SELECT MEDICAL CORP
Form DEFM14A
January 24, 2005

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under Section 240.14a-12

Select Medical Corporation

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the Appropriate box):

o No fee required

o $125 per Exchange Act Rules 0-11(c)(1)(ii), 14a-6(i)(1), 14a-6(i)(2) or Item 22(a)(2) of Schedule 14A.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:
Select Medical Corporation common stock, par value $.01

2) Aggregate number of securities to which transaction applies:
Common stock: 101,907,859

Options to purchase common stock: 21,318,927

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
Pursuant to the Agreement and Plan of Merger, dated as of October 17, 2004, among EGL Holding Company, EGL Acquisition Corp. and Select Medical Corporation, each issued and outstanding share of Select Medical Corporation

common stock, other than shares being exchanged for an equity investment in the parent of the surviving corporation, treasury stock and shares owned by stockholders who validly exercise and perfect their appraisal rights, will be converted into the right to receive $18.00 in cash. In addition, pursuant to the terms of the Agreement and Plan of Merger, each issued and outstanding option will be canceled in exchange for (1) the excess of $18.00 over the per share exercise price of the option multiplied by (2) the number of shares of common stock subject to the option at the time of the merger, whether or not then vested or exercisable. The filing fee was calculated based on the sum of (a) an aggregate cash payment of $1,834,341,462.00 for the proposed per share cash payment of $18.00 for 101,907,859 outstanding shares of common stock and (b) an aggregate cash payment of $144,166,795 to holders of outstanding options to purchase common stock with an exercise price of less than

$18.00 per share. The payment of the filing fee, calculated in accordance with Fee Rate Advisory #3 for Fiscal Year 2005, equals $126.70 per million of the aggregate merger consideration calculated pursuant to the preceding sentence.

4) Proposed maximum aggregate value of transaction: $1,978,508,257.00

5) Total fee paid: $250,676.99

x Fee paid previously by written preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid: __________

2) Form Schedule or Registration Statement No.: __________

3) Filing Party: __________

4) Date Filed: __________

SELECT MEDICAL CORPORATION

4716 Old Gettysburg Road
P.O. Box 2034
Mechanicsburg, Pennsylvania 17055

PROPOSED CASH MERGER - YOUR VOTE IS VERY IMPORTANT

To Our Stockholders:

You are cordially invited to attend a special meeting of stockholders of Select Medical Corporation, which we refer to as Select, to be held on February 24, 2005 at 9:00 a.m., Eastern Standard Time, at 4716 Old Gettysburg Road, Mechanicsburg, PA 17055. At the special meeting, you will be asked to consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger, dated as of October 17, 2004, among Select, EGL Holding Company and EGL Acquisition Corp., and the merger contemplated by the merger agreement. Under the merger agreement, EGL Acquisition Corp., a wholly-owned subsidiary corporation of EGL Holding Company, will be merged with and into Select, with Select being the surviving corporation. Both EGL Holding Company and EGL Acquisition Corp. are Delaware corporations that were formed by Welsh, Carson, Anderson & Stowe IX, L.P. for the purpose of completing the merger and related transactions. A copy of the merger agreement is included as Appendix A to these materials. When the merger is completed, an investor group led by Welsh, Carson, Anderson & Stowe IX, L.P., which includes its co-investors and various existing stockholders of Select who are expected to continue their investment in Select by acquiring an equity interest in EGL Holding Company immediately prior to the merger, will own all the capital stock of EGL Holding Company. These continuing investors are Rocco A. Ortenzio, Select s Executive Chairman and the chairman of its board of directors, Robert A. Ortenzio, Select s Chief Executive Officer and a member of its board of directors, various members of the Ortenzio family and entities controlled by one or more of the Ortenzios, Bryan C. Cressey, a director of Select, various investment funds affiliated with Thoma Cressey Equity Partners, a private equity firm which includes Bryan C. Cressey as a principal, Meyer Feldberg, a director of Select, Patricia A. Rice, Select s President and Chief Operating Officer, Martin F. Jackson, Select s Chief Financial Officer, S. Frank Fritsch, Select s Senior Vice President, Human Resources, Michael E. Tarvin, Select s Senior Vice President, General Counsel and Secretary, James J. Talalai, Select s Senior Vice President and Chief Information Officer, Scott A. Romberger, Select s Vice President, Controller and Chief Accounting Officer, Kenneth L. Moore, a Vice President of Select, and Joel T. Veit, a Vice President of Select.

The continuing investors have interests in the merger that are different from, or in addition to, the interests of Select stockholders generally. Certain of the continuing investors are expected to join the board of directors of EGL Holding Company after the merger. The continuing investors will continue their investment in Select by making an investment in EGL Holding Company and acquiring shares of preferred stock and common stock of EGL Holding Company. Certain of the continuing investors will receive awards under an equity incentive plan adopted by EGL Holding Company in connection with the merger. In addition, the members of the current management of Select are expected to remain as members of management of the surviving corporation and are expected to enter into employment or management agreements with EGL Holding Company upon substantially similar terms as their current employment or management agreements with Select.

If the merger is completed, each issued and outstanding share of Select common stock owned by you will be converted into the right to receive $18.00 in cash, without interest, unless you choose to be a dissenting stockholder by exercising and perfecting your appraisal rights under Delaware law. Each outstanding option for Select common stock will be canceled in exchange for (1) the excess of $18.00 over the per share exercise price of the option multiplied by (2) the number of shares of common stock subject to the option.

If the merger is completed, Select will no longer be a publicly-traded company. After the merger, you will no longer have an equity interest in Select and will not participate in any potential future earnings and growth of Select.

The board of directors of Select formed a special committee, composed of 2 directors who are not officers or employees of Select, and are independent of and have no economic interest or expectancy of an economic interest in Welsh, Carson, Anderson & Stowe IX, L.P., EGL Holding Company or the surviving corporation, to evaluate, negotiate and make a recommendation to the board of directors regarding the merger proposal and related transactions, including the terms of the merger agreement. If the merger is completed, the members of the special committee will receive cash payments for their shares. The members of the special committee control 17,040, or approximately 0.02% of the outstanding shares of common stock of Select. In addition, the members of the special committee will receive cash payments totaling approximately $1.3 million for their stock options in the merger. These cash payments represent consideration for the cancellation of the stock options on the same terms as provided to other holders of stock options in the merger agreement. As members of the board of directors, the special committee members will also benefit from the indemnification, insurance and related provisions contained in the merger agreement with respect to their acts or omissions as directors. See Special Factors-Interests of Select Directors and Executive Officers in the Merger beginning on page 50 of the accompanying proxy statement. Whether the merger is completed or not, each member of the special committee will be paid $65,000 for such member s service on the special committee and will be reimbursed for any out-of-pocket expenses incurred in connection with service on the special committee. Because of these interests, the interests of the special committee and the stockholders of Select may not be aligned.

Certain of the directors of Select, including Meyer Feldberg, Leopold Swergold and LeRoy S. Zimmerman, and the members of the special committee, James E. Dalton, Jr. and David S. Chernow, are not expected to remain as directors of the surviving corporation after the merger.

The board of directors, acting on the unanimous recommendation of the special committee, has unanimously approved the merger agreement and the merger. The special committee and the board of directors each have determined that the terms of the merger agreement and the proposed merger are advisable and procedurally and substantively fair to, and in the best interests of, the stockholders of Select (other than EGL Holding Company, EGL Acquisition Corp., Welsh Carson Anderson & Stowe IX, L.P., their respective affiliates, their co-investors and the continuing investors). **The board of directors recommends that you vote FOR the approval and adoption of the merger agreement and the merger. The board of directors also recommends that you vote FOR the grant to the proxyholders of the authority to vote in their discretion with respect to the approval of any proposal to postpone or adjourn the special meeting to a later date to solicit additional proxies in favor of the approval and adoption of the merger agreement and the merger if there are not sufficient votes for approval and adoption of the merger agreement and the merger at the special meeting.**

In arriving at their recommendation of the merger agreement and the merger, our board of directors carefully considered a number of factors which are described in the accompanying proxy statement. The proxy statement provides information about the merger agreement, the merger and the related transactions, and the special meeting. You may obtain additional information about Select from documents filed with the Securities and Exchange Commission. We urge you to read the entire proxy statement carefully, including the appendices and materials incorporated by reference, as it sets forth the details of the merger agreement and other important information related to the merger, including the factors considered by our board of directors.

Your vote is very important. The merger cannot be completed unless the merger agreement and the merger are approved and adopted by the affirmative vote of (1) the holders of a majority of the outstanding shares of Select common stock entitled to vote and (2) the holders of a majority of the outstanding shares of Select common stock entitled to vote not held by EGL Holding Company, EGL Acquisition Corp., Welsh, Carson, Anderson & Stowe IX, L.P., their respective affiliates, their co-investors or the continuing investors referred to above. Regardless of whether you plan to attend the special meeting, it is important that your shares are represented at the special meeting. To ensure that your shares will be represented, please complete, sign, date and mail the enclosed proxy card or submit your vote via the Internet or by telephone at your first opportunity.

This solicitation for your proxy is being made by Select on behalf of its board of directors. If you fail to vote on the merger, the effect will be the same as a vote against the approval and adoption of the merger agreement and the merger for purposes of the vote referred to above. You have a choice of voting by completing and mailing a proxy card in the postage-paid envelope provided, through the Internet at http://www.proxyvoting.com/sem, or by telephone by calling 1-866-540-5760. **If you complete, sign and submit your proxy card or submit your proxy via the Internet or by telephone without indicating how you**

wish to vote, your proxy will be counted as a vote in favor of approval and adoption of the merger agreement, the merger and any postponement or adjournment of the special meeting referred to above. Returning the proxy card or submitting your proxy via the Internet or by telephone will not deprive you of your right to attend the special meeting and vote your shares in person.

On behalf of your board of directors, thank you for your continued support.

Sincerely,

/s/ ROBERT A. ORTENZIO

Robert A. Ortenzio
Chief Executive Officer

January 24, 2005

Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

This proxy statement is dated January 24, 2005 and is first being mailed to stockholders of Select on or about January 25, 2005.

SELECT MEDICAL CORPORATION

4716 Old Gettysburg Road
P.O. Box 2034
Mechanicsburg, Pennsylvania 17055

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To Be Held On February 24, 2005

To Our Stockholders:

You are invited to attend a special meeting of stockholders of Select Medical Corporation, which we refer to as Select.

Date: February 24, 2005

Time: 9:00 a.m.

Place: 4716 Old Gettysburg Road, Mechanicsburg, PA 17055

Only stockholders who owned Select common stock of record at the close of business on January 21, 2005 can vote at this meeting or any postponements or adjournments that may take place.

The purposes of the special meeting are:

to consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger, dated as of October 17, 2004, among Select, EGL Holding Company and EGL Acquisition Corp., and the merger contemplated by the merger agreement;

to grant to the proxyholders the authority to vote in their discretion with respect to the approval of any proposal to postpone or adjourn the special meeting to a later date to solicit additional proxies in favor of the approval and adoption of the merger agreement and the merger if there are not sufficient votes for approval and adoption of the merger agreement and the merger at the special meeting; and

to consider and vote upon such other matters as may properly come before the special meeting or any adjournment or postponement of the special meeting.

The board of directors, acting on the unanimous recommendation of the special committee, has unanimously approved the merger agreement and the merger. The special committee and the board of directors have determined that the merger agreement and the merger are advisable and procedurally and substantively fair to, and in the best interests of, Select s stockholders (other than EGL Holding Company, EGL Acquisition Corp., Welsh Carson Anderson & Stowe IX, L.P., their respective affiliates, their co-investors and the continuing investors). The continuing investors are Rocco A. Ortenzio, Select s Executive Chairman and the chairman of its board of directors, Robert A. Ortenzio, Select s Chief Executive Officer and a member of its board of directors, various members of the Ortenzio family and entities controlled by one or more of the Ortenzios, Bryan C. Cressey, a director of Select, various investment funds affiliated with Thoma Cressey Equity Partners, a private equity firm which includes Bryan C. Cressey as a principal, Meyer Feldberg, a director of Select, Patricia A. Rice, Select s President and Chief Operating Officer, Martin F. Jackson, Select s Chief Financial Officer, S. Frank Fritsch, Select s Senior Vice President, Human Resources, Michael E. Tarvin, Select s Senior Vice President, General Counsel and Secretary, James J. Talalai, Select s Senior Vice President and Chief Information Officer, Scott A. Romberger, Select s Vice President, Controller and Chief Accounting Officer, Kenneth L. Moore, a Vice President of Select, and Joel T. Veit, a Vice President of Select. **The board of directors recommends that you vote FOR the approval and adoption of the merger agreement and the merger. The board of directors also recommends that you vote FOR the grant to**

the proxyholders of the authority to vote in their discretion with respect to the approval of any postponement or adjournment of the special meeting referred to above.

Stockholders of Select who do not vote in favor of approval and adoption of the merger agreement and the merger will have the right to seek appraisal of the fair value of their shares if the merger is completed, but only if they submit a written demand for an appraisal to Select before the vote is taken on the merger agreement and the merger and they comply with Delaware law as explained in the accompanying proxy statement.

Your vote is very important, regardless of the number of shares you own. The merger cannot be completed unless the merger agreement and the merger are approved and adopted by the affirmative vote of (1) the holders of a majority of the outstanding shares of Select common stock entitled to vote and (2) the holders of a majority of the outstanding shares of Select common stock entitled to vote not held by EGL Holding Company, EGL Acquisition Corp., Welsh, Carson, Anderson & Stowe IX, L.P., their respective affiliates, their co-investors or the continuing investors. Failure to vote on the merger has the same effect as a vote against the merger proposal. Even if you plan to attend the special meeting in person, it is important that your shares are represented at the special meeting. To ensure that your shares will be represented at the special meeting, please complete, date, sign and mail the enclosed proxy card. A return envelope (which is postage prepaid if mailed in the United States) is enclosed for submissions by mail. Alternatively, you may vote through the Internet at http://www.proxyvoting.com/sem or by telephone by calling 1-866-540-5760, following the instructions set forth on the proxy card that you receive.

This solicitation for your proxy is being made by Select on behalf of its board of directors. If you do attend the special meeting and wish to vote in person, you may withdraw your proxy and vote in person. However, if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain from the record holder a proxy issued in your name.

If you have any questions or need assistance in voting your shares, please call Mellon Investor Services, which is assisting Select, at 1-800-756-3353.

The merger agreement and the merger are described in the accompanying proxy statement, which we urge you to read carefully. A copy of the merger agreement is included as Appendix A to the accompanying proxy statement.

By Order of the Board of Directors

/s/ MICHAEL E. TARVIN

Michael E. Tarvin
Senior Vice President, General Counsel and Secretary

Mechanicsburg, Pennsylvania

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LIST OF APPENDICES

SUMMARY TERM SHEET

This summary provides a brief description of the material terms of the merger agreement and the merger. This summary highlights selected information contained in this proxy statement and may not contain all of the information that is important to you. You are urged to read this entire proxy statement carefully, including the information incorporated by reference and the information in the appendices. We incorporate by reference important business and financial information about us into this proxy statement. You may obtain the information incorporated by reference into this proxy statement without charge by following the instructions in the section entitled Where Stockholders Can Find More Information beginning on page 98.

The Parties to the Merger

Select-Select Medical Corporation is a Delaware corporation that is headquartered in Mechanicsburg, Pennsylvania. Select is a leading operator of specialty hospitals in the United States and of outpatient rehabilitation clinics in the United States and Canada. See The Participants beginning on page 19.

Holdings-EGL Holding Company is a Delaware corporation that currently is a wholly-owned subsidiary of Welsh, Carson, Anderson & Stowe IX, L.P., a Delaware limited partnership, which is referred to as Welsh Carson in this proxy statement. Welsh Carson is an investment partnership that was organized by Welsh, Carson, Anderson & Stowe, a New York-based private equity firm. Welsh Carson, together with its co-investors and the continuing investors, will own all the capital stock of Holdings when the merger is completed. Welsh Carson s co-investors are Patrick J. Welsh, Russell L. Carson, Bruce K. Anderson, Thomas E. McInerney, Robert A. Minicucci, Anthony J. de Nicola, Paul B. Queally, D. Scott Mackesy, Sanjay Swani, John D. Clark, James R. Matthews, Sean M. Traynor, John Almeida, Jonathan M. Rather, certain other employees of an affiliate of Welsh Carson and Kenneth Melkus. The continuing investors currently are Rocco A. Ortenzio, Select s Executive Chairman and the chairman of its board of directors, Robert A. Ortenzio, Select s Chief Executive Officer and a member of its board of directors, various members of the Ortenzio family and entities controlled by one or more of the Ortenzios, Bryan C. Cressey, a director of Select, various investment funds affiliated with Thoma Cressey Equity Partners, a private equity firm which includes Bryan C. Cressey as a principal, Meyer Feldberg, a director of Select, Patricia A. Rice, Select s President and Chief Operating Officer, Martin F. Jackson, Select s Chief Financial Officer, S. Frank Fritsch, Select s Senior Vice President, Human Resources, Michael E. Tarvin, Select s Senior Vice President, General Counsel and Secretary, James J. Talalai, Select s Senior Vice President and Chief Information Officer, Scott A. Romberger, Select s Vice President, Controller and Chief Accounting Officer, Kenneth L. Moore, a Vice President of Select, and Joel T. Veit, a Vice President of Select. Other members of management of Select may join the continuing investors at a later time. Welsh Carson formed Holdings for the purpose of completing the merger and related transactions. See The Participants beginning on page 19.

Acquisition Corp.-EGL Acquisition Corp. is a Delaware corporation that is a wholly-owned subsidiary of Holdings. Welsh Carson formed Acquisition Corp. for the purpose of completing the merger and related transactions. See The Participants beginning on page 19.

The Merger

In the merger, Acquisition Corp. will merge with and into Select. Upon completion of the merger, Acquisition Corp. will cease to exist, and Select will continue as the surviving corporation and as a wholly-owned subsidiary of Holdings. Following the merger, Select will no longer be a publicly traded company. We have attached the merger agreement as Appendix A to this proxy statement. We encourage you to read the merger agreement in its entirety because it is the legal document that governs the merger. See Special Factors beginning on page 21 and The Merger Agreement beginning on page 74.

Following the merger, current Select stockholders (except for certain of Welsh Carson s co-investors and the continuing investors) will cease to have ownership interests in Select or rights as Select stockholders.

Recent Developments

On November 19, 2004, Select entered into an Agreement and Plan of Merger and Reorganization with Camp Hill Acquisition Corp., a wholly owned subsidiary of Select, SemperCare Inc., which is referred to as SemperCare in this proxy statement, and Jeffrey J. Collinson, as Stockholders Agent, to acquire SemperCare for approximately $100.0 million in cash, subject to an upward or downward adjustment based on the level of SemperCare s net working capital on the closing date of the acquisition.

