For the Year Ended December 31, 2018					
	Net Income Allocation	Shares[(1)]	Basic EPS	Net Income Allocation	Shares[(1)]	Diluted EPS
	(in thousands, except for per share amounts)					
Common shares	$ 133,289	130,172	$ 1.02	$ 133,292	130,256	$ 1.02
Participating securities	4,551	4,444	$ 1.02	4,548	4,444	$ 1.02
Total Company	$ 137,840			$ 137,840		

	For the Year Ended December 31, 2017					
	Net Income Allocation	Shares[(1)]	Basic EPS	Net Income Allocation	Shares[(1)]	Diluted EPS
	(in thousands, except for per share amounts)					
Common shares	$ 171,426	128,955	$ 1.33	$ 171,433	129,126	$ 1.33
Participating securities	5,758	4,332	$ 1.33	5,751	4,332	$ 1.33
Total Company	$ 177,184			$ 177,184		

	For the Year Ended December 31, 2016					
	Net Income Allocation	Shares[(1)]	Basic EPS	Net Income Allocation	Shares[(1)]	Diluted EPS
	(in thousands, except for per share amounts)					
Common shares	$ 111,890	127,813	$ 0.88	$ 111,894	127,968	$ 0.87
Participating securities	3,521	4,022	$ 0.88	3,517	4,022	$ 0.87
Total Company	$ 115,411			$ 115,411		

(1) Represents the weighted average share count outstanding during the period.

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Commitments and Contingencies

Leases

The Company leases facilities and equipment from unrelated parties under operating leases. At December 31, 2018, future minimum lease obligations on long-term, non-cancelable operating leases are approximately as follows (in thousands):

2019	$	261,915
2020		224,306
2021		185,587
2022		142,655
2023		104,866
Thereafter		470,694
	$	1,390,023

For the years ended December 31, 2016, 2017, and 2018, total rent expense for facility and equipment operating leases, including cancelable leases, was $265.1 million, $267.4 million, and $307.8 million, respectively. For the years ended December 31, 2016, 2017, and 2018, facility rent expense to unrelated parties, a component of total rent expense, was $220.8 million, $224.2 million, and $262.6 million, respectively.

The Company rents its corporate office space from related parties. The Company made payments for office rent, leasehold improvements, and miscellaneous expenses of $5.0 million, $6.2 million, and $6.3 million to related parties for the years ended December 31, 2016, 2017, and 2018, respectively.

As of December 31, 2018, future rental commitments under outstanding agreements with related parties are approximately as follows (in thousands):

2019	$	5,931
2020		7,405
2021		7,568
2022		7,500
2023		2,893
Thereafter		13,344
	$	44,641

Construction Commitments

At December 31, 2018, the Company had outstanding commitments under construction contracts related to new construction, improvements, and renovations totaling approximately $21.6 million.

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Commitments and Contingencies (Continued)

Litigation

The Company is a party to various legal actions, proceedings, and claims (some of which are not insured), and regulatory and other governmental audits and investigations in the ordinary course of its business. The Company cannot predict the ultimate outcome of pending litigation, proceedings, and regulatory and other governmental audits and investigations. These matters could potentially subject the Company to sanctions, damages, recoupments, fines, and other penalties. The Department of Justice, Centers for Medicare & Medicaid Services ("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 coverages through a number of different programs that are dependent upon such factors as the state where the Company is operating and whether the operations are wholly owned or are operated through a joint venture. For the Company's wholly owned operations, the Company currently maintains insurance coverages under a combination of policies with a total annual aggregate limit up to $40.0 million. The Company's insurance for the professional liability coverage is written on a "claims-made" basis, and its commercial general liability coverage is maintained on an "occurrence" basis. These coverages apply after a self-insured retention limit is exceeded. For the Company's joint venture operations, the Company has numerous programs that are designed to respond to the risks of the specific joint venture. The annual aggregate limit under these programs ranges from $5.0 million to $20.0 million. The policies are generally written on a "claims-made" basis. Each of these programs has either a deductible or self-insured retention limit. The Company reviews its insurance program annually and may make adjustments to the amount of insurance coverage and self-insured retentions in future years. The Company also maintains umbrella liability insurance covering claims which, due to their nature or amount, are not covered by or not fully covered by the Company's other insurance policies. These insurance policies also do not generally cover punitive damages and are subject to various deductibles and policy limits. Significant legal actions, as well as the cost and possible lack of available insurance, could subject the Company to substantial uninsured liabilities. In the Company's opinion, the outcome of these actions, individually or in the aggregate, will not have a material adverse effect on its financial position, results of operations, or cash flows.

Healthcare providers are subject to lawsuits under the qui tam provisions of the federal False Claims Act. Qui tam lawsuits typically remain under seal (hence, usually unknown to the defendant) for some time while the government decides whether or not to intervene on behalf of a private qui tam plaintiff (known as a relator) and take the lead in the litigation. These lawsuits can involve significant monetary damages and penalties and award bounties to private plaintiffs who successfully bring the suits. The Company is and has been a defendant in these cases in the past, and may be named as a defendant in similar cases from time to time in the future.

Evansville Litigation. 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 replaced 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 United States Department of Justice notified the District Court of its decision not to intervene in the case.

In December 2015, the defendants filed a Motion to Dismiss the Second Amended Complaint on multiple grounds, including that the action is disallowed by the False Claims Act's public disclosure bar, which disqualifies qui tam actions that are based on fraud already publicly disclosed through enumerated sources, unless the relator is an original source, and that the plaintiff-relators did not plead their claims with sufficient particularity, as required by the Federal Rules of Civil Procedure.

SELECT MEDICAL HOLDINGS CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Commitments and Contingencies (Continued)

Thereafter, the United States filed a notice asserting a veto of the defendants' use of the public disclosure bar for claims arising from conduct from and after March 23, 2010, which was based on certain statutory changes to the public disclosure bar language included in the Affordable Care Act. On September 30, 2016, the District Court partially granted and partially denied the defendants' Motion to Dismiss. It ruled that the plaintiff-relators alleged substantially the same conduct as had been publicly disclosed and that the plaintiff-relators are not original sources, so that the public disclosure bar requires dismissal of all non-retaliation claims arising from conduct before March 23, 2010. The District Court also ruled that the statutory changes to the public disclosure bar gave the United States the power to veto its applicability to claims arising from conduct on and after March 23, 2010, and therefore did not dismiss those claims based on the public disclosure bar. However, the District Court ruled that the plaintiff-relators did not plead certain of their claims relating to interrupted stay manipulation and premature discharging of patients with the requisite particularity, and dismissed those claims. The District Court declined to dismiss the plaintiff relators' claims arising from conduct from and after March 23, 2010 relating to delayed discharging of patients and up-coding and the plaintiff-relators' retaliation claims. The plaintiff-relators then proposed a case management plan seeking nationwide discovery involving all of the Company's LTCHs for the period from March 23, 2010 through the present and allowing discovery that would facilitate the use of statistical sampling to prove liability, which the defendants opposed. In April 2018, a U.S. magistrate judge ruled that plaintiff-relators' discovery will be limited to only SSH-Evansville for the period from March 23, 2010 through September 30, 2016, and that the plaintiff-relators will be required to prove the fraud that they allege on a claim-by-claim basis, rather than using statistical sampling. The plaintiff-relators have appealed this decision to the District Judge.

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.

Wilmington Litigation. On January 19, 2017, the United States District Court for the District of Delaware unsealed a qui tam Complaint in United States of America and State of Delaware ex rel. Theresa Kelly v. Select Specialty Hospital-Wilmington, Inc. ("SSH-Wilmington"), Select Specialty Hospitals, Inc., Select Employment Services, Inc., Select Medical Corporation, and Crystal Cheek, No. 16-347-LPS. The Complaint was initially filed under seal in May 2016 by a former chief nursing officer at SSH-Wilmington and was unsealed after the United States filed a Notice of Election to Decline Intervention in January 2017. The corporate defendants were served in March 2017. In the complaint, the plaintiff-relator alleges that the Select defendants and an individual defendant, who is a former health information manager at SSH-Wilmington, violated the False Claims Act and the Delaware False Claims and Reporting Act based on allegedly falsifying medical practitioner signatures on medical records and failing to properly examine the credentials of medical practitioners at SSH-Wilmington. In response to the Select defendants' motion to dismiss the Complaint, in May 2017 the plaintiff-relator filed an Amended Complaint asserting the same causes of action. The Select defendants filed a Motion to Dismiss the Amended Complaint based on numerous grounds, including that the Amended Complaint did not plead any alleged fraud with sufficient particularity, failed to plead that the alleged fraud was material to the government's payment decision, failed to plead sufficient facts to establish that the Select defendants knowingly submitted false claims or records, and failed to allege any reverse false claim. In March 2018, the District Court dismissed the plaintiff-relator's claims related to the alleged failure to properly examine medical practitioners' credentials, her reverse false claims allegations, and her claim that defendants violated the Delaware False Claims and Reporting Act. It denied the defendants' motion to dismiss claims that the allegedly falsified medical practitioner signatures violated the False Claims Act. Separately, the District Court dismissed the individual defendant due to plaintiff-relator's failure to timely serve the amended complaint upon her.

In March 2017, the plaintiff-relator initiated a second action by filing a Complaint in the Superior Court of the State of Delaware in Theresa Kelly v. Select Medical Corporation, Select Employment Services, Inc., and SSH-Wilmington, C.A. No. N17C-03-293 CLS. The Delaware Complaint alleges that the defendants retaliated against her in violation of the Delaware Whistleblowers' Protection Act for reporting the same alleged violations that are the subject of the federal Amended Complaint. The defendants filed a motion to dismiss, or alternatively to stay, the Delaware Complaint based on the pending federal Amended Complaint and the failure to allege facts to support a violation of the Delaware Whistleblowers' Protection Act. In January 2018, the Court stayed the Delaware Complaint pending the outcome of the federal case.