SemperCare is a privately held company based in Plano, Texas, which operates 17 long-term acute care hospitals in 11 states. The transaction, which is referred to as the SemperCare acquisition in this proxy statement, closed effective as of January 1, 2005. Pursuant to Section 4.2 of the merger agreement, Holdings and Acquisition Corp. have each consented to the execution, delivery and performance by Select and Camp Hill Acquisition Corp. of the SemperCare acquisition agreement, and the consummation of the transactions contemplated thereby.

Stockholder Vote Required to Approve the Merger

You are being asked to consider and vote upon a proposal to approve and adopt the merger agreement and the merger contemplated by the merger agreement. Approval and adoption of the merger agreement and the merger require the affirmative vote of (1) the holders of a majority of the outstanding shares of common stock of Select entitled to vote and (2) the holders of a majority of the outstanding shares of Select common stock entitled to vote not held by Holdings, Acquisition Corp., Welsh Carson, their respective affiliates, their co-investors or the continuing investors. Abstentions and broker non-votes will have the effect of a vote against the merger. On the record date, there were 101,989,434 shares of common stock outstanding and entitled to be voted at the special meeting. Holdings, Acquisition Corp., Welsh Carson, their respective affiliates, their co-investors and the continuing investors control approximately 12.7% of the outstanding shares of common stock of Select. Accordingly, if unaffiliated stockholders holding in excess of approximately 43.7% of the outstanding common stock abstain from voting or vote against the merger, the merger will not receive the required approval of stockholders. See The Special Meeting beginning on page 16.

Voting Information

Before voting your shares of Select common stock, we encourage you to read this proxy statement in its entirety, including its appendices and materials incorporated by reference, and carefully consider how the merger will affect you. Then, to ensure that your shares can be voted at the special meeting, please complete, sign, date and mail the enclosed proxy card, which requires no postage if mailed in the United States, or submit your vote via the Internet or by telephone as soon as possible. If a broker holds your shares in street name, your broker should provide you with instructions on how to vote. For more information about how to vote your shares, see The Special Meeting Record Date, Quorum and Voting Information beginning on page 16.

Recommendations of the Special Committee and the Board of Directors

The special committee is composed of 2 independent directors who are not officers or employees of Select and who are independent of and have no economic interest or expectancy of an economic interest in Welsh Carson, Holdings or the surviving corporation. The members of the special committee are David S. Chernow and James E. Dalton, Jr. If the merger is completed, the members of the special committee will, like all other stockholders receive cash payments for their shares. The members of the special committee control 17,040 or 0.02% of the outstanding shares of common stock of Select. See Special Factors-Interests of Select Directors and Executive Officers in the Merger beginning on page 50. Whether the merger is completed or not, each member of the special committee will be paid $65,000 for such member s service on the special committee and will be reimbursed for any out-of-pocket expenses incurred in connection with service on the special committee. In addition, the members of the special committee will receive cash payments totaling approximately $1.3 million in the aggregate for their stock options in the merger. These cash payments represent consideration for the cancellation of the stock options on the same terms as provided to other holders of stock options in the merger agreement. As members of the board of directors, the special committee members will also benefit from the indemnification, insurance and related provisions contained in the merger agreement with respect to their acts or omissions as directors. Because of these interests, the interests of the special committee and the stockholders of Select may not be aligned.

The special committee and the board of directors have determined that the terms of the merger agreement and the proposed merger are advisable and procedurally and substantively fair to, and in the best interests of, the Select stockholders (other than Holdings, Acquisition Corp., Welsh Carson, their respective affiliates, their co- investors and the continuing investors). In this proxy statement, we sometimes refer to the Select stockholders other than Holdings, Acquisition Corp., Welsh Carson, their respective affiliates, their co-investors and the continuing investors as the unaffiliated stockholders of Select. For information as to the reasons for the special committee and the board of directors reaching this conclusion, see Special Factors-Recommendation of the Special Committee and the Board of Directors and Reasons for the Merger beginning on page 29. **The board of directors, acting on the unanimous recommendation of the special committee, has approved the merger agreement and the merger and recommends that you vote FOR the approval and adoption of the merger agreement and the merger and FOR the approval of any proposal to postpone or adjourn the special meeting to a later date to solicit additional proxies in favor of the approval and adoption of the merger agreement and the merger if there are not sufficient votes for approval and adoption of the merger agreement and the merger at the special meeting.**

Opinion of the Financial Advisor to the Special Committee

On September 24, 2004, the special committee engaged Banc of America Securities LLC to assist it in connection with its evaluation of the proposed merger and to render an opinion as to whether the consideration to be received by the unaffiliated stockholders pursuant to the merger was fair from a financial point of view to the unaffiliated stockholders. As part of this engagement, Select agreed to pay Banc of America Securities LLC a fee of $100,000 at the time the engagement letter was executed and a fee of $750,000 at the time Banc of America Securities LLC delivered its original opinion. In addition, Select agreed to pay Banc of America Securities LLC a transaction fee contingent on the completion of the merger in an amount equal to 0.38% of the aggregate value of the consideration to be paid in the merger (including assumed or funded debt), or approximately $8.9 million. The transaction fee will be reduced by the $100,000 fee paid at the time the engagement letter was executed and the $750,000 fee paid when the original opinion was delivered on October 17, 2004. As a result, approximately 90.4% of the consideration payable to Banc of America Securities LLC is contingent on the completion of the merger.

On October 17, 2004, Banc of America Securities LLC delivered its written opinion to the special committee and the board of directors that, as of that date, and based upon and subject to the assumptions made, matters considered, qualifications and limitations set forth in the written opinion, the cash consideration of $18.00 per share to be received by the unaffiliated stockholders pursuant to the merger was fair from a financial point of view to the unaffiliated stockholders.

On November 5, 2004, the special committee requested that Banc of America Securities LLC update its original opinion delivered on October 17, 2004 in light of the anticipated SemperCare acquisition. On November 18, 2004, Banc of America Securities LLC delivered a written opinion to the special committee and the board of directors of Select that, as of such date and based upon and subject to the assumptions made, matters considered (including the proposed SemperCare acquisition), qualifications and limitations set forth in such opinion, the merger consideration to be received by the unaffiliated stockholders in the merger is fair from a financial point of view to such stockholders.

The full text of the written opinion of Banc of America Securities LLC dated November 18, 2004, which sets forth assumptions made, matters considered and qualifications and limitations on the review undertaken and opinion given, is attached to this proxy statement as Appendix B and is incorporated into this proxy statement by reference. Stockholders are urged to read, and should read, the entire opinion carefully. See Special Factors-Opinion of the Financial Advisor to the Special Committee beginning on page 37.

Position of the Buying Group as to the Fairness of the Merger

Each of Holdings, Acquisition Corp., Welsh Carson, WCAS IX Associates, L.L.C., the general partner of Welsh Carson, Russell L. Carson, Bryan C. Cressey, Rocco A. Ortenzio, Robert A. Ortenzio, Patricia A. Rice, Martin F. Jackson, S. Frank Fritsch, Michael E. Tarvin, James J. Talalai and Scott A. Romberger (whom collectively are referred to as the buying group in this proxy statement) believes that the merger is both procedurally and substantively fair to Select s unaffiliated stockholders. For information as to the reasons for the buying group reaching this conclusion, see Special Factors-Position of the Buying Group as to the Fairness of the Merger beginning on page 43.

Purpose of the Merger

The principal purpose of the merger is to provide you with an opportunity to receive an immediate cash payment for your Select shares at a price that constitutes a premium over recent stock market prices and to enable Welsh Carson, its co-investors and the continuing investors to acquire Select. The merger consideration of $18.00 per share represents an approximately 26.6% premium over the stock market closing price of $14.22 per share on October 15, 2004, the trading day before the public announcement of the execution of the merger agreement, and an approximately 35.5% premium over the average stock market closing price of $13.28 per share for the 30 trading days preceding the public announcement of the execution of the merger agreement.

Consideration; Effect of the Merger on Select Stockholders

In the merger, each share of Select common stock will be converted automatically into the right to receive $18.00 in cash, without interest, except for:

- treasury shares of Select common stock, all of which will be canceled without any payment;
- shares of Select common stock owned by Holdings or Acquisition Corp., which includes any shares held by Holdings that are contributed to Holdings by the co-investors and the continuing investors prior to the merger in return for equity interests in Holdings; and
- shares of Select common stock held by stockholders who properly exercise and perfect their appraisal rights in accordance with Section 262 of the Delaware General Corporation Law, which is referred to as the DGCL in this proxy statement. See Special Factors-Appraisal Rights beginning on page 70.

At the effective time of the merger, each outstanding option under the Select stock option plans will be canceled in exchange for an amount in cash determined by multiplying (1) the excess of $18.00 over the per share exercise price of the option by (2) the number of shares of Select common stock subject to the option. See The Merger Agreement beginning on page 74. There are no outstanding stock options under Select s stock option plans with a per share exercise price greater than $18.00 per share. The merger agreement requires the board of directors of Select or any committee administering the stock option plans to take all actions necessary to cause all outstanding stock options granted under the stock option plans to be cancelled as of the effective time of the merger. See The Merger Agreement-Treatment of Options beginning on page 74.

Upon completion of the merger, current Select stockholders, other than certain co-investors of Welsh Carson and the continuing investors, will cease to have ownership interests in Select or rights as Select stockholders. Holdings, Welsh Carson, their co-investors and the continuing investors, will, directly or indirectly, own all of the surviving corporation s outstanding capital stock. Therefore, current stockholders of Select, other than such investors, will not participate in any future earnings or growth of Select and will not benefit from any appreciation in value of Select. See Special Factors-Effects of the Merger beginning on page 46.

As a result of the merger, Select will be a privately-held corporation, and there will be no public market for its common stock. After the merger, Select common stock will no longer be listed on the New York Stock Exchange, and its registration under the Securities Exchange Act of 1934, as amended, which is referred to as the Exchange Act in this proxy statement, will be terminated. See Special Factors-Effects of the Merger beginning on page 46.

Interests of Select Directors, Executive Officers and the Financial Advisor to the Special Committee in the Merger

In considering the recommendations of the special committee and the board of directors, Select stockholders should be aware that some of Select s executive officers and directors have interests in the merger that are different from, or in addition to, the interests of Select stockholders generally. These interests include the following:

Holdings expects that certain executive officers and directors of Select and stockholders affiliated with certain executive officers and directors of Select will continue their investment in Select by making an investment in Holdings and acquiring shares of preferred stock and common stock of Holdings on the same basis that Welsh Carson and its co-investors are investing in Holdings. The continuing investors will contribute shares of Select common stock held by them to Holdings in exchange for the same equity securities of Holdings purchased by Welsh Carson and its co-investors, and may invest additional cash in Holdings, in each case, at the same price and on the same terms as Welsh Carson and its co-investors. The aggregate investment in Holdings by the continuing investors is expected to be approximately $165.2 million (which, at the time that the merger is completed, is expected to be approximately 21% of the full equity capitalization of Holdings, as compared to the approximately 10.6% ownership interest in Select currently held by the continuing investors).

Rocco A. Ortenzio, Robert A. Ortenzio, Russell L. Carson, Bryan C. Cressey and Thomas A. Scully are expected to join the board of directors of Holdings after the merger. The other current directors of the board of directors of Select, including the members of the special committee, are not expected to continue as directors of Holdings after the merger.

Russell L. Carson, a current director of Select, is a managing member of the general partner of Welsh Carson, a co-investor and a founder of Welsh, Carson, Anderson & Stowe. Mr. Carson is expected to contribute shares of Select common stock held by him to Holdings in exchange for the same equity securities purchased by Welsh Carson, its other co-investors and the continuing investors, and is expected to invest additional cash in Holdings. The aggregate investment in Holdings by Mr. Carson is expected to be approximately $14.6 million (which, at the time that the merger is completed, is expected to be approximately 2% of the full equity capitalization of Holdings, as compared to the approximately 0.7% ownership interest in Select currently held by Mr. Carson).

In connection with the merger, Holdings will adopt an equity incentive plan providing for the grant of restricted stock and stock options. The aggregate amount of shares of restricted stock issuable under that plan is expected to be approximately 20% of the fully-diluted common stock of Holdings upon completion of the merger (which, at that time, is expected to be approximately 6% of the full equity capitalization of Holdings). The aggregate amount of shares of common stock available for issuance pursuant to options granted under the plan is expected to be approximately 15% of the fully-diluted common stock of Holdings upon the completion of the merger, of which not more than one percentage point (which, at the time the merger is completed, is expected to be less than 1% of the full equity capitalization of Holdings) may be issued until Holdings completes an initial public offering where the proceeds to it are at least $100.0 million. Members of Select s management, including some of the continuing investors, will receive awards under the equity incentive plan upon completion of the merger. In addition, management will be entitled to participate in a long-term cash incentive plan to the extent Select exceeds targeted returns on invested equity as of a liquidity event, such as a sale of Select or an initial public offering by Holdings of its stock within a specified number of years.

The members of the current management of Select currently are expected to remain as members of management of the surviving corporation, and some of the existing directors of Select currently are expected to join the board of directors of Holdings after the merger. Each of Rocco A. Ortenzio, Robert A. Ortenzio, Patricia A. Rice, David W. Cross, S. Frank Fritsch, Kenneth L. Moore, Michael E. Tarvin and Scott A. Romberger, each an executive officer of Select, currently has an employment agreement or management agreement with Select. Upon completion of the merger, those officers are expected to enter into new employment agreements or management agreements with substantially the same terms and provisions as the previous agreements, including salaries, entitlement to annual bonuses and noncompetition provisions, except that the agreements for members of management who are continuing investors will contain acknowledgements that the merger would not trigger any change of control payments under their existing agreements. We also expect that certain other executive officers of Select will enter into employment agreements upon completion of the merger on substantially similar terms.

Pursuant to the merger agreement, the directors and executive officers of Select will receive an aggregate of approximately $189.7 million for their shares of Select common stock not contributed to Holdings and for the cancellation of their options to purchase Select common stock.

These interests are more fully described under Special Factors-Interests of Select Directors and Executive Officers in the Merger beginning on page 50 and under Special Factors Opinion of the Financial Advisor to the Special Committee beginning on page 37.

In considering the recommendations of the special committee and board of directors, Select stockholders should also be aware that Banc of America Securities LLC has certain interests relating to Select, Welsh Carson and their respective affiliates. These interests include the following:

Select agreed to pay Banc of America Securities LLC a fee of $100,000 at the time of its engagement by the special committee and a fee of $750,000 at the time of the delivery of its original opinion. In addition, Select agreed to pay Banc of America Securities LLC a transaction fee contingent on the completion of the merger in an amount equal to 0.38% of the aggregate value of the consideration to be paid in the merger (including assumed or funded debt), or approximately $8.9 million. The transaction fee will be reduced by the $100,000 fee paid at the time the engagement letter was executed and the $750,000 fee paid when the original opinion was delivered on October 17, 2004. As a result, approximately 90.4% of the consideration payable to Banc of America Securities LLC is contingent on the completion of the merger.

Certain affiliates of Banc of America Securities LLC are investors in Welsh Carson and certain funds affiliated with Welsh Carson.

Banc of America Securities LLC or its affiliates have provided and may in the future provide financial advisory and financing services to Select and Welsh Carson and certain of their respective affiliates and portfolio companies, and Banc of America Securities LLC or its affiliates have received or may in the future receive fees for the rendering of these services.

An affiliate of Banc of America Securities LLC is a lender under Select s credit facility, which is expected to be refinanced in connection with the merger and has received fees for the rendering of such services.

Certain affiliates of Banc of America Securities LLC serve as agent and lender for certain Welsh Carson affiliates and portfolio companies and has received fees for the rendering of such services.

In the ordinary course of their businesses, Banc of America Securities LLC and its affiliates may actively trade the debt and equity securities or loans of Select and certain affiliates and portfolio companies of Welsh Carson for their own account or for the accounts of customers, and accordingly, Banc of America Securities LLC or its affiliates may at any time hold long or short positions in such securities or loans.

The special committee was aware of these interests and considered them, among other factors, when recommending approval of the merger agreement and the merger.

Merger Financing

The total amount of funds necessary to complete the merger, and the related transactions is anticipated to be approximately $2,310.0 million, consisting of:

approximately $1,826.9 million to pay Select s stockholders (other than Holdings or Acquisition Corp.) and option holders the amounts due to them under the merger agreement, assuming that no Select stockholder exercises and perfects his, her or its appraisal rights;

approximately $350.0 million to fund the debt tender offers for Select s existing 9 1/2% senior subordinated notes and 7 1/2% senior subordinated notes, exclusive of the premium paid to such noteholders; and

approximately $133.1 million to pay related fees and expenses, including the premium paid for the 9 1/2% senior subordinated notes and 7 1/2% senior subordinated notes.

See Special Factors-Merger Financing beginning on page 56.

Holdings and Acquisition Corp. expect that the total amount necessary to complete the merger and the related transactions will be funded with (1) an equity investment by Welsh Carson, its co-investors and the continuing investors in Holdings, (2) the issuance by Holdings of a senior subordinated note to an affiliate of Welsh Carson, (3) borrowing by Acquisition Corp. under a new senior secured credit facility, (4) the issuance by Acquisition Corp. of senior subordinated notes or, if and to the extent Acquisition Corp. cannot complete a public offering or Rule 144A or other private offering of senior subordinated notes prior to the closing of the merger, borrowings of senior subordinated loans by the surviving corporation under a bridge loan facility, and (5) excess Select cash. See Special Factors-Merger Financing beginning on page 56.

Holdings has received a commitment letter pursuant to which JPMorgan Chase Bank, Wachovia Bank, National Association and Merrill Lynch Capital Corporation have committed, subject to the terms and conditions set forth in the commitment letter, to provide the surviving corporation or Acquisition Corp. with up to $880.0 million in senior secured credit facilities, consisting of a $580.0 million term loan and a $300.0 million revolving credit facility. Up to $580.0 million of the term loan and up to $200.0 million of the revolving credit facility may be used to fund a portion of the merger consideration, to pay certain transaction costs, to refinance existing indebtedness of Select (including the funding of the debt tender offers for Select s existing 9 1/2% senior subordinated notes and 7 1/2% senior subordinated notes contemplated by the merger agreement) and to pay related expenses.