The Company intends to vigorously defend these actions, but at this time the Company is unable to predict the timing and outcome of this matter.

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Commitments and Contingencies (Continued)

Contract Therapy Subpoena. On May 18, 2017, the Company received a subpoena from the U.S. Attorney's Office for the District of New Jersey seeking various documents principally relating to the Company's contract therapy division, which contracted to furnish rehabilitation therapy services to residents of skilled nursing facilities ("SNFs") and other providers. The Company operated its contract therapy division through a subsidiary until March 31, 2016, when the Company sold the stock of the subsidiary. The subpoena seeks documents that appear to be aimed at assessing whether therapy services were furnished and billed in compliance with Medicare SNF billing requirements, including whether therapy services were coded at inappropriate levels and whether excessive or unnecessary therapy was furnished to justify coding at higher paying levels. The Company does not know whether the subpoena has been issued in connection with a qui tam lawsuit or in connection with possible civil, criminal or administrative proceedings by the government. The Company is producing documents in response to the subpoena and intends to fully cooperate with this investigation. At this time, the Company is unable to predict the timing and outcome of this matter.

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

Select's 6.375% senior notes are fully and unconditionally and jointly and severally guaranteed, except for customary limitations, on a senior basis by all of Select's wholly owned subsidiaries (the "Subsidiary Guarantors"). The Subsidiary Guarantors are defined as subsidiaries 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" and Concentra Group Holdings Parent and its subsidiaries, 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.

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.

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Select Medical Corporation
Condensed Consolidating Balance Sheet
December 31, 2018

	Select (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Consolidating and Eliminating Adjustments		Consolidated Select Medical Corporation
	(in thousands)						
ASSETS							
Current Assets:							
Cash and cash equivalents	$ 77	$ 7,574	$ 4,411	$ 163,116	$ —		$ 175,178
Accounts receivable	—	397,674	118,683	190,319	—		706,676
Intercompany receivables	—	1,787,184	83,230	—	(1,870,414)	(a)	—
Prepaid income taxes	10,205	5,711	—	4,623	—		20,539
Other current assets	17,866	31,181	14,048	27,036	—		90,131
Total Current Assets	28,148	2,229,324	220,372	385,094	(1,870,414)		992,524
Property and equipment, net	30,103	625,947	103,006	220,754	—		979,810
Investment in affiliates	4,497,167	127,036	—	—	(4,624,203)	(b)(c)	—
Goodwill	—	2,104,288	—	1,216,438	—		3,320,726
Identifiable intangible assets, net	3	102,120	5,020	330,550	—		437,693
Other assets	37,281	145,467	33,417	26,032	(8,685)	(e)	233,512
Total Assets	$ 4,592,702	$ 5,334,182	$ 361,815	$ 2,178,868	$ (6,503,302)		$ 5,964,265
LIABILITIES AND EQUITY							
Current Liabilities:							
Overdrafts	$ 25,083	$ —	$ —	$ —	$ —		$ 25,083
Current portion of long-term debt and notes payable	4,363	248	2,001	37,253	—		43,865
Accounts payable	14,033	84,343	20,956	27,361	—		146,693
Intercompany payables	1,787,184	83,230	—	—	(1,870,414)	(a)	—
Accrued payroll	15,533	99,803	5,936	51,114	—		172,386
Accrued vacation	4,613	60,989	13,942	31,116	—		110,660
Accrued interest	5,996	22	3	6,116	—		12,137
Accrued other	60,056	61,226	17,098	52,311	—		190,691
Income taxes payable	—	2,366	190	1,115	—		3,671
Total Current Liabilities	1,916,861	392,227	60,126	206,386	(1,870,414)		705,186
Long-term debt, net of current portion	1,837,241	448	48,402	1,363,425	—		3,249,516
Non-current deferred tax liability	—	101,214	994	60,372	(8,685)	(e)	153,895
Other non-current liabilities	35,558	59,901	9,194	54,287	—		158,940
Total Liabilities	3,789,660	553,790	118,716	1,684,470	(1,879,099)		4,267,537
Redeemable non-controlling interests	—	—	—	18,525	761,963	(d)	780,488
Stockholders' Equity:							
Common stock	0	—	—	—	—		0
Capital in excess of par	970,156	—	—	—	—		970,156
Retained earnings (accumulated deficit)	(167,114)	1,547,018	(29,553)	12,355	(1,529,820)	(c)(d)	(167,114)
Subsidiary investment	—	3,233,374	272,652	457,974	(3,964,000)	(b)(d)	—
Total Select Medical Corporation Stockholders' Equity	803,042	4,780,392	243,099	470,329	(5,493,820)		803,042
Non-controlling interests	—	—	—	5,544	107,654	(d)	113,198
Total Equity	803,042	4,780,392	243,099	475,873	(5,386,166)		916,240
Total Liabilities and Equity	$ 4,592,702	$ 5,334,182	$ 361,815	$ 2,178,868	$ (6,503,302)		$ 5,964,265

(a) Elimination of intercompany balances.
(b) Elimination of investments in consolidated subsidiaries.
(c) Elimination of investments in consolidated subsidiaries' earnings.
(d) Reclassification of equity attributable to non-controlling interests.
(e) Reclassification of non-current deferred tax asset to report net non-current deferred tax liability in consolidation.

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Select Medical Corporation
Condensed Consolidating Statement of Operations
For the Year Ended December 31, 2018

	Select (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Consolidating and Eliminating Adjustments	Consolidated Select Medical Corporation
	(in thousands)					
Net operating revenues	$ —	$ 2,755,745	$ 767,840	$ 1,557,673	$ —	$ 5,081,258
Costs and expenses:						
Cost of services, exclusive of depreciation and amortization	2,838	2,376,111	653,528	1,308,579	—	4,341,056
General and administrative	118,128	245	—	2,895	—	121,268
Depreciation and amortization	8,913	80,422	16,799	95,521	—	201,655
Total costs and expenses	129,879	2,456,778	670,327	1,406,995	—	4,663,979
Income (loss) from operations	(129,879)	298,967	97,513	150,678	—	417,279
Other income and expense:						
Intercompany interest and royalty fees	28,058	(12,676)	(14,187)	(1,195)	—	—
Intercompany management fees	211,861	(166,857)	(45,004)	—	—	—
Loss on early retirement of debt	(4,654)	—	—	(9,501)	—	(14,155)
Equity in earnings of unconsolidated subsidiaries	—	21,870	35	—	—	21,905
Non-operating gain	1,656	7,360	—	—	—	9,016
Interest income (expense)	(117,520)	328	(736)	(80,565)	—	(198,493)
Income (loss) before income taxes	(10,478)	148,992	37,621	59,417	—	235,552
Income tax expense	3,419	42,713	553	11,925	—	58,610
Equity in earnings of consolidated subsidiaries	151,737	24,404	—	—	(176,141) (a)	—
Net income	137,840	130,683	37,068	47,492	(176,141)	176,942
Less: Net income attributable to non-controlling interests	—	97	12,664	26,341	—	39,102
Net income attributable to Select Medical Corporation	$ 137,840	$ 130,586	$ 24,404	$ 21,151	$ (176,141)	$ 137,840

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

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Select Medical Corporation
Condensed Consolidating Statement of Cash Flows
For the Year Ended December 31, 2018

	Select (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Consolidating and Eliminating Adjustments	Consolidated Select Medical Corporation
	(in thousands)					
Operating activities						
Net income	$ 137,840	$ 130,683	$ 37,068	$ 47,492	$ (176,141) (a)	$ 176,942
Adjustments to reconcile net income to net cash provided by operating activities:						
Distributions from unconsolidated subsidiaries	—	15,687	34	—	—	15,721
Depreciation and amortization	8,913	80,422	16,799	95,521	—	201,655
Provision for bad debts	—	(485)	318	64	—	(103)
Equity in earnings of unconsolidated subsidiaries	—	(21,870)	(35)	—	—	(21,905)
Equity in earnings of consolidated subsidiaries	(151,737)	(24,404)	—	—	176,141 (a)	—
Loss on extinguishment of debt	1,955	—	—	1,044	—	2,999
Gain on sale of assets and businesses	(1,645)	(7,507)	(16)	—	—	(9,168)
Stock compensation expense	20,443	—	—	2,883	—	23,326
Amortization of debt discount, premium and issuance costs	5,740	—	—	7,372	—	13,112
Deferred income taxes	7,910	7,489	242	(8,424)	—	7,217
Changes in operating assets and liabilities, net of effects of business combinations:						
Accounts receivable	—	52,786	3,727	(1,938)	—	54,575
Other current assets	(4,845)	(960)	(1,017)	2,670	—	(4,152)
Other assets	(9,099)	(9,053)	2,068	23,941	—	7,857
Accounts payable	2,862	(2,447)	2,519	(4,712)	—	(1,778)
Accrued expenses	21,096	14,697	8,863	(16,760)	—	27,896
Net cash provided by operating activities	39,433	235,038	70,570	149,153	—	494,194
Investing activities						
Business combinations, net of cash acquired	—	(4,965)	(204)	(517,965)	—	(523,134)
Purchases of property and equipment	(9,719)	(76,443)	(38,914)	(42,205)	—	(167,281)
Investment in businesses	—	(13,477)	—	(5)	—	(13,482)
Proceeds from sale of assets and businesses	1,658	5,042	48	12	—	6,760
Net cash used in investing activities	(8,061)	(89,843)	(39,070)	(560,163)	—	(697,137)
Financing activities						
Borrowings on revolving facilities	595,000	—	—	—	—	595,000
Payments on revolving facilities	(805,000)	—	—	—	—	(805,000)
Proceeds from term loans	(62)	—	—	779,885	—	779,823
Payments on term loans	(11,500)	—	—	—	—	(11,500)
Revolving facility debt issuance costs	(1,090)	—	—	(549)	—	(1,639)
Borrowings of other debt	7,457	—	30,202	4,559	—	42,218
Principal payments on other debt	(11,293)	(621)	(6,816)	(6,512)	—	(25,242)
Dividends paid to Holdings	(6,837)	—	—	—	—	(6,837)
Equity investment by Holdings	1,722	—	—	—	—	1,722
Intercompany	204,615	(140,406)	(46,064)	(18,145)	—	—
Decrease in overdrafts	(4,380)	—	—	—	—	(4,380)
Proceeds from issuance of non-controlling interests	—	—	957	1,969	—	2,926
Distributions to and purchases of non-controlling interests	—	(1,450)	(9,929)	(300,140)	—	(311,519)
Net cash provided by (used in) financing activities	(31,368)	(142,477)	(31,650)	461,067	—	255,572
Net increase (decrease) in cash and cash equivalents	4	2,718	(150)	50,057	—	52,629
Cash and cash equivalents at beginning of period	73	4,856	4,561	113,059	—	122,549
Cash and cash equivalents at end of period	$ 77	$ 7,574	$ 4,411	$ 163,116	$ —	$ 175,178