Pursuant to the terms of the commitment letter described above, JPMorgan Chase Bank, Wachovia Bank, National Association and Merrill Lynch Capital Corporation have committed, subject to the terms and conditions set forth in the commitment letter, to provide the surviving corporation or Acquisition Corp., if and to the extent a public offering or Rule 144A or other private placement of senior subordinated notes cannot be completed prior to the closing of the merger, with up to $660.0 million of bridge financing in the form of senior subordinated loans under a bridge loan facility. The total principal amount of senior subordinated notes and loans under the bridge loan facility will be reduced, if and to the extent that (1) the sum of (a) the aggregate principal amount of Select s existing 9 1/2% senior subordinated notes and 7 1/2% senior subordinated notes not tendered in the debt tender offers contemplated by the merger agreement and (b) the amount of the tender premium offered in the debt tender offers and accrued but unpaid interest in respect of the untendered notes, exceeds (2) $10.0 million.

Holdings has also received a commitment letter from WCAS Capital Partners IV, L.P., an affiliate of Welsh Carson, pursuant to which WCAS Capital Partners IV, L.P. has committed, subject to the terms and conditions set forth in such commitment letter, to purchase for $150.0 million (1) a senior subordinated note from Holdings with a principal amount of up to $150.0 million and (2) certain equity securities of Holdings. Holdings has also agreed to reimburse WCAS Capital Partners IV, L.P. for any expenses incurred by it in connection with the transactions contemplated by the merger agreement.

As a result of the merger, Acquisition Corp. will be merged with and into Select, and Select, as the surviving corporation, will be (1) the borrower under the senior secured credit facilities and, if necessary, the bridge loan facility, and (2) the issuer of the senior subordinated notes, if issued. Holdings will remain the borrower under its senior subordinated note issued to WCAS Capital Partners IV, L.P.

In addition, Holdings has received a commitment letter from Welsh Carson, pursuant to which Welsh Carson has committed (on behalf of itself and its co-investors), subject to the terms and conditions set forth in such commitment letter, to provide Holdings with up to an aggregate of $567.2 million in cash and contribute to Holdings approximately 2.0 million shares of Select common stock in exchange for stock of Holdings. Holdings has also received a commitment letter from Thoma Cressey Fund VI, L.P., pursuant to which Thoma Cressey Fund VI, L.P. has committed, subject to the terms and conditions set forth in the commitment letter, to provide Holdings with up to an aggregate of $50.0 million in cash in exchange for stock of Holdings.

Regulatory Approvals

On November 9, 2004, the parties filed for approval pursuant to the requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which is referred to as the HSR Act in this proxy statement. The HSR waiting period expired on December 10, 2004. Holdings paid the $250,000 HSR Act filing fee, which is the responsibility of the acquirer under the HSR Act.

Material U.S. Federal Income Tax Consequences

The receipt of cash by a United States holder in exchange for Select common stock will be a taxable transaction for U.S. federal income tax purposes. In general, United States holders of Select common stock who receive cash in exchange for their shares pursuant to the merger should recognize gain or loss for U.S. federal income tax purposes equal to the difference, if any, between their adjusted tax basis in their shares and the amount of cash received. If a stockholder holds Select shares as a capital asset, such gain or loss should generally be a capital gain or loss. If the stockholder has held the shares for more than 1 year, the gain or loss should generally be a long-term gain or loss. The deductibility of capital losses is subject to limitations. Tax matters are very complex, and the tax consequences of the merger to you will depend on the facts of your own situation. You should consult your tax advisor for a full understanding of the tax consequences of the merger to you, including the federal, state, local and foreign tax consequences of the merger. See Special Factors-Material U.S. Federal Income Tax Consequences beginning on page 61.

Fees and Expenses of the Merger

The merger agreement provides that Select, Holdings and Acquisition Corp. each will pay all costs and expenses incurred by it in connection with the merger agreement and the merger, subject to certain instances in which Select will be required to reimburse expenses incurred by Holdings and Acquisition Corp. A financing fee of approximately $24.6 million is expected to be paid at the closing of the merger to WCAS Management Corporation, an affiliate of Welsh Carson, as agent for itself and certain other investors in Holdings, and the surviving corporation will reimburse Welsh Carson and its affiliates for any expenses incurred by them in connection with the transactions contemplated by the merger agreement. Currently, we anticipate that Select or the surviving corporation will pay an aggregate $133.1 million in costs and expenses in connection with the merger.

Litigation Challenging the Merger

On October 18, 2004, Garco Investments, LLP filed a purported class action complaint in the Court of Chancery of the State of Delaware, New Castle County, which is referred to as the Court in this proxy statement, on behalf of the unaffiliated stockholders against Russell L. Carson, David S. Chernow, Bryan C. Cressey, James E. Dalton, Jr., Meyer Feldberg, Robert A. Ortenzio, Rocco A. Ortenzio, Thomas A. Scully, Leopold Swergold and LeRoy S. Zimmerman, who are all of the directors of Select, Select and Welsh, Carson, Anderson & Stowe. On November 3, 2004, Terrence C. Davey filed a purported class action complaint in the Court on behalf of the unaffiliated stockholders against all of the directors of Select, Select and Welsh, Carson, Anderson & Stowe. On November 18, 2004, the Court entered an Order of Consolidation which, inter alia, consolidated the above-mentioned actions under the caption In re: Select Medical Corporation Shareholders Litigation, Consolidated C.A. No. 755-N and appointed co-lead plaintiff s counsel.

On December 20, 2004, plaintiffs Garco Investments LLP and Terrence C. Davey filed an Amended Consolidated Complaint in the Court, purportedly on behalf of the unaffiliated stockholders against all of the directors of Select, Select and Welsh Carson Anderson & Stowe. The complaint alleges, among other things, that the defendants have breached their fiduciary duties owed to the plaintiffs and the stockholders of Select, that the proposed merger consideration is not fair or adequate, and that the defendants failed to disclose and/or misrepresented material information in the proxy statement and/or disseminated a stale fairness opinion by Banc of America Securities LLC. The complaint seeks, among other things, to enjoin the defendants from completing the merger or, alternatively, to rescind the merger (if complete) or award recissory damages in an unspecified amount, and to require issuance of corrective and/or supplemental disclosures and an update of the stale fairness opinion. Plaintiff s counsel have advised the Court that an agreement in principle has been reached to settle the litigation, however, there can be no assurance that a final settlement agreement will be reached or that it will receive final approval by the Court, in which case, the plaintiffs could seek the relief requested in the complaint. We believe that the allegations in the complaint are without merit and if the case is not settled intend to vigorously defend against this action.

Solicitation of Transactions

From October 17, 2004 until 12:01 a.m., Eastern Standard Time, on November 6, 2004, Select, its subsidiaries and their respective representatives had the right to initiate, solicit and encourage inquiries with respect to an acquisition proposal and to enter into and maintain or continue discussions or negotiations in connection with any such inquiries. Select did not receive any acquisition proposals during this solicitation period.

Subject to certain provisions in the merger agreement, during the period beginning on November 6, 2004 until the effective time of the merger or the termination of the merger agreement, Select may not, and may not direct, authorize or permit its subsidiaries or representatives to, directly or indirectly: (1) initiate, solicit or encourage any prospective purchaser in a manner that may reasonably be expected to lead to or to invite the submission of any inquiries, proposals or offers or any other efforts constituting, an acquisition proposal or engage in any discussions or negotiations in connection with or otherwise cooperate with respect to an acquisition proposal, or assist, participate in or facilitate any such inquiries, proposals, discussions or negotiations; or (2) accept an acquisition proposal or enter into any agreement or agreement in principle, other than a confidentiality agreement meeting certain requirements, providing for or relating to any such acquisition proposal or requiring Select to abandon, terminate or fail to consummate the merger or breach its obligations under the merger agreement.

Beginning November 6, 2004, Select may furnish information to, and participate in discussions or negotiations in respect of an acquisition proposal with any potential buyers only if, at any time prior to the approval of the merger agreement by its stockholders, Select receives a written acquisition proposal, so long as: (1) Select otherwise complies with its non-solicitation obligations; (2) the board of directors of Select (acting through the special committee, if such committee still exists), acting in good faith believes that such acquisition proposal is bona fide and determines could reasonably be expected to result in a superior proposal; and (3) the board of directors (acting through the special committee, if such committee still exists) determines in good faith that the failure to take such action would be inconsistent with its fiduciary duties. As of the date of this proxy statement, Select has not received any acquisition proposals.

If an acquisition proposal is accepted, Select may be required to pay to a Welsh Carson affiliate a $40.0 million termination fee and up to $750,000 in reimbursement of certain out-of-pocket expenses. The obligation to pay the termination fee could have the effect of deterring third parties from making acquisition proposals.

Activities During the Solicitation Period

The merger agreement permitted Select to solicit acquisition proposals from October 17, 2004 through 12:01 a.m., Eastern Standard Time, on November 6, 2004. During that time, Banc of America Securities LLC, at the direction of the special committee, contacted 37 potential purchasers (14 strategic parties and 23 financial parties), and 1 potential purchaser entered into a confidentiality agreement with Select. Select did not receive any written indications of interest during the solicitation period. On November 5, 2004, the potential purchaser that executed a confidentiality agreement with Select indicated that it would not proceed with any further consideration of a transaction with Select.

Conditions of the Merger

The completion of the merger is subject to approval by (1) the holders of a majority of the outstanding shares of Select common stock entitled to vote and (2) the holders of a majority of outstanding shares of Select common stock entitled to vote not held by Holdings, Acquisition Corp., Welsh Carson, their respective affiliates, their co-investors or the continuing investors, as well as the satisfaction or waiver (where permitted by law) of other conditions, including obtaining the proceeds of the necessary financing to complete the merger, the tender of not less than a majority of the aggregate principal amount of each of Select s existing 9 1/2% senior subordinated notes and 7 1/2% senior subordinated notes, the approval of certain amendments to the indentures underlying those notes, the total number of shares held by stockholders who validly exercise and perfect their appraisal rights not exceeding 8% of the issued and outstanding shares of Select common stock as of the effective time of the merger, the receipt of required consents and approvals, including approval pursuant to the requirements of the HSR Act, and the absence of any governmental order or law that prevents or restricts the merger.

As of the date of this proxy statement, the condition related to the HSR Act has been satisfied. Any or all of the conditions to closing of the merger that are not satisfied may be waived by the parties, other than conditions that are required by law (such as (1) that the merger agreement must be adopted by the holders of a majority of the outstanding shares of Select common stock entitled to vote, (2) that all material required governmental consents, actions, filings or notices must be made, obtained or effected and (3) that no governmental order or law shall be in effect that prevents or restricts the merger). We do not anticipate waiving any condition to closing that we are permitted to waive; however, we would do so if we believed it to be in the best interests of Select. Holdings has informed us that although it does not anticipate waiving any condition to the closing, it reserves the right to do so.

Select is unable to determine on the date of this proxy statement whether it would regard it as legally necessary or advisable to resolicit proxies because of any waiver of a condition. It is possible that Select would deem it advisable to resolicit proxies, based on the particular condition that is waived and the circumstances under which the condition was waived. However, in a cash-only transaction, such as the merger, it is difficult at present to identify a circumstance in which proxies would be required to be resolicited absent any proposed reduction of the merger price of $18.00 per share or some other material adverse proposed change in the terms of the merger. Select will determine whether resolicitation is necessary based upon its assessment of the facts and circumstances present at the time. This assessment would include an analysis of whether there is a substantial likelihood that a reasonable stockholder would consider the facts and circumstances under which the condition would be waived material in making a decision with respect to the merger.

See The Merger Agreement-Conditions to Completing the Merger beginning on page 85 and Special Factors-Merger Financing beginning on page 56.

Termination of the Merger Agreement

The merger agreement may be terminated prior to the closing of the merger under several circumstances, including:

by either Select or Holdings if the merger is not completed on or before 5:00 p.m., Eastern Standard Time, on April 30, 2005 (so long as such party s breach of the merger agreement has not caused or resulted in such failure to complete the merger);

by either Select or Holdings if the stockholders of Select do not approve and adopt the merger agreement and the merger by the affirmative vote of (1) the holders of a majority of the outstanding shares of common stock of Select entitled to vote and (2) the holders of a majority of the outstanding shares of Select common stock entitled to vote not held by Holdings, Acquisition Corp., Welsh Carson, their respective affiliates, their co-investors or the continuing investors;

by Holdings if either the board of directors or the special committee withdraws or modifies its recommendation to approve the merger agreement and the merger in a manner that is adverse to Holdings or Acquisition Corp. or recommends, adopts or approves, or proposes publicly to recommend, adopt or approve, any acquisition proposal or if either the board of directors or the special committee takes specified actions or fails to take specified actions with respect to a competing acquisition proposal; and

by Select if the board of directors (acting through the special committee, if such committee still exists), prior to the stockholder approval of the merger agreement and the merger as described above, resolves to enter into a definitive agreement in connection with a superior proposal.

Under the merger agreement, an acquisition proposal means any inquiry, proposal or offer from any person or group of persons other than Holdings or its affiliates relating to any direct or indirect acquisition or purchase of a business that constitutes 20% or more of the net revenues, net income or assets of Select and its subsidiaries, taken as a whole, or 20% or more of the outstanding Select common stock, any tender offer or exchange offer that if consummated would result in any person or group of persons beneficially owning 20% or more of the outstanding Select common stock, or any merger, reorganization, consolidation, share exchange, business combination, recapitalization, liquidation, dissolution or similar transaction involving Select (or any subsidiary or subsidiaries of Select whose business constitutes 20% or more of the net revenues, net income or assets of Select and its subsidiaries, taken as a whole).

Under the merger agreement, a superior proposal is defined as an acquisition proposal but changing the references to the 20% amounts in the definition of acquisition proposal to 50%, which is made on terms which the board of directors of Select (acting through the special committee, if such committee still exists) in good faith determines, based on matters that it deems relevant, including the advice of its independent financial advisor and outside counsel, would, if consummated, result in a transaction that is more favorable to the Select stockholders than the currently contemplated merger (including any changes proposed by Holdings to the terms of the merger agreement in response to such acquisition proposal or otherwise). See The Merger Agreement-Termination beginning on page 87.

Termination Fees

If the merger agreement is terminated under certain circumstances, including acceptance of a superior proposal, Select may be required to pay to a Welsh Carson affiliate a $40.0 million termination fee and up to $750,000 in reimbursement of certain out-of-pocket fees and expenses. See The Merger Agreement-Fees and Expenses; Termination Fee beginning on page 88.

If the merger agreement is terminated by Holdings as a result of a willful and knowing breach of the merger agreement by Select, Select may be required to pay to a Welsh Carson affiliate a $10.0 million liquidated damages payment as Holdings and Acquisition Corp. s sole and exclusive remedy for such breach.

If the merger agreement is terminated by Select as a result of a willful and knowing breach of the merger agreement by Holdings or Acquisition Corp., Holdings may be required to pay to Select a $10.0 million liquidated damages payment as Select s sole and exclusive remedy for such breach. In addition, pursuant to a contingency letter agreement among Welsh Carson, Holdings and Select, in the event of such a termination, Welsh Carson has agreed to contribute to Holdings, with payment to be made directly to Select, up to $10.0 million to satisfy Holdings payment obligations to Select, and Select has agreed that it will have no remedy against any person or entity other than the right to receive such payment from Welsh Carson.

Appraisal Rights

Any holder of Select common stock who does not wish to accept the per share merger consideration in cash for such holder s shares may exercise appraisal rights under the DGCL and elect to have the fair value of the holder s shares on the date of the merger (exclusive of any element of value arising from the accomplishment or expectation of the merger) judicially determined and paid to the holder in cash, together with a fair rate of interest, if any, provided that the holder complies with the provisions of Section 262 of the DGCL. To perfect his, her or its appraisal rights under Section 262 of DGCL, a Select stockholder (1) must deliver to Select, before the special meeting, a demand for appraisal and (2) must not vote in favor of the merger agreement or the merger. A stockholder s vote against the merger agreement or the merger does not constitute a demand for appraisal or a waiver of his, her or its appraisal rights. See Special Factors-Appraisal Rights beginning on page 70 and see Appendix C.

QUESTIONS AND ANSWERS ABOUT THE MERGER

The following section provides brief answers to some of the questions that may be raised by the merger agreement and the merger. This section is not intended to contain all of the information that is important to you. You are urged to read the entire proxy statement carefully, including the information incorporated by reference and the information in the appendices.

Q: What am I being asked to vote on?

A: You are being asked to approve and adopt the merger agreement and the merger, which provides for the acquisition of Select by Holdings, and to approve the adjournment of the special meeting to a later date to solicit additional proxies in favor of the approval and adoption of the merger agreement and the merger if there are not sufficient votes for approval and adoption of the merger agreement and the merger at the special meeting. After the merger, Select will become a privately-held company and a wholly-owned subsidiary of Holdings, which will be owned by Welsh Carson, its co-investors and the continuing investors.

The board of directors, acting upon the unanimous recommendation of the special committee, unanimously approved the merger agreement and the merger. The special committee and the board of directors believe that the terms of the merger agreement and the merger are advisable and procedurally and substantively fair to, and in the best interests of, the unaffiliated stockholders. The board of directors recommends that you vote FOR the grant to the proxyholders of the authority to vote in their discretion with respect to the approval and adoption of the merger agreement and the merger and FOR the approval of any proposal to postpone or adjourn the special meeting to a later date to solicit additional proxies in favor of the approval and adoption of the merger agreement and the merger if there are not sufficient votes for approval and adoption of the merger agreement and the merger at the special meeting.

Q: What function did the special committee serve with respect to the merger and who are its members?

A: The principal function of the special committee with respect to the merger was to examine and evaluate the merits of any sale, merger or other similar business combination with Welsh Carson. The special committee is composed of James E. Dalton, Jr. and David S. Chernow, who are not officers or employees of Select and who are independent of and have no economic interest or expectancy of an economic interest in Welsh Carson, Holdings or the surviving corporation. If the merger is completed, the special committee members will receive cash payments for their shares and stock options in an aggregate amount equal to $1,615,728. Because of these interests, the interests of the special committee and the unaffiliated stockholders of Select may not be aligned. The special committee independently selected and retained legal and financial advisors to assist it. See Special Factors Background of the Merger at page 21. The non-employee directors of Select determined that the appointment of an additional representative unaffiliated with Select to act solely on behalf of the stockholders of Select that are not affiliated with the buying group to further protect their interests in connection with the negotiations of the merger agreement or the evaluation of the fairness of the merger was not necessary in light of the creation of the special committee, and the fact that the use of a special committee of this type is a well-recognized mechanism to achieve fairness in transactions such as the merger.

Q: When and where is the special meeting?

A: The special meeting of Select stockholders will be held at 9:00 a.m., Eastern Standard Time, on February 24, 2005 at 4716 Old Gettysburg Road, Mechanicsburg, PA 17055.

Q: Who can vote on the merger agreement?

A: Stockholders as of the close of business on January 21, 2005, the record date for the special meeting, are entitled to vote on the merger agreement and the merger in person or by proxy at the special meeting. On the record date, 101,989,434 shares of common stock were outstanding and eligible to vote, and there were approximately 93 record holders. A list of stockholders eligible to vote will be available at the offices of Select, 4716 Old Gettysburg Road, Mechanicsburg, Pennsylvania beginning on February 14, 2005. Stockholders may examine this list during normal business hours for any proper purpose relating to the special meeting.

Q: How many votes do I have?

A: You have one vote for each share of Select common stock that you owned at the close of business on January 21, 2005, the record date for the special meeting.

Q: What happens if I do not respond?

A: The failure to respond by returning your proxy card, or by submitting your proxy via the Internet or by telephone, will have the same effect as voting against the merger agreement and the merger unless you vote for the merger agreement and the merger in person at the special meeting.

Q: May I vote in person?

A: Yes. You may attend the special meeting and vote your shares in person, regardless of whether you sign and return your proxy card or submit your proxy via the Internet or by telephone prior to the special meeting. If your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain a proxy from the record holder.

Q: May I change my vote after I have mailed my signed proxy card or otherwise submitted my vote?

A: Yes. You may change your vote at any time before your proxy is voted at the special meeting. Regardless of the manner in which you vote, you can do this in one of three ways. First, you can send a written notice revoking your proxy or voting instructions. Second, you can complete and submit a new proxy card or voting instructions bearing a later date, or submit a later vote via the Internet at http://www.proxyvoting.com/sem or by telephone by calling 1-866-540-5760. Third, you can attend the special meeting and vote in person. Your attendance alone will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change those instructions.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Your broker will not be able to vote your shares without instructions from you. You should instruct your broker to vote your shares, following the procedures provided to you by your broker.

Q: When do you expect the merger to be completed?

A: The parties to the merger agreement are working toward completing the merger as quickly as possible. If the merger agreement and the merger are approved by the requisite stockholder votes and the other conditions to the merger are satisfied or waived, the merger is expected to be completed promptly after the special meeting.

Q: Should I send in my stock certificates now?

A: No. After the merger is completed, the paying agent for the merger will send you a letter of transmittal and written instructions for exchanging your shares of Select common stock for the merger consideration, without interest. You should not send in your Select stock certificates until you receive the letter of transmittal. See The Merger Agreement Payment for Shares beginning on page 75.

Q: How long after the effective date of the merger will I receive the cash payment for my shares?

A: We expect the paying agent to distribute letters of transmittal within approximately 10 days after the effective date of the merger. You should expect payment for your shares approximately 20 days after the paying agent receives your properly completed letter of transmittal and stock certificates.

Q: What is householding?

A: If you and other residents at your mailing address own shares of common stock in street name, your broker or bank may have notified you that your household will receive only 1 proxy statement for each company in which you hold stock through that broker or bank. This practice is known as householding. Unless you responded that you did not want to participate in householding, you were deemed to have consented to the process. Each stockholder will continue to receive a separate proxy card or voting instruction card. If you did not receive an individual copy of this proxy statement, we will send a copy to you if you address a written request to Select Medical Corporation, c/o Investor Relations, 4716 Old Gettysburg Road, P.O. Box 2034, Mechanicsburg, Pennsylvania 17055, or call (717) 972-1100.

Q: Who can help answer my questions?

A: The information provided above in the question-and-answer format is for your convenience only and is merely a summary of some of the information contained in this proxy statement. You should carefully read the entire proxy statement, including the information incorporated by reference and the information in the appendices. See Where Stockholders Can Find More Information beginning on page 98. If you would like additional copies of this proxy statement, without charge, or if you have questions about the merger, including the procedures for voting your shares, you should contact: Mellon Investor Services at 1-800-756-3353.

You may also wish to consult your own legal, tax and/or financial advisors with respect to the merger agreement, the merger or the other matters described in this proxy statement.

THE SPECIAL MEETING

General

The enclosed proxy is solicited by Select on behalf of the board of directors of Select for use at a special meeting of stockholders to be held on February 24, 2005, at 9:00 a.m., Eastern Standard Time, at 4716 Old Gettysburg Road, Mechanicsburg, PA 17055, or at any adjournments or postponements thereof, for the purposes set forth in this proxy statement and in the accompanying notice of special meeting. Select intends to mail this proxy statement and accompanying proxy card on or about January 25, 2005 to all stockholders entitled to vote at the special meeting.

At the special meeting, the stockholders of Select will be asked to consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger, dated as of October 17, 2004, among Holdings, Acquisition Corp. and Select, and the merger contemplated by the merger agreement. You also will be asked to vote on any proposal to approve the adjournment or postponement of the special meeting to a later date to solicit additional proxies in favor of the approval and adoption of the merger agreement and the merger if there are not sufficient votes for approval and adoption of the merger agreement and the merger at the special meeting. Under the merger agreement, Acquisition Corp. will be merged with and into Select, and each issued and outstanding share of Select common stock will be converted into the right to receive $18.00 in cash, without interest, except for:

- treasury shares of Select common stock, all of which will be canceled without any payment;
- shares of Select common stock owned by Holdings or Acquisition Corp., which includes any shares contributed to Holdings by the co-investors and the continuing investors prior to the merger in return for equity interests in Holdings; and
- shares of Select common stock held by stockholders who validly exercise and perfect their appraisal rights in accordance with Delaware law.

At the effective time of the merger, each outstanding stock option will be canceled in exchange for an amount in cash determined by multiplying (1) the excess of $18.00 over the per share exercise price of the option by (2) the number of shares of Select common stock subject to the option. There are no outstanding stock options under the Select stock option plans with a per share exercise price greater than $18.00 per share. The merger agreement requires the board of directors of Select or any committee administering the stock option plans to take all actions necessary to cause all outstanding stock options granted under the stock option plans to be cancelled as of the effective time of the merger.

The board of directors, following the unanimous recommendation of the special committee, unanimously approved the merger agreement and the merger. **The board of directors recommends that you vote FOR the approval and adoption of the merger agreement and the merger.**

Record Date, Quorum and Voting Information

Only holders of record of Select common stock at the close of business on January 21, 2005, the record date for the special meeting, will be entitled to notice of and to vote at the special meeting. At the close of business on the record date, 101,989,434 shares of Select common stock were outstanding and entitled to vote. Of those shares, 89,072,031 shares were held by stockholders other than Holdings, Acquisition Corp., Welsh Carson, their respective affiliates, their co-investors or the continuing investors. A list of the Select stockholders entitled to vote at the special meeting will be available for review, for any proper purpose relating to the special meeting, at Select s executive offices during regular business hours for a period of 10 days prior to the special meeting. Each holder of record of Select common stock on the record date will be entitled to 1 vote for each share held. The presence, in person or by proxy, of the holders of a majority of the outstanding shares of common stock entitled to vote at the special meeting is necessary to constitute a quorum for the transaction of business at the special meeting.

All votes will be tabulated by the inspector of election appointed for the special meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes. Brokers who hold shares in street name for clients typically have the authority to vote on routine proposals when they have not received instructions from beneficial owners. However, absent specific instructions from the beneficial owner of the shares, brokers are not allowed to exercise their voting discretion with respect to the approval and adoption of non-routine matters, such as the merger agreement and the merger. Proxies submitted without a vote by the brokers on these matters are referred to as broker non-votes. Abstentions and broker non-votes are counted for purposes of determining whether a quorum exists at the special meeting.

The affirmative vote of (1) the holders of a majority of the outstanding shares of common stock entitled to vote and (2) the holders of a majority of the outstanding shares of common stock entitled to vote that are not held by Holdings, Acquisition Corp., Welsh Carson, their respective affiliates, their co-investors or the continuing investors is required to approve and adopt the merger agreement and the merger. Accordingly, proxies that reflect abstentions and broker non-votes, as well as proxies that are not returned, will have the same effect as a vote against approval and adoption of the merger agreement and the merger. The special committee and the board of directors urge the stockholders to complete, sign, date and return the enclosed proxy card in the accompanying self-addressed postage prepaid envelope or to submit their vote through the Internet at http://www.proxyvoting.com/sem or by telephone by calling 1-866-540-5760 as soon as possible. We have been informed that each member of the buying group that is a stockholder of Select intends to vote in favor of the approval and adoption of the merger agreement and the merger.

Stockholders who do not vote in favor of approval and adoption of the merger agreement and the merger, and who otherwise comply with the applicable statutory procedures and requirements of the DGCL summarized elsewhere in this proxy statement, will be entitled to seek appraisal of the value of their shares as set forth in Section 262 of the DGCL. See Special Factors Appraisal Rights beginning on page 70 and see Appendix C.

Your shares can be voted at the special meeting only if you are present or represented by proxy. Whether or not you plan to attend the special meeting, you are encouraged to vote by proxy to ensure that your shares will be represented. You have a choice of voting by means of the Internet at http://www.proxyvoting.com/sem, by telephone by calling 1-866-540-5760, or by completing and mailing a proxy card in the postage-paid envelope provided. Please refer to your proxy card or the information forwarded by your bank, broker or other holder of record to determine which options are available to you. If you vote over the Internet, you may incur costs such as telephone and Internet access charges for which you will be responsible. Also, proxies submitted by the Internet or telephone must be received by 11:59 p.m., Eastern Standard Time, on February 23, 2005.

Proxies; Revocation

Any person giving a proxy pursuant to this solicitation has the power to revoke the proxy at any time before it is voted at the special meeting. A proxy may be revoked by filing, with the Secretary of Select at Select s executive offices located at 4716 Old Gettysburg Road, P.O. Box 2034, Mechanicsburg, Pennsylvania 17055, a written notice of revocation or a duly executed proxy bearing a later date, or by attending the special meeting and voting in person. Attendance at the special meeting will not, by itself, revoke a proxy. Furthermore, if a stockholder s shares are held of record by a broker, bank or other nominee and the stockholder wishes to vote at the meeting, the stockholder must obtain from the record holder a proxy issued in the stockholder s name. If a stockholder has instructed a broker to vote the stockholder s shares, the stockholder must follow such broker s directions to change such instructions.

Expenses of Proxy Solicitation

Select will bear the entire cost of solicitation of proxies, including preparation, assembly, printing and mailing of this proxy statement, the proxy card and any additional information furnished to stockholders in connection with their proxy. Select has retained Georgeson Shareholder to assist in the solicitation of proxies for a fee of $8,500, plus reimbursement of out-of-pocket expenses. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding in their names shares of Select common stock beneficially owned by others to forward to the beneficial owners. Select will reimburse persons representing beneficial owners of its common stock for their costs of forwarding solicitation materials to the beneficial owners. Original solicitation of proxies by mail may be supplemented by telephone, telegram or other electronic means, or by personal solicitation by directors, officers or other regular employees of Select or by representatives of Georgeson Shareholder. No additional compensation will be paid to directors, officers or other regular employees of Select for their services in connection with the solicitation of proxies.

Adjournments

If the requisite stockholder vote approving the merger has not been received at the time of the special meeting, holders of Select common stock may be asked to vote on a proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies in favor of the merger proposal. **The board of directors recommends that you vote FOR the approval of any such adjournment or postponement of the meeting, if necessary.**

Stock Certificates

Please do not surrender stock certificates at this time. If the merger is completed, the paying agent for the merger will distribute instructions regarding the procedures for exchanging Select stock certificates for the merger consideration. See The Merger Agreement Payment for Shares beginning on page 75.

THE PARTICIPANTS

Select Medical Corporation
4716 Old Gettysburg Road
P.O. Box 2034
Mechanicsburg, Pennsylvania 17055
(717) 972-1100

Select Medical Corporation, which is referred to as Select in this proxy statement, is a Delaware corporation headquartered in Mechanicsburg, Pennsylvania, and is a leading operator of specialty hospitals in the United States. After giving effect to the SemperCare acquisition, Select operates 99 long-term acute care hospitals in 26 states. Select operates 4 acute medical rehabilitation hospitals in New Jersey. Select is also a leading operator of outpatient rehabilitation clinics in the United States and Canada, with approximately 750 locations. Select also provides medical rehabilitation services on a contract basis at nursing homes, hospitals, assisted living and senior care centers, schools and worksites.

If the merger agreement and the merger are approved and adopted by the Select stockholders at the special meeting and the merger is completed as contemplated, Select will continue its operations following the merger as a private company and wholly-owned subsidiary of Holdings.

EGL Holding Company
c/o Welsh, Carson, Anderson & Stowe IX, L.P.
320 Park Avenue, Suite 2500
New York, New York 10022-6815
(212) 893-9500

EGL Holding Company, which is referred to as Holdings in this proxy statement, is a Delaware corporation organized by Welsh, Carson, Anderson & Stowe IX, L.P., which is referred to as Welsh Carson in this proxy statement, for the purpose of engaging in the merger and the related transactions. Holdings has not participated in any activities to date other than those incident to its formation, the formation of its wholly-owned subsidiary, Acquisition Corp., and the transactions contemplated by the merger agreement. Holdings is currently a wholly-owned subsidiary of Welsh Carson, and it will be owned by Welsh Carson, its co-investors and the continuing investors immediately following the merger.

Welsh Carson is an investment partnership organized by Welsh, Carson, Anderson & Stowe, one of the largest private equity firms in the United States and the largest in the world focused exclusively on investments in the healthcare services, information and business services and communications services industries. Since its founding in 1979, Welsh, Carson, Anderson & Stowe has organized 13 private investment partnerships with total capital of more than $11.0 billion and has completed over 200 management buyouts and initial investments. The firm currently invests out of Welsh Carson, a $3.8 billion equity fund, and WCAS Capital Partners IV, L.P., a $1.2 billion subordinated debt fund.

Welsh Carson s co-investors are Patrick J. Welsh, Russell L. Carson, Bruce K. Anderson, Thomas E. McInerney, Robert A. Minicucci, Anthony J. de Nicola, Paul B. Queally, D. Scott Mackesy, Sanjay Swani, John D. Clark, James R. Matthews, Sean M. Traynor, John Almeida, Jonathan M. Rather, certain other employees of an affiliate of Welsh Carson and Kenneth Melkus. The continuing investors are Rocco A. Ortenzio, Select s Executive Chairman and the chairman of its board of directors, Robert A. Ortenzio, Select s Chief Executive Officer and a member of its board of directors, various members of the Ortenzio family and entities controlled by one or more of the Ortenzios, Bryan C. Cressey, a director of Select, various investment funds affiliated with Thoma Cressey Equity Partners, a private equity firm which includes Bryan C. Cressey as a principal, Meyer Feldberg, a director of Select, Patricia A. Rice, Select s President and Chief Operating Officer, Martin F. Jackson, Select s Chief Financial Officer, S. Frank Fritsch, Select s Senior Vice President, Human Resources, Michael E. Tarvin, Select s Senior Vice President, General Counsel and Secretary, James J. Talalai, Select s Senior Vice President and Chief Information Officer, Scott A. Romberger, Select s Vice President, Controller and Chief Accounting Officer, Kenneth L. Moore, a Vice President of Select, and Joel T. Veit, a Vice President of Select.

EGL Acquisition Corp.
c/o Welsh, Carson, Anderson & Stowe IX, L.P.
320 Park Avenue, Suite 2500
New York, New York 10022-6815
(212) 893-9500

EGL Acquisition Corp., which is referred to as Acquisition Corp. in this proxy statement, is a Delaware corporation organized by Welsh Carson for the purpose of engaging in the merger and the related transactions. Acquisition Corp. has not participated in any activities to date other than those incident to its formation and the transactions contemplated by the merger agreement. Acquisition Corp. is a wholly-owned subsidiary of Holdings.

SPECIAL FACTORS

General

At the special meeting, Select will ask its stockholders to vote on a proposal to approve the merger agreement and the merger of Acquisition Corp. with and into Select. We have attached a copy of the merger agreement as Appendix A to this proxy statement. We urge you to read the merger agreement in its entirety because it is the legal document governing the merger.

Background of the Merger

Partnerships affiliated with Welsh Carson and Thoma Cressey were initial investors in Select in 1997. Subsequent to Select s initial public offering in 2001, the partnerships affiliated with Welsh Carson distributed their investment in Select to their respective partners and the partnerships affiliated with Thoma Cressey distributed to their respective partners or disposed of a portion of their investment in Select. As of August 24, 2004 and as of the date of this proxy statement, Welsh Carson and its affiliates (not including any of the co-investors) beneficially owned none of Select s outstanding common stock. As of August 24, 2004 and as of the date of this proxy statement, Thoma Cressey and its affiliates beneficially owned approximately 2.1% of Select s outstanding common stock. Russell L. Carson, a managing member of the general partner of Welsh Carson, and Bryan C. Cressey, a partner of Thoma Cressey, have been members of the board of directors of Select since 1997.

During the week of August 9, 2004, Mr. Carson contacted Rocco A. Ortenzio and informed Mr. Ortenzio that Welsh Carson was interested in exploring the possibility of a going-private transaction with Select. During that conversation, Mr. Carson suggested a meeting between himself and Sean M. Traynor, on behalf of Welsh Carson, and Rocco A. Ortenzio, Robert A. Ortenzio and Martin F. Jackson to discuss whether such transaction was feasible. Subsequent to this conversation, Mr. Jackson suggested that Patricia Rice, Chief Operating Officer of Select, participate in this meeting to discuss Select s operations.

On August 16, 2004, Mr. Carson and Mr. Traynor traveled to Select s headquarters in Mechanicsburg, Pennsylvania to meet with Rocco A. Ortenzio, Robert A. Ortenzio, Mr. Jackson and Mrs. Rice. The discussions included an in-depth review of Select s historical financial statements, a detailed review of the impact of the recently implemented Medicare prospective payment system, a preliminary analysis of the new regulations adopted on August 2, 2004 by the Centers for Medicare & Medicaid Services, which is referred to as CMS in this proxy statement, that are applicable to long-term acute care hospitals that are operated as hospitals within hospitals or as satellites, which are referred to as CMS Regulations in this proxy statement, and the potential impact of the CMS Regulations on Select s business.