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

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Select Medical Corporation
Condensed Consolidating Balance Sheet
December 31, 2017

	Select (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Consolidating and Eliminating Adjustments		Consolidated Select Medical Corporation
	(in thousands)						
ASSETS							
Current Assets:							
Cash and cash equivalents	$ 73	$ 4,856	$ 4,561	$ 113,059	$ —		$ 122,549
Accounts receivable	—	449,493	122,728	119,511	—		691,732
Intercompany receivables	—	1,598,212	60,707	—	(1,658,919)	(a)	—
Prepaid income taxes	22,704	5,703	31	2,949	—		31,387
Other current assets	13,021	30,209	13,031	18,897	—		75,158
Total Current Assets	35,798	2,088,473	201,058	254,416	(1,658,919)		920,826
Property and equipment, net	39,836	623,085	79,013	170,657	—		912,591
Investment in affiliates	4,524,385	124,104	—	—	(4,648,489)	(b)(c)	—
Goodwill	—	2,108,270	—	674,542	—		2,782,812
Identifiable intangible assets, net	—	104,067	5,046	217,406	—		326,519
Other assets	36,494	98,575	35,440	23,898	(9,989)	(e)	184,418
Total Assets	$ 4,636,513	$ 5,146,574	$ 320,557	$ 1,340,919	$ (6,317,397)		$ 5,127,166
LIABILITIES AND EQUITY							
Current Liabilities:							
Overdrafts	$ 29,463	$ —	$ —	$ —	$ —		$ 29,463
Current portion of long-term debt and notes payable	16,635	740	2,212	2,600	—		22,187
Accounts payable	12,504	85,489	17,475	12,726	—		128,194
Intercompany payables	1,598,212	60,707	—	—	(1,658,919)	(a)	—
Accrued payroll	16,736	98,887	4,819	40,120	—		160,562
Accrued vacation	4,083	58,355	12,295	18,142	—		92,875
Accrued interest	17,479	7	6	2,393	—		19,885
Accrued other	39,219	57,378	12,599	33,970	—		143,166
Income taxes payable	—	1,302	30	7,739	—		9,071
Total Current Liabilities	1,734,331	362,865	49,436	117,690	(1,658,919)		605,403
Long-term debt, net of current portion	2,042,555	127	24,730	610,303	—		2,677,715
Non-current deferred tax liability	—	88,376	780	45,750	(9,989)	(e)	124,917
Other non-current liabilities	36,259	56,721	8,138	44,591	—		145,709
Total Liabilities	3,813,145	508,089	83,084	818,334	(1,668,908)		3,553,744
Redeemable non-controlling interests	—	—	—	16,270	624,548	(d)	640,818
Stockholders' Equity:							
Common stock	0	—	—	—	—		0
Capital in excess of par	947,370	—	—	—	—		947,370
Retained earnings (accumulated deficit)	(124,002)	1,416,857	(35,942)	64,626	(1,445,541)	(c)(d)	(124,002)
Subsidiary investment	—	3,221,628	273,415	437,779	(3,932,822)	(b)(d)	—
Total Select Medical Corporation Stockholders' Equity	823,368	4,638,485	237,473	502,405	(5,378,363)		823,368
Non-controlling interests	—	—	—	3,910	105,326	(d)	109,236
Total Equity	823,368	4,638,485	237,473	506,315	(5,273,037)		932,604
Total Liabilities and Equity	$ 4,636,513	$ 5,146,574	$ 320,557	$ 1,340,919	$ (6,317,397)		$ 5,127,166

(a) Elimination of intercompany balances.
(b) Elimination of investments in consolidated subsidiaries.
(c) Elimination of investments in consolidated subsidiaries' earnings.
(d) Reclassification of equity attributable to non-controlling interests.
(e) Reclassification of non-current deferred tax asset to report net non-current deferred tax liability in consolidation.