The CMS Regulations are applicable to hospitals within hospitals. Effective for hospital cost reporting periods beginning on or after October 1, 2004, the final rule, subject to certain exceptions, provides long-term acute care hospitals within hospitals with lower rates of reimbursement for Medicare admissions from their hosts that are in excess of specified percentages. For new long-term acute care hospitals within hospitals, the Medicare admissions limitation will be 25%. For existing long-term acute care hospitals within hospitals as of October 1, 2004 that meet specified criteria, which includes all of Select s long-term acute care hospitals within hospitals, the Medicare admissions limitations will be phased-in over a 4 year period starting with hospital cost reporting periods beginning on or after October 1, 2004, as follows: (i) for discharges during the cost reporting period beginning on or after October 1, 2004 and before October 1, 2005, the Medicare admissions limitation is the percentage of patients admitted from the host during Medicare fiscal year 2004; (ii) for discharges during the cost reporting period beginning on or after October 1, 2005 and before October 1, 2006, the Medicare admissions limitation is the lesser of the percentage of patients admitted from the host during Medicare fiscal year 2004 or 75%; (iii) for discharges during the cost reporting period beginning on or after October 1, 2006 and before October 1, 2007, the Medicare admissions limitation is the lesser of the percentage of patients admitted from the host during Medicare fiscal year 2004 or 50%; and (iv) for discharges during the cost reporting period beginning on or after October 1, 2007, the Medicare admissions limitation is 25%.

At September 30, 2004, Select operated 83 long-term acute care hospitals. Of this total, 79 operated as hospitals within hospitals. For the 9 months ended September 30, 2004, approximately 60% of the Medicare admissions to Select s hospitals within hospitals were from host hospitals. For the 9 months ended September 30, 2004, approximately 8% of Select s hospitals within hospitals admitted 25% or less of their Medicare patients from their host hospitals, approximately 29% of Select s hospitals within hospitals admitted 50% or less of their Medicare patients from their host hospitals, and approximately 80% of Select s hospitals within hospitals admitted 75% or less of their Medicare patients from their host hospitals. There are several factors that should be taken into account in evaluating this admissions data. First, the admissions data for the 9 months ended September 30, 2004 is not necessarily indicative of the admissions mix these hospitals will experience in the future. Second, admissions data for the 9 months ended September 30, 2004 includes 6 hospitals that were open for less than 1 year, and the data from these hospitals may not be indicative of the admissions mix these hospitals will experience over a longer period of time.

The new Medicare host admission limitations are phased in over a 4 year period. Select s existing hospitals within hospitals will be unaffected by the CMS Regulations until cost reporting periods beginning on or after October 1, 2005, when the limitation on Medicare host admissions drops to 75%. Thus, the CMS Regulations will have no effect on Select s 2004 financial results. Select s hospitals within hospitals have cost reporting periods that commence on various dates throughout the calendar year. Consequently, any effect of the new admissions limitations on Select s hospitals within hospitals may be delayed depending on when a particular hospitals within hospitals cost reporting period begins. For example, although approximately 20% of Select s hospitals within hospitals open at September 30, 2004 admitted more than 75% of their Medicare patients from their host hospitals during the 9 months ended September 30, 2004, only 5 of such hospitals within hospitals have cost reporting periods that will begin after October 1, 2005 and before December 31, 2005. As a result, the CMS Regulations should have only a minimal impact on Select s 2005 financial results. In order to minimize the more significant impact of the CMS Regulations in 2006 and for the subsequent years, Select intends, during the intervening period, to reevaluate its business plan in each of its hospitals within hospitals markets and develop appropriate strategies to adapt to the CMS Regulations, such as relocating certain hospitals within hospitals to alternative settings.

The CMS Regulations established exceptions to the Medicare admissions limitations with respect to patients who reach outlier status at the host hospital, hospitals within hospitals located in MSA-dominant hospitals or hospitals within hospitals located in rural areas. Select does not expect that these exceptions will have any significant applicability to its operations.

On August 24, 2004, Welsh Carson submitted a letter to the board of directors of Select expressing an interest in exploring an acquisition of all of the outstanding common stock of Select for a cash price of between $16.50 and $17.25 per share. Among other things, Welsh Carson indicated that it anticipated that, if a transaction were consummated, all of Select s senior management members would retain their current positions and responsibilities and would be provided with the opportunity to participate in the transaction through direct investment and a grant of stock options and/or restricted stock in the acquiring entity. Welsh Carson also requested that Select enter into a 30-day period of exclusive negotiations with Welsh Carson.

Since certain members of the board of directors of Select had actual or potential conflicts of interest with respect to evaluating a transaction with Welsh Carson, the board of directors of Select on August 25, 2004 appointed David S. Chernow and James E. Dalton, Jr. to a two-member special committee of the board of directors of Select to examine and evaluate the merits of any potential sale, merger or other business combination involving Select that may arise out of the expression of interest received from Welsh Carson. Russell L. Carson and Bryan C. Cressey were not present at this meeting. In connection with their selection, the board of directors of Select determined that the members of the special committee were independent. The special committee members are not officers or employees of Select and are independent of and have no economic interest or expectancy of an economic interest in Welsh Carson, Holdings or the surviving corporation. On August 26, 2004, the board authorized the payment of $65,000 to each member of the special committee as compensation for his service on the special committee and the reimbursement of each member of the special committee for out-of-pocket expenses incurred in connection with service on the special committee. The compensation to be paid to the members of the special committee is not contingent upon the completion of any transaction or any favorable recommendation of the special committee.

The special committee was given exclusive authority, pursuant to resolutions adopted by the board of directors of Select, to, among other things, evaluate, negotiate and recommend the terms of any proposed transaction and to reject on behalf of Select any offer that the special committee could not favorably recommend to the board of directors of Select. In connection with the Welsh Carson proposal, on September 1, 2004, Welsh Carson entered into a confidentiality and standstill agreement with Select.

On September 11, 2004, the special committee retained Foley & Lardner LLP as its counsel in connection with its mandate. Upon the recommendation of Foley & Lardner LLP, the special committee retained Morris, Nichols, Arsht & Tunnell, as its special Delaware counsel. The special committee also decided to proceed with the interviews of selected national investment banking firms with the objective of engaging an independent financial advisor for the committee. Shortly after its engagement, Foley & Lardner LLP reviewed with the special committee in detail the fiduciary duties of the members of the special committee in connection with the exercise of their delegated authority. Foley & Lardner LLP also commenced due diligence relating to Select immediately following its engagement by the special committee.

Between September 15 and September 23, 2004, the special committee interviewed 4 national investment banking firms as candidates to be the financial advisor to the special committee. After evaluating the qualifications, expertise and independence of the firms interviewed, the special committee, on September 24, 2004, retained Banc of America Securities LLC to act as the exclusive financial advisor to the special committee.

On September 25, 2004, representatives of Banc of America Securities LLC received and began reviewing due diligence materials relating to Select. At the direction of the special committee, during the following three weeks, representatives of Banc of America Securities LLC and Foley & Lardner LLP attended presentations by Select s management and conducted further due diligence at Select s principal executive offices in Mechanicsburg, Pennsylvania.

The special committee held numerous discussions with its financial and legal advisors following their respective engagements in September and into early October and received various presentations from Banc of America Securities LLC and Foley & Lardner LLP with respect to matters being considered by the special committee. The special committee focused particular attention on the CMS Regulations and directed that its advisors do likewise. The special committee considered as a significant factor in its deliberations the impact the CMS Regulations would have on the future financial performance of Select. The special committee noted in particular that, on August 23, 2004, Select issued a press release indicating that Select would re-evaluate its business plan in each of its hospitals within hospitals, or HIHs, markets in light of the adoption of the CMS Regulations. The special committee spent considerable time with its financial and legal advisors discussing the potential ramifications of the CMS Regulations on Select s business. The special committee also discussed with its financial and legal advisors various types of strategic alternatives with respect to Select, including maintaining the status quo, effecting a leveraged recapitalization through either a share repurchase or a one-time dividend, selling Select s outpatient rehabilitation division and using the net proceeds to effect a share repurchase or a one-time dividend, or combining with or selling Select to a strategic or another financial party. The special committee directed its advisors to evaluate the merits and considerations of each of those alternatives (as well as any others that the advisors deemed appropriate) and report the results of their evaluation to the special committee. Although the special committee, taking into account all considerations (including its knowledge of the healthcare industry generally and issues related to the CMS Regulations specifically), did not believe that there was a compelling need for Select to enter into any particular transaction, the special committee decided to consider the possibility of a transaction that would enhance stockholder value in light of the Welsh Carson proposal.

In early October 2004, Thoma Cressey informed the special committee of its interest in possibly participating in the transaction. As a result of Thoma Cressey expressing such interest, and at the direction of the special committee, on October 11, 2004, Thomas Cressey entered into a confidentiality and standstill agreement with Select.

On October 6, 2004, the special committee met with representatives of Banc of America Securities LLC and Foley & Lardner LLP. Banc of America Securities LLC reviewed with the special committee Banc of America Securities LLC s preliminary views regarding the Welsh Carson proposal and related matters. In particular, Banc of America Securities LLC reviewed (1) business, financial and public market information relating to Select, including a review of financial projections prepared by Select s management, (2) sensitivities around the financial projections prepared by Select s management as adjusted by Banc of America Securities LLC at the direction of the special committee, (3) the financial terms of the Welsh Carson proposal, (4) various types of strategic alternatives with respect to Select, including maintaining the status quo, effecting a leveraged recapitalization through either a share repurchase or a one-time dividend, selling Select s outpatient rehabilitation division and using the net proceeds to effect a share repurchase or a one-time dividend, combining Select with or selling Select to a strategic or another financial party, and (5) summary valuation ranges relating to Select based on historical trading prices, trading multiples of comparable public companies, multiples paid in selected precedent transactions, estimates of net present value using discounted future cash flows based on financial projections prepared by Select s management and based on such projections as adjusted by Banc of America Securities LLC at the direction of the special committee, and possible values attainable in a leveraged buyout transaction based on financial projections prepared by Select s management and based on such projections as adjusted by Banc of America Securities LLC at the direction of the special committee. Banc of America Securities LLC focused a portion of its presentation on the potential financial impact of the CMS Regulations on Select s business, future performance and future stock price. Following this presentation, the special committee directed Banc of America Securities LLC to refine and prepare additional sensitivities around the financial projections prepared by Select s management. The special committee also directed Foley & Lardner LLP to consider the future application of the CMS Regulations.

On October 9, 2004, the special committee met with representatives of Banc of America Securities LLC and Foley & Lardner LLP. Banc of America Securities LLC presented to the special committee updated financial analyses relating to Select. The special committee also discussed additional matters relating to the CMS Regulations and the uncertainty that these regulations created relative to the future execution of Select s strategic plan. Following this discussion and based on the analyses that it had received to date, the special committee instructed Banc of America Securities LLC to communicate to Welsh Carson that, although the special committee might consider a transaction with Welsh Carson at a higher value, Welsh Carson s proposed price range of $16.50 to $17.25 per share was not consistent with the special committee s view of Select s value. The special committee also instructed Banc of America Securities LLC to advise Welsh Carson that it was not prepared to commit to any exclusive negotiation period with Welsh Carson. The special committee made no determination to sell Select or to otherwise pursue any particular alternative strategy. Banc of America Securities LLC communicated the special committee s position to Welsh Carson.

On October 10, 2004, Welsh Carson contacted Banc of America Securities LLC and proposed increasing its per share price range to between $17.35 and $17.45. Welsh Carson also provided an update regarding its financing commitments and remaining due diligence. In addition, Welsh Carson advised Banc of America Securities LLC that it would be amenable to including in the merger agreement (1) a provision allowing Select to pursue a superior alternative transaction during a 10 business day active solicitation period that would commence immediately after the execution of the merger agreement and (2) a provision providing for only a modest break-up fee in the event that the board of directors of Select, acting at the direction of the special committee, terminated the merger agreement to pursue a superior alternative transaction.

Later on October 10, 2004, the special committee considered the revised proposal from Welsh Carson with Banc of America Securities LLC and Foley & Lardner LLP. The special committee considered the revised proposal in light of the valuation analyses previously prepared by Banc of America Securities LLC as well as the strategic alternatives previously reviewed by the special committee. The special committee and its advisors discussed in great detail the impact that the uncertainty surrounding the CMS Regulations would have on the future financial performance of Select as well as the likelihood that the CMS Regulations would be modified prior to October 1, 2007 when the Medicare admissions threshold from the host hospital would be finally established at 25%. After consideration of these and other factors, including the option of maintaining the status quo or pursuing other possible strategic alternatives, the special committee instructed Banc of

America Securities LLC to communicate to Welsh Carson that its revised range of $17.35 to $17.45 per share was not consistent with the special committee s view of Select s value. The special committee reached this conclusion after evaluating various factors, including the relationship of the range of the proposed offer to the valuation ranges prepared by Banc of America Securities LLC, the implications of maintaining the status quo and implementing Select s strategic plan or pursuing other strategic alternatives in light of the uncertainty created by the CMS Regulations, and the potential impact of these regulations on Select s future financial performance. Thereafter, the special committee directed Banc of America Securities LLC to advise Welsh Carson that it was not prepared to recommend a price to the board of directors of Select that was less than $18.00 per share, and Banc of America Securities LLC advised Welsh Carson accordingly.

The special committee met again on October 10, 2004, with Banc of America Securities LLC and Foley & Lardner LLP. At this meeting, Banc of America Securities LLC reported that Welsh Carson had raised its proposed per share range from between $17.35 to $17.45 to between $17.75 to $17.85. Welsh Carson also requested that the special committee advise it of any major issues the special committee might have with respect to the proposed form of merger agreement that Welsh Carson had previously supplied to the special committee. The special committee directed Banc of America Securities LLC to consider the revised price range proposed by Welsh Carson and directed Foley & Lardner LLP to compile a list of key issues relating to the proposed form of merger agreement.

The special committee met on October 11, 2004, with Banc of America Securities LLC and Foley & Lardner LLP. Foley & Lardner LLP reviewed certain key issues related to Welsh Carson s form of merger agreement, and Banc of America Securities LLC reviewed its valuation analyses in light of the most recent proposal from Welsh Carson. The special committee again discussed with its advisors the relationship between current and historical stock prices and how such relationship was affected by the uncertainty surrounding the CMS Regulations and their ultimate implementation. The special committee also discussed with its advisors the market check mechanisms that it desired to have incorporated into the merger agreement, namely, a post-signing active solicitation period, with the ability to consider unsolicited proposals after that period, a de minimus break-up fee and a requirement that the transaction be subject to a favorable vote of a majority of shares held by unaffiliated stockholders. The special committee also reviewed the scope of the fiduciary out provisions included in the proposed form of merger agreement, noted its desire to delete Holdings and Acquisitions Corp. s proposed contractual right to top any superior proposal made by a third party and noted the belief of Foley & Lardner LLP that the representations and warranties contemplated by the proposed agreement were not typical for a public company transaction, especially in a transaction in which senior management was expected to participate. Based on these discussions, the special committee directed Banc of America Securities LLC to advise Welsh Carson that the special committee was not prepared to recommend to the Select board of directors a transaction with a price of less than $18.00 per share. The special committee also indicated its preference that any merger agreement with Welsh Carson would involve a de minimus break-up fee and a 20 business day active post-signing solicitation period. The special committee also advised that it would expect Welsh Carson to have fully executed financing commitments with terms that were acceptable to the special committee in advance of any execution of the merger agreement, and requested from Welsh Carson information regarding the tender offer and consent solicitation that Welsh Carson was proposing for Select s existing publicly-traded debt securities. Banc of America Securities LLC thereafter communicated the special committee s positions to Welsh Carson.

The special committee met later in the afternoon of October 11, 2004 to receive a report from Banc of America Securities LLC on Welsh Carson s reaction to the committee s positions. Foley & Lardner LLP also participated in this discussion. Banc of America Securities LLC reported that Welsh Carson was prepared to pay a price of $18.00 per share, but that the length of the active solicitation period and the size of the break-up fee remained open issues. The special committee directed Banc of America Securities LLC to continue to discuss these open issues with Welsh Carson.

Following further discussions between representatives of Banc of America Securities LLC and Welsh Carson, Banc of America Securities LLC reported to the special committee late in the evening of October 11, 2004 that Welsh Carson had agreed to a 15 business day post-signing active solicitation period and a break-up fee predicated on Welsh Carson having a 48-hour period to top any potential superior proposal before the board of directors of Select, acting through the special committee, could terminate the merger agreement. Although this issue, among various other issues in the proposed form of merger agreement, required additional negotiation, the special committee authorized its advisors to continue their discussions in order to determine whether agreement could be reached on the terms of a definitive merger agreement. At the direction of the special committee, Foley & Lardner LLP furnished its comments on the draft merger agreement to Ropes & Gray LLP, counsel for Welsh Carson.

Throughout the course of the next several days, advisors to the special committee and Welsh Carson participated in active negotiations relating to the draft merger agreement. In addition, advisors to the special committee reviewed initial drafts of the proposed financing commitments that Welsh Carson was seeking to secure and provided comments on such drafts to counsel for Welsh Carson. Welsh Carson and management continued negotiations of the terms of management s participation in the proposed merger.

On October 13, 2004, the special committee met with Banc of America Securities LLC and Foley & Lardner LLP. At this meeting, Foley & Lardner LLP reported on the progress of the merger agreement negotiations noting, among other things, that Welsh Carson had been asked to accept a requirement, urged by the special committee, that the transaction, when submitted to stockholders, would be required to receive not only the vote of holders of a majority of shares of Select common stock, but also the vote of the majority of shares held by the unaffiliated stockholders. Foley & Lardner LLP also noted that, at the direction of the special committee, Welsh Carson had been asked to delete from the draft merger agreement a contractual right of Holdings or Acquisition Corp. to top any superior proposal made by a third party for a period of 48 hours. At the meeting, Banc of America Securities LLC also reviewed with the special committee recommended procedures for effecting the post-signing active solicitation and the time period during which such solicitation reasonably could be accomplished. At the conclusion of the meeting, the special committee directed Foley & Lardner LLP to continue with the negotiation of the merger agreement.

On October 15, 2004, the special committee met with Banc of America Securities LLC and Foley & Lardner LLP and received a report on the status of the merger agreement negotiations. The special committee discussed in detail the open issues relating to the merger agreement, including the mechanics of the post-signing active solicitation process and the terms of the fiduciary out provisions that would allow, under certain circumstances, the board of directors of Select, acting at the direction of the special committee, to terminate the merger agreement in order to pursue a superior proposal. The special committee also reviewed in detail the status and terms of the proposed financing commitments being negotiated by Welsh Carson, focusing particular attention on the conditions precedent to the receipt of such financing. The special committee requested that Banc of America Securities LLC provide further analysis of pro forma financial projections and the leverage profile for Select after consummation of the proposed transaction. The special committee also directed Foley & Lardner LLP to continue with the negotiation of the merger agreement.

The special committee also received a preliminary report from its advisors on the proposed terms of the arrangement between management and Welsh Carson relative to senior management s participation in the proposed transaction. The special committee directed its advisors to provide further background and analysis about the proposed management arrangements.

The special committee met several times on October 16, 2004 with Banc of America Securities LLC and Foley & Lardner LLP. The special committee received updated reports regarding the status of the merger agreement negotiations, the terms of the financing commitments, including equity commitments proposed by each of Welsh Carson and Thoma Cressey, the proposed arrangements between senior management and Holdings relative to senior management s participation in the proposed transaction and an analysis of pro forma financial projections and the leverage profile for Select after the consummation of the proposed transaction. Banc of America Securities LLC again reviewed its financial analyses relating to the $18.00 per share purchase price. After a thorough discussion, the special committee directed its advisors to continue negotiations with Welsh Carson on various issues related to the merger agreement and financing commitments, including the special committee s position that it would not accept any obligation to disclose the identity of parties participating in the post-signing solicitation process to Holdings or Acquisition Corp. or provide Holdings or Acquisition Corp. with any contractual right to top a superior proposal for a period of up to 48 hours. As directed by the special committee, the advisors communicated the special committee s position to Welsh Carson and its counsel.

Foley & Lardner LLP and Ropes & Gray LLP continued and ultimately completed their negotiations during the course of the day on October 17, 2004. The special committee then met late in the afternoon of October 17, with Banc of America Securities LLC and Foley & Lardner LLP. At this meeting, Foley & Lardner LLP reviewed in detail the fiduciary duties of the special committee and other legal considerations that the special committee should take into account in connection with its deliberations regarding the proposed transaction. The special committee reviewed in detail the proposed terms of the merger agreement with Foley & Lardner LLP, including the fact that the agreement contained a provision providing for a 15 business day post-signing active solicitation period during which Select would be permitted to solicit superior acquisition proposals, and if during such period Select received a proposal that it believed could lead to a superior proposal, it could continue to provide information and have discussions with respect to such proposal after the expiration of such period. The special committee also considered the fact that the agreement included fiduciary out provisions under which Select would be permitted to respond to unsolicited superior proposals even after the expiration of the 15 business day post-signing active solicitation period. In addition, it was noted that the agreement contained no contractual right for Holdings or Acquisition Corp. to top a superior proposal or to learn the identity of parties who responded favorably to the post-signing active solicitation process or who otherwise expressed an interest in acquiring Select pursuant to a superior proposal. The special committee also noted that the proposed form of merger agreement contained a $40.0 million break-up fee, an expense reimbursement provision providing for a payment of up to $750,000 and a $10.0 million liquidated damages clause in the event the merger agreement is terminated due to a willful and knowing breach of the merger agreement by any of the parties to the agreement. The special committee also received reports on the final proposed terms for senior management personnel in connection with their participation in the transaction as well as the final proposed terms of the financing commitments secured by Welsh Carson, including the terms of equity commitments to be provided by affiliates of Welsh Carson and Thoma Cressey. Banc of America Securities LLC presented materials to the special committee, which included, among other information, (1) updated business, financial and public market information regarding Select and (2) a summary of valuation ranges for Select based on historical trading prices, comparable public companies, selected precedent transactions, estimates of net present value using discounted future cash flows based on financial projections prepared by Select s management, and possible value attainable in a leveraged buyout transaction based on financial projections prepared by Select s management. Banc of America Securities LLC then reviewed the terms of its proposed fairness opinion and indicated that Banc of America Securities LLC was prepared to issue its fairness opinion if the special committee made a final decision to go forward with the transaction. The special committee noted that the immediate return provided by the merger consideration removed the uncertainties regarding achieving projected operating results and share values in the future or pursuing other strategic alternatives. In this regard, the special committee considered as a significant factor the potential impact of the CMS Regulations on Select. After further discussion, the special committee adopted resolutions supporting the transaction, declaring that the terms of the merger and the merger agreement were advisable and fair to, and in the best interests of, the unaffiliated stockholders and recommending that the board of directors of Select approve and declare advisable the merger and the merger agreement.

Following the special committee s meeting on October 17, 2004, the full board of directors of Select met. All of Select s directors were present for this meeting, including Mr. Rocco Ortenzio, Mr. Robert Ortenzio, Mr. Carson and Mr. Cressey. Dechert LLP, counsel for Select, reviewed the fiduciary duties of the board of directors under Delaware law in connection with the board s consideration of the proposed transaction. The special committee informed the board of directors of Select about its deliberations and the factors that it had considered in reaching its conclusions to recommend the merger to the full board of directors. Banc of America Securities LLC presented its financial analysis of the proposed transaction, which was the same analysis presented to the special committee earlier in the day. Banc of America Securities LLC delivered its written opinion dated October 17, 2004, which stated that, as of that date, and based upon and subject to the assumptions made, matters considered, qualifications and limitations set forth in the written opinion, the consideration of $18.00 per share in cash to be received by the unaffiliated stockholders was fair from a financial point of view to such unaffiliated stockholders. Foley & Lardner LLP also reviewed in detail with the board of directors of Select the draft of the merger agreement, the final terms of the proposed financing commitments and the proposed terms pursuant to which senior management would participate in the transaction. The board of directors of Select also considered the special committee s conclusion that the merger consideration, at $18.00 per share, was fair and provided an immediate cash return to stockholders, at a premium over recent stock market prices. The board of directors of Select also considered that the immediate cash return removed the significant uncertainties regarding achieving projected operating results and share values in the future or pursuing other strategic transactions, especially in light of the uncertainty created by the CMS Regulations. During the course of the meeting, the directors of Select who were affiliated with Welsh Carson, its co-investors and the continuing investors and those directors who are paid advisors to Welsh Carson excused themselves from the meeting, and the remaining directors met with the special committee to discuss the terms of the transaction and the advisability and fairness of proceeding with the transaction as proposed. Following this session, these directors unanimously agreed that it was in the best interests of the unaffiliated stockholders to proceed with the transaction. Thereafter, and based on the factors described above, the board of directors with all members present unanimously adopted the recommendation of the special committee, declared that the terms of the merger and the merger agreement were advisable and procedurally and substantively fair to, and in the best interests of, the unaffiliated stockholders and approved the merger agreement and the merger.

On the morning of October 18, 2004, Select issued a press release announcing that it had entered into a definitive merger agreement with Holdings and Acquisition Corp.

Post-Execution Solicitation

The merger agreement permitted Select to solicit acquisition proposals from October 17 through 12:01 a.m. Eastern Standard Time on November 6, 2004. During that time, Banc of America Securities LLC, at the direction of the special committee, contacted 37 potential purchasers (14 strategic parties and 23 financial parties), and 1 potential purchaser entered into a confidentiality agreement with Select. Select did not receive any written indications of interest during the solicitation period. On November 5, 2004, the potential purchaser that executed a confidentiality agreement with Select indicated that it would not proceed with any further consideration of a transaction with Select. No potential purchasers made an acquisition offer or otherwise indicated any interest in paying a price for shares of Select common stock exceeding $18.00 per share.

Acquisition of SemperCare, Inc.

On November 4, 2004, Select advised the special committee that it was in active negotiations to acquire SemperCare and provided preliminary background information on the proposed terms of the transaction. Select advised the special committee that Holdings and Acquisition Corp. were prepared to consent to the consummation of the SemperCare acquisition in accordance with the terms of the merger agreement.

On November 5, 2004, the special committee met with Banc of America Securities LLC and Foley & Lardner LLP to discuss the impact of the proposed SemperCare acquisition on the special committee s prior recommendation to the full board of directors of Select with respect to the advisability of the merger and the merger agreement with Holdings and Acquisition Corp. At the conclusion of this meeting, the special committee directed Banc of America Securities LLC to undertake due diligence relative to the SemperCare acquisition and to update its fairness opinion on the assumption that the SemperCare transaction would be effected prior to the merger. The special committee also directed Banc of America Securities LLC and Foley & Lardner LLP to review the proposed form of acquisition agreement relating to the SemperCare acquisition as well as to identify any additional execution risk that the SemperCare acquisition might impose on the merger, including the ability of Holdings to secure the necessary financing.

During the course of the next several days, the advisors to the special committee began their due diligence investigations regarding SemperCare. The special committee met on November 10, 2004 to receive an update on the process and to review in greater detail the proposed terms of the SemperCare acquisition. The special committee directed its advisors to continue their work.

The special committee met on November 17, 2004 with Banc of America Securities LLC and Foley & Lardner LLP. Banc of America Securities LLC reviewed the due diligence work that it had completed and Foley & Lardner LLP reviewed the terms of the proposed acquisition agreement relating to the SemperCare acquisition. The special committee also reviewed a revised analysis of pro forma financial projections and the leverage profile for Select, assuming completion of the merger as well as consummation of the SemperCare acquisition prior to the merger. Banc of America Securities LLC and Foley & Lardner LLP discussed with the special committee their respective views of the execution risk that the SemperCare acquisition might impose on the merger, including with respect to obtaining the financing necessary to complete the merger. Banc of America Securities LLC also reviewed with the special committee its financial analysis related to Select on the assumption that the SemperCare acquisition would be consummated prior to the merger.

The special committee met again in the morning of November 18, 2004 with Banc of America Securities LLC and Foley & Lardner LLP. Banc of America Securities LLC presented materials to the special committee, which included, among other information, an updated summary of valuation ranges for Select (assuming consummation of the SemperCare acquisition) based on historical trading prices, comparable public companies, selected precedent transactions, estimates of net present value using discounted future cash flows based on financial projections prepared by Select s management, and possible value attainable in a leveraged buyout transaction based on financial projections prepared by Select s management. Banc of America Securities LLC then reviewed the terms of its proposed updated fairness opinion and indicated that Banc of America Securities LLC was prepared to reissue its fairness opinion if the special committee made a final decision to reaffirm its recommendation relative to the merger and the merger agreement with Holdings and Acquisition Corp. The special committee again reviewed the leverage profile of Select assuming completion of the SemperCare acquisition and considered the execution risk posed by the SemperCare acquisition relative to the consummation of the merger as well as the perceived benefits of the SemperCare acquisition. After further discussion, the special committee reaffirmed its recommendation to the board of directors of Select relative to the merger and the merger agreement in light of the proposed SemperCare acquisition, provided that one of the following actions was completed prior to the execution of a definitive agreement with respect to the SemperCare acquisition: (1) the modification of Holdings existing bank financing commitment letters to provide for the SemperCare acquisition; (2) the procurement of an additional equity commitment by Holdings to satisfy any shortfall created by the SemperCare acquisition; or (3) the incorporation into the SemperCare agreement of a financing contingency that would condition the closing of the SemperCare acquisition on Holdings ability to obtain the financing necessary to complete the transactions contemplated by the merger agreement with Holdings and Acquisition Corp.

Following the special committee s meeting on November 18, 2004, the full board of directors of Select met. Each of the members of the board of directors of Select was present at this meeting, including Mr. Rocco Ortenzio, Mr. Robert Ortenzio, Mr. Carson and Mr. Cressey. After receiving the recommendation of the special committee and the updated fairness opinion of Banc of America Securities LLC, the board of directors unanimously approved the SemperCare acquisition. After such approval but prior to the execution by Select of the SemperCare acquisition agreement, Holdings and Acquisition Corp. consented to the SemperCare acquisition. In addition, as required by the special committee, Welsh Carson agreed that in the event that the existing debt financing commitment letters could not be amended to provide for additional borrowings to cover the $100.0 million purchase price for the SemperCare acquisition, Welsh Carson would provide the additional equity necessary to finance any shortfall in the financing. Select and Camp Hill Acquisition Corp. signed the definitive agreement to acquire SemperCare on November 19, 2004. The debt financing commitment letters were subsequently amended in December 2004. The SemperCare acquisition closed effective as of January 1, 2005.

Recommendation of the Special Committee and the Board of Directors and Reasons for the Merger

The special committee of the board of directors unanimously determined that the terms of the merger agreement, including the merger consideration of $18.00 per share of common stock, and the merger are advisable and fair to, and in the best interests of, the unaffiliated stockholders. As a result, the special committee unanimously adopted resolutions supporting the merger and recommending that the board of directors approve and declare advisable the merger agreement and the merger. In making these determinations, the special committee considered a number of factors, as more fully described above under Background of the Merger and below under Reasons for the Special Committee s Determination.

After receiving the special committee s recommendation, the members of the board of directors who are not affiliated with Welsh Carson, its co-investors and the continuing investors and who are not paid advisors to Welsh Carson met with the special committee to discuss the terms of the merger agreement and the advisability and fairness of the merger as proposed. These members of the board of directors control 240,936 shares (or approximately 0.2% of the voting shares of common stock of Select). Following this meeting, these members of the board of directors unanimously agreed that it was in the best interests of the unaffiliated stockholders to proceed with the merger. Thereafter, the board of directors, with all members present, adopted the recommendation of the special committee, found that the merger agreement and the merger were advisable and procedurally and substantively fair to, and in the best interests of, the unaffiliated stockholders and unanimously approved the merger agreement and the merger. **The board of directors recommends that stockholders vote FOR the approval and adoption of the merger agreement and the merger.**

Reasons for the Special Committee s Determination. The members of the special committee are David S. Chernow and James E. Dalton, Jr. The special committee members are not officers or employees of Select and are independent of and have no economic interest or expectancy of an economic interest in Welsh Carson, Holdings or the surviving corporation. If the merger is completed, then each special committee member will receive cash payments for their shares and stock options in an aggregate amount equal to $1,615,728. See Interests of Select Directors and Executive Officers in the Merger beginning on page 50. Whether the merger is completed or not, each special committee member will be paid $65,000 for such member s service on the special committee and will be reimbursed for out-of-pocket expenses incurred in connection with service on the special committee. As members of the board of directors, the special committee members will also benefit from the indemnification, insurance and related provisions contained in the merger agreement with respect to their acts or omissions as directors. Because of these interests, the interests of the special committee and the unaffiliated stockholders of Select may not be aligned.

In recommending the approval of the merger agreement and the merger to the board of directors, the special committee considered the following material factors that it believed supported its recommendation:

the merger consideration of $18.00 per share was payable in cash and represented a substantial premium over the market price of common stock of Select before the public announcement of the execution of the merger agreement, namely, an approximately 26.6% premium over the stock market closing price of $14.22 per share on October 15, 2004 and an approximately 35.5% premium over the average stock market closing price of $13.28 per share for the 30 trading days preceding the public announcement of the execution of the merger agreement;

the written opinion of Banc of America Securities LLC, dated October 17, 2004 (which was subsequently updated on November 18, 2004), to the special committee and the board of directors indicating that, as of that date, and based upon and subject to the assumptions made, matters considered, qualifications and limitations set forth in the written opinion, the cash merger consideration of $18.00 per share to be received by the unaffiliated stockholders was fair from a financial point of view to the unaffiliated stockholders, which opinion the special committee considered in its totality, and the specific financial analyses presented by Banc of America Securities LLC in connection with the delivery of its fairness opinion, which analyses related to summary valuation ranges relating to Select based on historical trading prices, trading multiples of comparable public companies, premiums paid in other transactions, estimates of future discounted cash flows based on estimates provided by Select management, and possible values attainable in a leveraged buyout transaction based on management s estimates;

the ability of the unaffiliated stockholders to recognize a significant cash value through the cash proceeds of the merger versus continued risk of operating as a stand-alone company, taking into account uncertainties relating to reimbursement by governmental programs, including uncertainties regarding the impact of the CMS Regulations on the future operations and financial performance of

Select, as well as uncertainties associated with achieving management s projections, which risks and uncertainties will be borne solely by Holdings after the merger, and not by the public stockholders;

the special committee s familiarity with Select s recent, current and anticipated future financial performance, including operational uncertainties due to changes in reimbursement practices by governmental programs, changes arising from the CMS Regulations and, more generally, changes in the healthcare industry environment and the effects of such uncertainties on the potential stock market performance of Select common stock;

the terms of the merger agreement, including the cash price, the ability and intent of Select, acting through the special committee, to solicit other possible buyers through November 5, 2004, the ability to consider unsolicited offers by other possible buyers after that date, the requirement that the merger receive the approval of not only the holders of a majority of shares of Select common stock but also the holders of a majority of Select common stock excluding Holdings, Acquisition Corp., Welsh Carson, their respective affiliates, their co-investors and the continuing investors, and the amount of the termination fee (which the special committee believed should not unduly discourage other possible buyers from offering acquisition proposals that are more favorable than the transactions contemplated by the merger agreement);

the fact that the merger agreement permitted Select not only to solicit acquisition proposals from other possible buyers through November 5, 2004 but also permits Select to, even after November 5, 2004, provide information and participate in negotiations with respect to other possible buyers that have submitted acquisition proposals under certain circumstances described in the merger agreement and, in either such case, to terminate the merger agreement to accept a superior acquisition proposal;

the intention to solicit, with the assistance of Banc of America Securities LLC, acquisition proposals from other possible buyers for a period of time as permitted by the merger agreement and to terminate the merger agreement to accept a superior acquisition proposal from another possible buyer;

the lack of any obligation by Select to provide Holdings or Acquisition Corp., prior to the termination of the merger agreement, with notice of the receipt of acquisition proposals from other possible buyers, the identity of the party submitting acquisition proposals or the terms and conditions of acquisition proposals or of any contractual right contained in the merger agreement that would permit Holdings or Acquisition Corp. to top any superior acquisition proposal from another possible buyer prior to effecting the termination of the merger agreement;

its review of the alternatives to a sale of Select, including maintaining the status quo, effecting a recapitalization/share repurchase or extraordinary dividend transaction, selling Select s outpatient division, combining Select with or selling Select to a strategic party or effecting a leveraged buyout of Select;

Holdings agreement that any impact of the CMS Regulations will not constitute a material adverse effect with respect to Select that would result in the failure by Select to satisfy a condition to the closing of the merger;

the fact that the stock market price of Select common stock and, as a result, the stockholders of Select, would be susceptible to adverse effects of earnings fluctuations that may result from further changes in reimbursement practices by governmental programs, changes arising from the CMS Regulations and, more generally, changes in the healthcare industry environment, at least in the short term;

that Select s repurchases of shares of its common stock during the last 2 years were completed at prices substantially below $18.00 per share;

the nature of the financing commitments received by Holdings and Acquisition Corp. with respect to the merger, including the conditions to those financing commitments; and

the proposed terms of the tender offer for Select s outstanding 9 1/2% senior subordinated notes due 2009 and 7 1/2% senior subordinated notes due 2013 and the likely success of the tender offers.