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Select Medical Corporation
Condensed Consolidating Statement of Operations
For the Year Ended December 31, 2017

	Select (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Consolidating and Eliminating Adjustments	Consolidated Select Medical Corporation
	(in thousands)					
Net operating revenues	$ 700	$ 2,685,308	$ 666,013	$ 1,013,224	$ —	$ 4,365,245
Costs and expenses:						
Cost of services, exclusive of depreciation and amortization	2,585	2,299,360	576,708	856,656	—	3,735,309
General and administrative	111,069	159	—	2,819	—	114,047
Depreciation and amortization	7,540	76,408	14,118	61,945	—	160,011
Total costs and expenses	121,194	2,375,927	590,826	921,420	—	4,009,367
Income (loss) from operations	(120,494)	309,381	75,187	91,804	—	355,878
Other income and expense:						
Intercompany interest and royalty fees	32,828	(18,369)	(14,459)	—	—	—
Intercompany management fees	220,601	(180,588)	(40,013)	—	—	—
Loss on early retirement of debt	(19,719)	—	—	—	—	(19,719)
Equity in earnings of unconsolidated subsidiaries	—	20,973	81	—	—	21,054
Non-operating loss	—	(49)	—	—	—	(49)
Interest income (expense)	(124,406)	298	(87)	(30,508)	—	(154,703)
Income (loss) before income taxes	(11,190)	131,646	20,709	61,296	—	202,461
Income tax expense (benefit)	(8,753)	(2,549)	557	(7,439)	—	(18,184)
Equity in earnings of consolidated subsidiaries	179,621	13,536	—	—	(193,157) (a)	—
Net income	177,184	147,731	20,152	68,735	(193,157)	220,645
Less: Net income attributable to non-controlling interests	—	120	6,616	36,725	—	43,461
Net income attributable to Select Medical Corporation	$ 177,184	$ 147,611	$ 13,536	$ 32,010	$ (193,157)	$ 177,184

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

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Select Medical Corporation
Condensed Consolidating Statement of Cash Flows
For the Year Ended December 31, 2017

	Select (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Consolidating and Eliminating Adjustments	Consolidated Select Medical Corporation
			(in thousands)			
Operating activities						
Net income	$ 177,184	$ 147,731	$ 20,152	$ 68,735	$ (193,157) (a)	$ 220,645
Adjustments to reconcile net income to net cash provided by operating activities:						
Distributions from unconsolidated subsidiaries	—	19,940	66	—	—	20,006
Depreciation and amortization	7,540	76,408	14,118	61,945	—	160,011
Provision for bad debts	—	1,067	—	66	—	1,133
Equity in earnings of unconsolidated subsidiaries	—	(20,973)	(81)	—	—	(21,054)
Equity in earnings of consolidated subsidiaries	(179,621)	(13,536)	—	—	193,157 (a)	—
Loss on extinguishment of debt	6,527	—	—	—	—	6,527
Loss (gain) on sale of assets and businesses	(939)	(4,828)	(4,602)	20	—	(10,349)
Stock compensation expense	18,291	—	—	993	—	19,284
Amortization of debt discount, premium and issuance costs	7,895	—	—	3,235	—	11,130
Deferred income taxes	14,041	(40,788)	156	(45,733)	—	(72,324)
Changes in operating assets and liabilities, net of effects of business combinations:						
Accounts receivable	—	(84,264)	(27,683)	(6,886)	—	(118,833)
Other current assets	(1,068)	4,459	(3,745)	1,951	—	1,597
Other assets	168	(4,235)	3,413	(232)	—	(886)
Accounts payable	1,450	2,271	1,091	(909)	—	3,903
Accrued expenses	(25,396)	2,919	12,493	27,325	—	17,341
Net cash provided by operating activities	26,072	86,171	15,378	110,510	—	238,131
Investing activities						
Business combinations, net of cash acquired	—	(10,006)	(1,664)	(15,720)	—	(27,390)
Purchases of property and equipment	(30,413)	(136,267)	(37,651)	(28,912)	—	(233,243)
Investment in businesses	—	(12,682)	—	—	—	(12,682)
Proceeds from sale of assets and businesses	45,788	15,022	19,537	3	—	80,350
Net cash provided by (used in) investing activities	15,375	(143,933)	(19,778)	(44,629)	—	(192,965)
Financing activities						
Borrowings on revolving facilities	970,000	—	—	—	—	970,000
Payments on revolving facilities	(960,000)	—	—	—	—	(960,000)
Proceeds from term loans	1,139,487	—	—	—	—	1,139,487
Payments on term loans	(1,156,377)	—	—	(23,065)	—	(1,179,442)
Revolving facility debt issuance costs	(4,392)	—	—	—	—	(4,392)
Borrowings of other debt	25,630	—	18,224	2,767	—	46,621
Principal payments on other debt	(13,748)	(456)	(3,036)	(3,407)	—	(20,647)
Dividends paid to Holdings	(4,753)	—	—	—	—	(4,753)
Equity investment by Holdings	2,017	—	—	—	—	2,017
Intercompany	(40,410)	56,742	(16,332)	—	—	—
Decrease in overdrafts	(9,899)	—	—	—	—	(9,899)
Proceeds from issuance of non-controlling interests	—	—	9,982	—	—	9,982
Distributions to and purchases of non-controlling interests	—	(135)	(4,933)	(5,552)	—	(10,620)
Net cash provided by (used in) financing activities	(52,445)	56,151	3,905	(29,257)	—	(21,646)
Net increase (decrease) in cash and cash equivalents	(10,998)	(1,611)	(495)	36,624	—	23,520
Cash and cash equivalents at beginning of period	11,071	6,467	5,056	76,435	—	99,029
Cash and cash equivalents at end of period	$ 73	$ 4,856	$ 4,561	$ 113,059	$ —	$ 122,549