The special committee did not consider any firm acquisition proposals from other possible buyers with respect to a merger or consolidation, sale of assets or other change of control of Select because the special committee was not aware that any such proposals were made during the past 3 years. Similarly, the special committee did not assign any significance to recent purchases of Select common stock by members of the buying group described under Position of the Buying Group as to the Fairness of the Merger beginning on page 43, as those purchases were completed as a result of the exercise of employee and director stock options. The special committee did not consider the historical market prices of Select s common stock prior to May 12, 2004, the day after CMS announced a proposed regulatory change affecting reimbursement rates applicable to Select s long-term acute care hospitals that resulted in the adoption of the CMS Regulations on August 2, 2004, as a material factor because those prices do not reflect the effect of the CMS Regulations on Select and its business. In addition, the special committee did not consider a possible liquidation transaction as a viable alternative. Select is essentially a service company, and its tangible assets are incidental to its service operations. As a result, the value of Select is tied to its existence as an integrated going concern. Moreover, a portion of Select s success is attributable to its market share and market presence. As a result, the special committee concluded that any liquidation of Select s assets, or any break-up, spin-off and piecemeal sale of Select s business or assets, would not maximize stockholder value. Therefore, the special committee did not consider a possible liquidation value. Further, the special committee did not consider net book value, which is an accounting concept, as a factor because the merger consideration of $18.00 per share is significantly higher than $4.72, the net book value per share of Select common stock at September 30, 2004.

The special committee also determined that the merger is procedurally fair because, among other things:

the board of directors established a special committee of independent directors to consider and negotiate the merger agreement, and the special committee retained its own independent counsel and its own independent financial advisor who have extensive experience in transactions similar to the merger;

the special committee consists solely of directors who are not officers or employees of Select, and who are independent of and have no economic interest or expectancy of an economic interest in Welsh Carson, Holdings or the surviving corporation (If the merger is completed, then the special committee members will, however, like all other Select stockholders and option holders receive cash payments for their shares and stock options in an aggregate amount equal to $1,615,728. See Interests of Select Directors and Executive Officers in the Merger beginning on page 50. Whether the merger is completed or not, each special committee member will be paid $65,000 for his service on the special committee, and will be reimbursed for out-of-pocket expenses incurred in connection with his service on the special committee. As members of the board of directors, the special committee members will also benefit from the indemnification, insurance and related provisions contained in the merger agreement with respect to their acts or omissions as directors);

the special committee was given exclusive authority, pursuant to resolutions adopted by the board of directors, to, among other things, evaluate, negotiate and recommend the terms of any proposed transaction and to reject on behalf of Select any offer that the special committee could not favorably recommend to the board of directors;

the cash merger consideration of $18.00 per share and other terms and conditions of the merger agreement resulted from arm s-length negotiations between the special committee and Welsh Carson;

the merger must be approved not only by the holders of a majority of shares of Select common stock but also by holders of a majority of the shares of Select common stock excluding Holdings, Acquisition Corp., Welsh Carson, their respective affiliates, their co-investors and the continuing investors;

Select issued a press release regarding the merger in which it publicly announced its ability to actively solicit other possible buyers through November 5, 2004 and to respond to unsolicited acquisition proposals from other possible buyers after November 5, 2004 if the special committee determines that the unsolicited acquisition proposals could lead to a superior proposal;

subject to certain conditions, including the payment of a termination fee under certain circumstances, the merger agreement permits the board of directors, acting through the special committee, to exercise its fiduciary duties to consider alternative transactions, particularly if it believes that an acquisition proposal received from another possible buyer after the date of the merger agreement could result in a superior proposal;

the special committee believed, based on information provided by its financial advisor that the termination fee of $40.0 million (or less than 2% of the equity value and the enterprise value of the transaction) was lower than or comparable to termination fees in most public company merger transactions, even considering the requirement that Select reimburse up to $750,000 of certain expenses incurred by Welsh Carson and its affiliates in connection with the merger, and that these obligations should not unduly discourage other possible buyers from offering acquisition proposals that are more favorable than the merger agreement proposed by Welsh Carson; and

under Delaware law, the stockholders of Select have the right to demand appraisal of their shares, which rights are described below under Appraisal Rights beginning on page 70 and Appendix C.

In light of the creation of the special committee and the fact that the use of a special committee of this type is a well-recognized mechanism to achieve fairness in transactions such as the merger, the non-employee directors of Select determined that the appointment of an additional representative unaffiliated with Select to act solely on behalf of the stockholders of Select that are not affiliated with the buying group to further protect their interests in connection with the negotiation of the merger agreement or the evaluation of the fairness of the merger was not necessary.

In connection with its review of the merger agreement, the merger and the related transactions, the special committee also considered the following risks and other potentially material negative factors concerning the merger:

the fact that the obligation of Holdings to complete the merger is conditioned upon the receipt of financing by Holdings and Acquisition Corp., as discussed below in Merger Financing beginning on page 56, and that Holdings and Acquisition Corp. may not secure any financing for a variety of reasons, including reasons beyond the control of Select, Holdings or Acquisition Corp.;

the specific wording of language in the merger agreement and in Holdings financing commitments relating to the occurrence of a material adverse effect on Select s business that could cause the merger not to close, including the fact that, even though the risk of a material adverse effect arising from the CMS Regulations was assumed by Holdings and its lenders, the risk of a material adverse effect arising from other changes or proposed changes in laws (including laws regarding payment or reimbursement from government payors) will generally be borne by Select and not by Holdings;

the fact that that the obligation of Holdings to complete the merger is conditioned upon the tender of not less than a majority of the aggregate principal amount of Select s outstanding 9 1/2% senior subordinated notes due 2009 and 7 1/2% senior subordinated notes due 2013 and that the obligation of Holdings to complete the merger is conditioned upon the total number of dissenting shares not exceeding 8% of the issued and outstanding shares of Select common stock as of the effective time of the merger;

the fact that if the merger is not consummated under circumstances further discussed in The Merger Agreement Termination beginning on page 87 and The Merger Agreement Fees and Expenses; Termination Fee beginning on page 88, Select may be required to pay a termination fee to Holdings and to reimburse Holdings for certain expenses;

the terms of senior management participation in the merger and the fact that Welsh Carson, its co-investors and the continuing investors, including senior members of Select management, have interests in the merger that are different from, or in addition to, those of the unaffiliated stockholders, including equity interests in Holdings, continued employment with the surviving corporation, payments in connection with respect to outstanding stock options and benefits from the indemnification, insurance and related provisions in the merger agreement;

the fact that, after the effective date of the merger, the unaffiliated stockholders would cease to participate in any future earnings growth of Select or benefit from any increase in the value of Select;

the fact that the unaffiliated stockholders, after the effective date of the merger, would be required to surrender their shares involuntarily in exchange for a cash price determined by the special committee and the board of directors and would not have the right to liquidate their shares at a time and for a price of their own choosing; and

the fact that the merger would be taxable and that the stockholders of Select may face taxation on the proceeds of the merger, thereby potentially foregoing the deferral of taxation on their shares.

In addition to considering the positive and negative factors of the merger and the merger agreement, the special committee discussed the positive and negative factors of certain alternatives that did not involve a change of control of Select. These alternatives included the maintenance of the status quo, the completion of a leveraged recapitalization through either a share repurchase or a one-time dividend and the sale of Select s outpatient division and use of the proceeds to effect a share repurchase or a one-time dividend.

The special committee determined that an attempt by Select to maintain the status quo would allow Select stockholders to retain control of Select and, as a result, benefit from any future growth of Select s business. However, in the special committee s view, this benefit was outweighed by the negative factors associated with attempting to maintain the status quo, which include the potential volatility of Select s future financial success, if any, in light of the anticipated need for Select to develop and implement a new business model and incur increased capital costs and expenses over the next three or four years as a result of the impact of the CMS Regulations, among other factors.

The special committee determined that the completion of a leveraged recapitalization through either a share repurchase or a one-time dividend would provide the advantage of allowing non-selling stockholders to retain control of Select while providing selling stockholders with cash proceeds in a potentially tax efficient manner. However, the special committee determined that various negative factors outweighed the advantages of a recapitalization. These negative factors included the recapitalization s anticipated negative impact on Select s stock price, the potential that the recapitalization would signal a lack of growth opportunities for Select s business, the likely reduction of Select s liquidity and public float as a result of the recapitalization and the absence of any mitigation of the risks borne by stockholders, including the risks relating to uncertainties arising from the CMS Regulations.

The special committee also determined that the positive factors associated with the sale of Select s outpatient division were outweighed by the negative factors. While the sale of Select s outpatient division might provide Select with the ability to obtain cash proceeds for the purpose of effecting a share repurchase or one-time dividend in a manner that does not require a change of control of Select, the special committee determined that the prospects for completing a successful sale were limited. In this regard, the special committee determined that Select would face several challenges associated with identifying a buyer willing to pay fair value for the outpatient division, separating the outpatient division from Select s other business segments and managing Select s other business segments without disruption in the face of any pending sale. Moreover, the sale of Select s outpatient division presented challenges in respect of structuring a transaction in a tax efficient manner and would not result in the mitigation of the significant risks borne by stockholders, including the risks associated with the uncertainties arising from the CMS Regulations.

The foregoing describes all of the material factors considered by the special committee in its consideration of the merger and various alternatives to the merger. After considering these factors, the special committee concluded that the positive factors relating to the merger outweighed the negative factors and that the merger constituted a more attractive transaction for stockholders than the alternatives described above. Because of the variety of factors considered, the special committee did not find it practicable to quantify or otherwise assign relative weights to, and did not make specific assessments of, the specific factors considered in reaching its determination. In addition, each member of the special committee may have assigned different weights to various factors. The determination of the special committee was made after consideration of all factors taken as a whole.

Reasons for the Board of Directors Determination. The board of directors of Select consists of 10 directors, 2 of whom serve on the special committee. In reporting to the Select board of directors regarding its determination and recommendation, the special committee, with its legal and financial advisors participating, advised the other members of the board of directors of the course of negotiations with Welsh Carson and its legal counsel, its review of the merger agreement and the related financing commitments and the factors that the special committee considered in reaching its determination that the terms of the merger agreement and the merger are advisable and fair to, and in the best interests of, the unaffiliated stockholders. On October 17, 2004, Banc of America Securities LLC presented to the board of directors of Select its financial analysis of the proposed transaction and delivered its written opinion, dated October 17, 2004 (which was subsequently updated on November 18, 2004), to the special committee and the board of directors which stated that, as of that date, and based upon and subject to the assumptions made, matters considered, qualifications and limitations set forth in the written opinion, the consideration of $18.00 per share in cash to be received by the unaffiliated stockholders was fair from a financial point of view to the unaffiliated stockholders. After receiving the special committee s recommendation with respect to the approval of the merger agreement and the merger and listening to the presentation of Banc of America Securities LLC, the members of the board of directors who are affiliated with the buying group and the members of the board of directors who are paid advisors to Welsh Carson excused themselves from the meeting, and the remaining directors met with the special committee to discuss the terms of the merger and the advisability and fairness of proceeding with the merger. Following this meeting, these directors unanimously agreed that it was in the best interests of the unaffiliated stockholders to proceed with the merger. Thereafter, the board of directors, with all members present, adopted the recommendation of the special committee, found that the merger agreement and the merger are advisable and procedurally and substantively fair to, and in the best interests of, the unaffiliated stockholders and unanimously approved the merger agreement and the merger. As part of its determination with respect to the merger set forth below, the board of directors adopted the fairness analysis and conclusion of the special committee and relied upon the analyses and opinion of Banc of America Securities LLC, and the factors, both positive and negative, considered by the special committee in respect of such fairness analysis and conclusion, based upon the board of directors view as to the reasonableness of such fairness analysis and conclusion. In light of the wide variety of factors considered in its evaluation of the merger, the board of directors did not find it practicable to quantify or otherwise assign relative weights to, and did not make specific assessments of, the specific factors considered in reaching its determination. Instead, the board of directors based its position on the totality of the information presented and considered.

The Select board of directors believes that the merger agreement and the merger are advisable and procedurally and substantively fair to, and in the best interests of, the unaffiliated stockholders. The board of directors adopted the special committee s analysis and conclusions, which included both positive and negative factors. See Recommendation of the Special Committee of the Board of Directors and Reasons for the Merger Reasons for the Special Committee s Determination. In reaching this conclusion, the board of directors considered the following material items:

- the merger consideration of $18.00 per share was payable in cash and represented a substantial premium over the market price of common stock of Select before the public announcement of the execution of the merger agreement, namely, an approximately 26.6% premium over the stock market closing price of $14.22 per share on October 15, 2004 and an approximately 35.5% premium over the average stock market closing price of $13.28 per share for the 30 trading days preceding the public announcement of the execution of the merger agreement;

- the $18.00 per share merger consideration and other terms and conditions of the merger agreement resulted from arm s-length negotiations between the special committee and Welsh Carson;

- Select s repurchases of shares of its common stock during the last 2 years were at prices substantially below $18.00 per share;

the special committee consists solely of directors who are not officers or employees of Select, are independent of and have no economic interest or expectancy of an economic interest in Welsh Carson, Holdings or the surviving corporation;

the special committee retained its own independent financial and legal advisors who have extensive experience in transactions similar to the merger, conducted extensive negotiations with Welsh Carson and had the authority to reject the transactions proposed by Welsh Carson (these negotiations led to an increase in the cash consideration to be received by the holders of Select common stock from between $16.50 and $17.25 to $18.00 per share);

Welsh Carson did not participate in or have any influence on the deliberative process of, or the conclusions reached by, the special committee or the negotiating positions of the special committee;

the special committee obtained a written opinion, dated October 17, 2004, from its independent financial advisor (both for its own benefit and for the benefit of the board of directors) indicating that as of that date, and based upon and subject to the assumptions made, matters considered, qualifications and limitations set forth in the written opinion, the cash merger consideration of $18.00 per share to be received by the unaffiliated stockholders was fair from a financial point of view to the unaffiliated stockholders and upon its request, the special committee subsequently obtained a written opinion, dated November 18, 2004, from its independent financial advisor (both for its own benefit and for the benefit of the board of directors) indicating that, as of that date and based upon and subject to the assumptions made, matters considered (including the proposed SemperCare acquisition), qualifications and limitations set forth in the written opinion, the cash merger consideration of $18.00 per share to be received by the unaffiliated stockholders was fair from a financial point of view to the unaffiliated stockholders, which opinion the board of directors considered in its totality, and the specific financial analyses presented by Banc of America Securities LLC to the board of directors in connection with the delivery of its fairness opinion, which analyses related to summary valuation ranges relating to Select based on historical trading prices, trading multiples of comparable public companies, premiums paid in other transactions, estimates of future discounted cash flows based on estimates provided by Select management, and possible values attainable in a leveraged buyout transaction based on management s estimates, as described more fully below under Opinion of the Financial Advisor to the Special Committee ;

the fact that the merger agreement permitted Select not only to solicit acquisition proposals from other possible buyers through November 5, 2004 but also permits Select to, even after November 5, 2004, provide information and participate in negotiations with respect to other possible buyers that have submitted acquisition proposals in the circumstances described in the merger agreement and, in either such case, to terminate the merger agreement to accept a superior acquisition proposal;

Select issued a press release regarding the merger in which it publicly announced its ability to actively solicit other possible buyers through November 5, 2004, and to respond to unsolicited acquisition proposals from other possible buyers after November 5, 2004 if the special committee determines that the unsolicited acquisition proposals could lead to a superior proposal;

the intention to solicit, with the assistance of Banc of America Securities LLC, acquisition proposals from other possible buyers for a period of time as permitted by the merger agreement;

the special committee believed, based on information provided by its financial advisor and legal advice, that the termination fee of $40.0 million (or less than 2% of the equity value and the enterprise value of the transaction) was lower than or comparable to termination fees in most public company merger transactions, even considering the requirement that Select reimburse certain expenses incurred by Welsh Carson and its affiliates in connection with the transaction up to a maximum amount of $750,000, and that these obligations should not unduly discourage other possible buyers from offering an acquisition proposal that is more favorable than the merger agreement proposed by Welsh Carson;

the merger must be approved by not only the holders of a majority of shares of Select common stock but also the holders of a majority of Select common stock excluding Holdings, Acquisition Corp., Welsh Carson, their respective affiliates, their co-investors and the continuing investors; and

under Delaware law, the stockholders of Select have the right to demand appraisal of their shares.

Special Committee Fees. In connection with the establishment of the special committee, the board of directors determined that each member of the special committee would be paid $65,000 for his service on the special committee, regardless of whether any proposed transaction was entered into or completed. In addition, the members of the special committee are entitled to reimbursement for their out-of-pocket expenses incurred in connection with their service on the special committee.

Opinion of the Financial Advisor to the Special Committee

In September 2004, the special committee of the board of directors of Select retained Banc of America Securities LLC to act as its financial advisor in connection with the merger. Banc of America Securities LLC is a nationally recognized investment banking firm. Banc of America Securities LLC is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. The special committee selected Banc of America Securities LLC to act as its financial advisor on the basis of Banc of America Securities LLC s experience and expertise in transactions similar to the merger and its reputation in the healthcare industry.

The amount of the merger consideration was determined by negotiations between the special committee and Welsh Carson and was not based on recommendations from Banc of America Securities LLC. Prior to the execution of the merger agreement, Banc of America Securities LLC was not requested or permitted to, and did not, solicit any expressions of interest from any other parties with respect to the sale of all or part of Select or any other alternative transaction.

On October 17, 2004, Banc of America Securities LLC delivered a written opinion to the special committee and the board of directors of Select that, as of such date and based upon and subject to the assumptions made, matters considered, qualifications and limitations set forth in such opinion, the merger consideration to be received by the unaffiliated stockholders in the merger is fair from a financial point of view to such stockholders. Subsequent to the date that Banc of America Securities LLC delivered its opinion, Select entered into negotiations to acquire SemperCare. On November 5, 2004, the special committee requested that Banc of America Securities LLC update its opinion in light of the anticipated acquisition of SemperCare by Select. On November 18, 2004, Banc of America Securities LLC delivered a written opinion to the special committee and the board of directors of Select that, as of such date and based upon and subject to the assumptions made, matters considered (including the proposed acquisition of SemperCare), qualifications and limitations set forth in such opinion, the merger consideration to be received by the unaffiliated stockholders in the merger is fair from a financial point of view to such stockholders. Unless specifically noted otherwise, references to the opinion below are to the updated opinion that was delivered by Banc of America Securities LLC on November 18, 2004.

We have attached the full text of Banc of America Securities LLC s written opinion to the special committee and the board of directors of Select as Appendix B, which is incorporated herein in its entirety. You should read this opinion carefully and in its entirety in connection with this proxy statement. However, we have also included the following summary of Banc of America Securities LLC s opinion, which is qualified in its entirety by reference to the full text of the opinion.

Banc of America Securities LLC s opinion is directed to the special committee and the board of directors of Select. It does not constitute a recommendation to you on how to vote with respect to the merger. The opinion addresses only the financial fairness of the merger consideration to be received by the unaffiliated stockholders in the merger. The opinion does not address the relative merits of the merger, any alternatives to the merger, or the SemperCare acquisition, the underlying decision of Select to proceed with or effect the merger, any other aspect of the merger, or the SemperCare acquisition. Banc of America

Securities LLC also expresses no opinion as to the fairness, from a financial point of view, of the consideration to be paid by Select pursuant to the SemperCare acquisition agreement.