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

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Select Medical Corporation
Condensed Consolidating Statement of Operations
For the Year Ended December 31, 2016

	Select (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Consolidating and Eliminating Adjustments	Consolidated Select Medical Corporation
			(in thousands)			
Net operating revenues	$ 541	$ 2,729,803	$ 504,621	$ 982,495	$ —	$ 4,217,460
Costs and expenses:						
Cost of services, exclusive of depreciation and amortization	2,037	2,362,781	460,301	840,256	—	3,665,375
General and administrative	106,864	63	—	—	—	106,927
Depreciation and amortization	5,348	68,329	10,917	60,717	—	145,311
Total costs and expenses	114,249	2,431,173	471,218	900,973	—	3,917,613
Income (loss) from operations	(113,708)	298,630	33,403	81,522	—	299,847
Other income and expense:						
Intercompany interest and royalty fees	31,083	(17,404)	(13,679)	—	—	—
Intercompany management fees	168,915	(140,300)	(28,615)	—	—	—
Loss on early retirement of debt	(773)	—	—	(10,853)	—	(11,626)
Equity in earnings of unconsolidated subsidiaries	—	19,838	105	—	—	19,943
Non-operating gain	33,932	8,719	—	—	—	42,651
Interest income (expense)	(132,066)	315	(34)	(38,296)	—	(170,081)
Income (loss) before income taxes	(12,617)	169,798	(8,820)	32,373	—	180,734
Income tax expense (benefit)	(14,461)	54,557	2,656	12,712	—	55,464
Equity in earnings (losses) of consolidated subsidiaries	113,567	(8,093)	—	—	(105,474) (a)	—
Net income (loss)	115,411	107,148	(11,476)	19,661	(105,474)	125,270
Less: Net income (loss) attributable to non-controlling interests	—	218	(2,536)	12,177	—	9,859
Net income (loss) attributable to Select Medical Corporation	$ 115,411	$ 106,930	$ (8,940)	$ 7,484	$ (105,474)	$ 115,411

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

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Select Medical Corporation
Condensed Consolidating Statement of Cash Flows
For the Year Ended December 31, 2016

	Select (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Consolidating and Eliminating Adjustments	Consolidated Select Medical Corporation
	(in thousands)					
Operating activities						
Net income (loss)	$ 115,411	$ 107,148	$ (11,476)	$ 19,661	$ (105,474) (a)	$ 125,270
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Distributions from unconsolidated subsidiaries	—	20,380	96	—	—	20,476
Depreciation and amortization	5,348	68,329	10,917	60,717	—	145,311
Provision for bad debts	—	511	—	21	—	532
Equity in earnings of unconsolidated subsidiaries	—	(19,838)	(105)	—	—	(19,943)
Equity in earnings of consolidated subsidiaries	(113,567)	8,093	—	—	105,474 (a)	—
Loss on extinguishment of debt	773	—	—	10,853	—	11,626
Loss (gain) on sale of assets and businesses	(33,738)	(12,975)	246	(21)	—	(46,488)
Gain on sale of equity investment	—	(2,779)	—	—	—	(2,779)
Impairment of equity investment	—	5,339	—	—	—	5,339
Stock compensation expense	16,643	—	—	770	—	17,413
Amortization of debt discount, premium and issuance costs	12,358	—	—	3,298	—	15,656
Deferred income taxes	(709)	—	—	(11,882)	—	(12,591)
Changes in operating assets and liabilities, net of effects of business combinations:						
Accounts receivable	—	56,165	(30,045)	3,121	—	29,241
Other current assets	(1,432)	10,293	(4,602)	13,191	—	17,450
Other assets	(2,978)	51,586	(53,295)	13,977	—	9,290
Accounts payable	330	(24,679)	5,781	3,076	—	(15,492)
Accrued expenses	(1,287)	52,783	(1,110)	(4,094)	—	46,292
Net cash provided by (used in) operating activities	(2,848)	320,356	(83,593)	112,688	—	346,603
Investing activities						
Business combinations, net of cash acquired	(406,305)	(59,520)	(953)	(5,428)	—	(472,206)
Purchases of property and equipment	(15,262)	(101,864)	(28,561)	(15,946)	—	(161,633)
Investment in businesses	—	(4,723)	—	—	—	(4,723)
Proceeds from sale of assets and businesses	63,418	16,978	67	—	—	80,463
Proceeds from sale of equity investment	—	3,779	—	—	—	3,779
Net cash used in investing activities	(358,149)	(145,350)	(29,447)	(21,374)	—	(554,320)
Financing activities						
Borrowings on revolving facilities	575,000	—	—	—	—	575,000
Payments on revolving facilities	(650,000)	—	—	(5,000)	—	(655,000)
Proceeds from term loans	600,127	—	—	195,217	—	795,344
Payments on term loans	(230,524)	—	—	(207,510)	—	(438,034)
Borrowings of other debt	11,935	—	12,970	2,816	—	27,721
Principal payments on other debt	(15,144)	(751)	(2,554)	(2,952)	—	(21,401)
Dividends paid to Holdings	(2,929)	—	—	—	—	(2,929)
Equity investment by Holdings	1,672	—	—	—	—	1,672
Intercompany	67,115	(169,163)	102,048	—	—	—
Increase in overdrafts	10,746	—	—	—	—	10,746
Proceeds from issuance of non-controlling interests	—	—	11,846	—	—	11,846
Distributions to and purchases of non-controlling interests	—	(2,331)	(6,839)	(3,484)	—	(12,654)
Net cash provided by (used in) financing activities	367,998	(172,245)	117,471	(20,913)	—	292,311
Net increase in cash and cash equivalents	7,001	2,761	4,431	70,401	—	84,594
Cash and cash equivalents at beginning of period	4,070	3,706	625	6,034	—	14,435
Cash and cash equivalents at end of period	$ 11,071	$ 6,467	$ 5,056	$ 76,435	$ —	$ 99,029

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

SELECT MEDICAL HOLDINGS CORPORATION
AND SELECT MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Selected Quarterly Financial Data (Unaudited)

The tables below sets forth selected unaudited financial data for each quarter of the last two years. The financial data presented below is the same for both Select Medical Holdings Corporation and Select Medical Corporation, except for earnings per common share which is limited to Select Medical Holdings Corporation.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except per share amounts)			
For the year ended December 31, 2017				
Net operating revenues[1]	$ 1,091,517	$ 1,102,465	$ 1,077,014	$ 1,094,249
Income from operations	91,765	115,663	72,098	76,352
Net income	23,463	51,300	24,824	121,058
Net income attributable to Select Medical Holdings Corporation	15,870	42,055	18,462	100,797
Earnings per common share[2]:				
Basic	$ 0.12	$ 0.32	$ 0.14	$ 0.75
Diluted	$ 0.12	$ 0.32	$ 0.14	$ 0.75

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except per share amounts)			
For the year ended December 31, 2018				
Net operating revenues	$ 1,252,964	$ 1,296,210	$ 1,267,401	$ 1,264,683
Income from operations	108,598	120,561	99,837	88,283
Net income	43,982	60,559	42,679	29,722
Net income attributable to Select Medical Holdings Corporation	33,739	46,511	32,917	24,673
Earnings per common share[2]:				
Basic	$ 0.25	$ 0.35	$ 0.24	$ 0.18
Diluted	$ 0.25	$ 0.35	$ 0.24	$ 0.18

(1) Net operating revenues were retrospectively conformed to reflect the adoption of Topic 606, *Revenue from Contracts with Customers.*

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

The following Financial Statement Schedule along with the report thereon of PricewaterhouseCoopers LLP dated February 21, 2019, should be read in conjunction with the consolidated financial statements. Financial Statement Schedules not included in this filing have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

Select Medical Holdings Corporation

Select Medical Corporation

Schedule II—Valuation and Qualifying Accounts

	Balance at Beginning of Year	Charged to Cost and Expenses	Acquisitions[1]	Deductions[2]	Balance at End of Year
			(in thousands)		
Income Tax Valuation Allowance					
Year ended December 31, 2018	$ 12,986	$ 1,032	$ 3,875	$ —	$ 17,893
Year ended December 31, 2017	$ 26,421	$ (13,435)	$ —	$ —	$ 12,986
Year ended December 31, 2016	$ 7,586	$ (118)	$ 18,975	$ (22)	$ 26,421

(1) Includes valuation allowance reserves resulting from business combinations.

(2) Valuation allowance deductions relate to the disposition of certain subsidiaries.