Banc of America Securities LLC:

- reviewed certain publicly available financial statements and other business and financial information of Select;

- reviewed certain internal financial statements and other financial and operating data concerning Select;

- analyzed certain financial projections prepared by the management of Select, including, without limitation, financial forecasts that incorporated the impact of the SemperCare acquisition (as determined by the management of Select);

- discussed the past and current operations, financial condition and prospects of Select with senior executives of Select, including, without limitation, (1) the CMS Regulations and management s views concerning the impact of the CMS Regulations on Select s business and (2) management s views concerning the impact of the SemperCare acquisition on the future operations, financial condition and prospects of Select;

- reviewed the reported prices and trading activity for Select common stock;

- compared the financial performance of Select and the prices and trading activity of the Select common stock with that of certain other publicly traded companies that Banc of America Securities LLC deemed relevant;

- compared certain financial terms of the merger to financial terms, to the extent publicly available, of certain other business combination transactions and leveraged buyout transactions that Banc of America Securities LLC deemed relevant;

- participated in discussions and negotiations involving representatives of Welsh Carson and its financial and legal advisors and members of the special committee and its legal advisor;

- reviewed the merger agreement and certain related documents, including, without limitation, the provisions providing that Select may solicit alternative acquisition proposals for the 15 business day period following the execution of the merger agreement, which is referred to as the Shop Period in this part of the proxy statement;

- reviewed the November 16, 2004 draft of the SemperCare acquisition agreement;

- reviewed the results of Banc of America Securities LLC s efforts, during the Shop Period, to solicit indications of interest and alternative acquisition proposals from third parties with respect to an acquisition of Select;

- reviewed certain internal financial statements and other financial and operating data concerning SemperCare, including the near-term expectations of SemperCare s management for the financial performance of SemperCare for the remainder of 2004, which are referred to as the SemperCare Projections in this proxy statement, and financial projections for SemperCare for the years ending December 31, 2005 through December 31, 2009, which are referred to as the Extended SemperCare Projections in this proxy statement; and

- performed such other analyses and considered such other factors as Banc of America Securities LLC deemed appropriate.

Banc of America Securities LLC did not assume any responsibility to independently verify the information listed above and any other information reviewed by it for the purposes of rendering its opinion. Instead, Banc of America Securities LLC relied on the information as being accurate and complete in all material respects. Banc of America Securities LLC also made the following assumptions:

- with respect to the financial projections for Select provided to Banc of America Securities LLC by management of Select, that the projections were reasonably prepared on bases reflecting the best available estimates and good faith judgments of the management of Select at the time of preparation as to the future financial performance of Select;

with respect to the SemperCare Projections, Banc of America Securities LLC assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of SemperCare s management as to the future financial performance of SemperCare. However, Banc of America Securities LLC was not provided with, and did not have any access to, any financial projections of SemperCare prepared by management of SemperCare for periods beyond December 31, 2004 and, upon advice of Select s management and with the special committee s consent, Banc of America Securities LLC assumed that the Extended SemperCare Projections were a reasonable basis upon which to evaluate the future financial performance of SemperCare and Banc of America Securities LLC relied upon such Extended SemperCare Projections in performing its analyses;

that the CMS Regulations will remain in effect;

that the merger will be consummated as provided in the merger agreement, with full satisfaction of all covenants and conditions set forth in the agreement and without any waivers thereof;

that certain stockholders of Select who are affiliates of Welsh Carson (including, without limitation, Russell L. Carson) will exchange their shares of Select common stock prior to the merger for shares of capital stock of Holdings; and

that the final executed SemperCare acquisition agreement will not differ in any material respect from the November 16, 2004 draft SemperCare acquisition agreement reviewed by Banc of America Securities LLC, and that the SemperCare acquisition will be consummated prior to the merger and as provided in the draft SemperCare acquisition agreement, with full satisfaction of all covenants and conditions set forth in the draft SemperCare acquisition agreement and without any waivers thereof.

Select does not publicly disclose internal management projections of the type provided to Banc of America Securities LLC by the management of Select in connection with Banc of America Securities LLC s review of the merger. The projections were not prepared with a view toward public disclosure. In addition, the projections were based on numerous variables and assumptions that are inherently uncertain, including factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from the results set forth in the projections. Banc of America Securities LLC has assumed no liability for the projections.

In addition, for purposes of its opinion, Banc of America Securities LLC did not make an independent valuation or appraisal of the assets or liabilities of Select or SemperCare, nor was Banc of America Securities LLC furnished with any such appraisals.

Banc of America Securities LLC s opinion was based on economic, monetary and market and other conditions in effect on, and the information made available to it as of, the date of the opinion. Accordingly, although subsequent developments may affect its opinion, Banc of America Securities LLC did not assume any obligation to update, revise or reaffirm its opinion.

The following represents a brief summary of the material financial analyses performed by Banc of America Securities LLC in connection with providing its opinion to the special committee and the board of directors of Select. Some of the summaries of financial analyses performed by Banc of America Securities LLC include information presented in tabular format. To fully understand the financial analyses performed by Banc of America Securities LLC, you should read the tables together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data set forth in the tables without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses performed by Banc of America Securities LLC.

Historical Stock Price Analysis. Banc of America Securities LLC reviewed the performance of the per share market price and trading volume of Select common stock for the period between October 15, 2003 and

October 15, 2004. The analysis indicated that the closing market price per share for Select common stock during this period ranged from $10.25 to $19.75.

Comparable Public Company Analysis. Using publicly available information, Banc of America Securities LLC compared Select to a group of publicly-traded companies in the long-term care, rehabilitation, home healthcare and hospice industries with operations (including similar reimbursement profiles) that, for purposes of Banc of America Securities LLC s analysis, may be considered similar to certain operations of Select and that Banc of America Securities LLC deemed to be reasonably comparable to Select.

Banc of America Securities LLC calculated various financial multiples for each company, including (1) enterprise value divided by projected calendar year 2005 earnings before interest, taxes, depreciation and amortization, which is referred to as EBITDA in this proxy statement, (2) adjusted enterprise value divided by projected calendar year 2005 earnings before interest, taxes, depreciation, amortization and rent, which is referred to as EBITDAR in this proxy statement, and (3) current stock price divided by projected calendar year 2005 earnings per share. These multiples were calculated using Wall Street equity research, First Call consensus estimates and other publicly available sources for each company. Banc of America Securities LLC defined enterprise value to mean (1) equity value, defined as the product of the number of fully-diluted shares of common stock outstanding for a company multiplied by its stock price; plus (2) outstanding funded debt; plus (3) minority interest in consolidated subsidiary companies; less (4) cash and cash equivalents. Banc of America Securities LLC defined adjusted enterprise value to mean enterprise value plus rent expense capitalized at 12.5%.

The following table summarizes the results of this analysis:

	Enterprise Value/ Calendar Year 2005P EBITDA	Adjusted Enterprise Value/ Calendar Year 2005P EBITDAR	Current Stock Price/ Calendar Year 2005P Earnings Per Share
Apria Healthcare Group Inc.	5.7x		15.5x
Beverly Enterprises, Inc.	6.8x	7.2x	11.3x
Genesis HealthCare Corporation	6.3x	6.6x	17.9x
Horizon Health Corporation	6.4x		10.0x
Kindred Healthcare, Inc.	3.5x	5.6x	11.1x
Lincare Holdings Inc.	9.8x		19.6x
Manor Care, Inc.	7.8x	7.7x	16.2x
Odyssey HealthCare, Inc.	6.5x		13.3x
RehabCare Group, Inc.	7.1x		15.8x
U.S. Physical Therapy, Inc.	8.5x		20.3x
VistaCare, Inc.	14.1x		27.4x

The enterprise value as a multiple of calendar year 2005 projected EBITDA analysis resulted in a range of multiples of 3.5x to 14.1x, with a median multiple of 6.8x. The adjusted enterprise value as a multiple of calendar year 2005 projected EBITDAR analysis resulted in a range of multiples of 5.6x to 7.7x, with a median multiple of 6.9x. The current stock price as a multiple of estimated calendar year 2005 earnings per share analysis resulted in a range of multiples of 10.0x to 27.4x, with a median multiple of 15.8x. Based on its professional judgments and on its analysis of the forgoing multiples calculated for the comparable companies, including the median, high and low of such multiples and including qualitative judgments involving non-mathematical considerations, Banc of America Securities LLC determined the relevant ranges to be (1) 6.0x to 7.5x projected calendar year 2005 EBITDA, (2) 6.0x to 7.0x projected calendar year 2005 EBITDAR and (3) 11.0x to 16.5x projected calendar year 2005 earnings per share. For each relevant range, multiples listed in the above table that fell outside of such relevant range were excluded from the calculation of the range of implied per share equity values for Select set forth below. Banc of America Securities LLC excluded these multiples based on its professional judgment and its determination that certain factors (including industry-specific dynamics, business profile and prospects, size and profitability) which contributed to the disproportionately high multiples for certain companies in the table above were unique to such companies and, therefore, the inclusion of such multiples in the relevant ranges would have resulted in a distorted range of per share equity values for Select. Had these multiples not been excluded from the relevant range, the range of per share equity values for Select would have been greater than the range set forth below.

Banc of America Securities LLC applied the relevant multiple ranges set forth above to corresponding information for Select to calculate a range of implied per share equity values for Select. The financial information of Select used in this analysis included projected calendar year 2005 EBITDA, projected calendar year 2005 EBITDAR, and projected calendar year 2005 earnings per share, each based on information provided by Select s management. This analysis indicated an implied per share equity value reference range for Select of $14.50 $21.50.

No company used in this Comparable Public Company Analysis is identical to Select. Accordingly, an analysis of the foregoing results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading value of the companies to which Select is being compared.

Selected Precedent Transactions Analysis. Banc of America Securities LLC analyzed publicly available financial information relating to 9 precedent transactions involving companies in the healthcare industry with target companies that operate comparable business models to Select. The transactions reviewed were as follows:

Target	Acquiror	Date Announced	Enterprise Value/ Last 12 Months EBITDA
Province Healthcare Company	LifePoint Hospitals, Inc.	8/16/2004	12.6x
Vanguard Health Systems, Inc.	The Blackstone Group	7/23/2004	9.9x
National Nephrology Associates, Inc.	Renal Care Group, Inc.	2/2/2004	9.2x
IASIS Healthcare Corporation	Texas Pacific Group	5/5/2004	7.7x
Quorum Health Group, Inc.	Triad Hospitals, Inc.	10/19/2000	7.6x
AmeriPath, Inc.(a)	Welsh Carson, Anderson & Stowe	12/9/2002	7.5x
US Oncology, Inc.	Welsh Carson, Anderson & Stowe	3/22/2004	7.4x
Kessler Rehabilitation Corporation	Select Medical Corporation	6/30/2003	6.7x
Quintiles Transnational Corporation	Pharma Services Holding, Inc.	4/10/2003	5.6x

(a) Includes $65.1 million of certain existing contingent obligations to be assumed.

Using publicly available information, Banc of America Securities LLC calculated the enterprise value of each target company as a multiple of its last 12 months EBITDA prior to the announcement date of the applicable transaction. This resulted in a range of multiples of 5.6x to 12.6x, with a median multiple of 7.6x. Based on its professional judgments and on its analysis of the multiples calculated, including the median, high and low of such multiples and including qualitative judgments involving non-mathematical considerations, Banc of America Securities LLC determined the relevant ranges to be 6.5x to 8.0x. Banc of America Securities LLC then applied this relevant range to the estimated calendar year 2004 EBITDA of Select to calculate a range of implied per share equity values for Select. This analysis indicated an implied per share equity value reference range for Select of $15.50 $19.00. Multiples listed in the above table that fell outside of the relevant range were excluded from this calculation of the range of implied per share equity values for Select. Banc of America Securities LLC excluded these multiples based on its professional judgment and its determination that certain factors, including business profile and prospects, which contributed to the disproportionately high multiples for certain target companies in the table above were unique to such companies and, therefore, the inclusion of such multiples in the relevant ranges would have resulted in a distorted range of per share equity values for Select. Had these multiples not been excluded from the calculation, the range of per share equity values for Select would have been greater.

This Selected Precedent Transactions Analysis compared the merger to the 9 acquisitions of healthcare companies on the basis that the transactions selected were the most relevant. Consequently, Banc of America Securities LLC did not include every transaction that could be deemed to have occurred in the relevant industry.

No company or transaction used in this Selected Precedent Transactions Analysis is identical to Select or the merger. Accordingly, an analysis of the foregoing results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the value of the companies to which Select and the merger are being compared.

Discounted Cash Flow Analysis. Banc of America Securities LLC used financial cash flow projections for Select for calendar year 2005 through calendar year 2009, as estimated by the management of Select, to perform a discounted cash flow analysis. In conducting this analysis, Banc of America Securities LLC first calculated the present values of the forecasted cash flows. Second, Banc of America Securities LLC estimated the terminal value of Select at the end of calendar year 2009 by applying multiples to Select s projected calendar year 2009 EBITDA, which multiples ranged from 6.0x to 8.0x. Banc of America Securities LLC then discounted the cash flows and terminal values to present values using discount rates ranging from 11.0% to 13.0%. Banc of America Securities LLC selected the multiples and rates used in this analysis based on its professional judgment in relation to the nature, size, volatility and profitability of Select s business. This analysis indicated implied perpetual growth rates ranging from 3.2% to 7.0%. This analysis indicated an implied per share equity value reference range for Select of $16.25 $21.75.

Leveraged Buyout Analysis. Banc of America Securities LLC calculated the range of hypothetical purchase prices achievable by a third-party financial buyer in a leveraged buyout transaction. Banc of America Securities LLC estimated the implied equity value of Select at the end of calendar year 2009 by applying exit multiples to Select s projected calendar year 2009 EBITDA, which multiples ranged from 6.0x to 8.0x. Then, Banc of America Securities LLC calculated the implied price per share of Select common stock by applying target return requirements of 20% 25%. Banc of America Securities LLC assumed a maximum total debt to EBITDA multiple of 5.5x. This analysis indicated an implied per share equity value reference range for Select of $16.00 $19.00.

Leveraged buyout analyses are unique to specific points in time because they are subject to constantly changing financial market environments. The outcome of a leveraged buyout analysis may vary widely at various points in time as investors and lenders react to exogenous and endogenous factors impacting the financial markets and the applicable company.

As noted above, the discussion above is merely a summary of the analyses and examinations that Banc of America Securities LLC considered to be material to its opinion. It is not a comprehensive description of all analyses and examinations actually conducted by Banc of America Securities LLC. The preparation of a fairness opinion is not susceptible to partial analysis or summary description. Banc of America Securities LLC believes that its analyses and the summary above must be considered as a whole. Banc of America Securities LLC further believes that selecting portions of its analyses and the factors considered, without considering all analyses and factors, would create an incomplete view of the process underlying the analyses set forth in its presentation to the special committee and the board of directors of Select. Banc of America Securities LLC did not assign any specific weight to any of the analyses described above. The fact that any specific analysis has been referred to in the summary above is not meant to indicate that that analysis was given greater weight than any other analysis. Accordingly, the ranges of valuations resulting from any particular analysis described above should not be taken to be Banc of America Securities LLC s view of the actual value of Select.

In performing its analyses, Banc of America Securities LLC considered industry performance, general business and economic conditions and other matters, many of which are beyond the control of Select. The analyses performed by Banc of America Securities LLC are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than those suggested by these analyses. These analyses were prepared solely as part of Banc of America Securities LLC s analysis of the financial fairness of the merger consideration to be received by the unaffiliated stockholders in the merger and were provided to the special committee and the board of directors of Select in connection with the delivery of Banc of America Securities LLC s opinion. The analyses do not purport to be appraisals or to reflect the prices at which a company might actually be sold or the prices at which any securities may trade at any time in the future.

As described above, Banc of America Securities LLC s opinion and presentation to the special committee and the board of directors of Select were among the many factors taken into consideration by the special committee and the board of directors in making their determination to approve, and to recommend that Select stockholders approve, the merger agreement.

Select agreed to pay Banc of America Securities LLC a fee of $100,000 at the time the engagement letter was executed and a fee of $750,000 at the time Banc of America Securities LLC delivered its original opinion on October 17, 2004. In addition, Select agreed to pay Banc of America Securities LLC a transaction fee contingent on the completion of the merger in an amount equal to 0.38% of the aggregate value of the consideration to be paid in the merger (including assumed or funded debt) or approximately $8.9 million. The transaction fee will be reduced by the $100,000 fee paid at the time the engagement letter was executed and the $750,000 fee paid when the original opinion was delivered on October 17, 2004. The special committee and the board of directors were aware of this fee structure and took it into account in considering Banc of America Securities LLC s fairness opinion and in approving the merger. The engagement letter requires Select to reimburse Banc of America Securities LLC for its reasonable out-of-pocket expenses, and Select has agreed to indemnify Banc of America Securities LLC, its affiliates, and their respective partners, directors, officers, agents, consultants, employees and controlling persons against particular liabilities, including liabilities under the federal securities laws.

Banc of America Securities LLC or its affiliates have provided and may in the future provide financial advisory and financing services to Select and Welsh Carson and certain of their respective affiliates and portfolio companies, and Banc of America Securities LLC or its affiliates have received or may in the future receive fees for the rendering of these services. An affiliate of Banc of America Securities LLC serves as a lender under Select s credit facility, which is expected to be refinanced in connection with the merger, and has received fees for the rendering of such services. Certain affiliates of Banc of America Securities LLC also serve as agent and lender for certain Welsh Carson affiliates and portfolio companies and has received fees for the rendering of such services. In addition, certain affiliates of Banc of America Securities LLC are investors in Welsh Carson and certain funds affiliated with Welsh Carson. In the ordinary course of their businesses, Banc of America Securities LLC and its affiliates may actively trade the debt and equity securities or loans of Select and certain affiliates and portfolio companies of Welsh Carson and certain of its affiliates for their own account or for the accounts of customers, and accordingly, Banc of America Securities LLC or its affiliates may at any time hold long or short positions in such securities or loans.

Position of the Buying Group as to the Fairness of the Merger

Under the rules of the Securities and Exchange Commission, the members of the buying group are required to express their belief as to the fairness of the proposed merger to Select s stockholders who are unaffiliated with such investors. Each member of the buying group believes that the merger is both procedurally and substantively fair to such unaffiliated stockholders because, among other things:

the merger consideration of $18.00 per share was payable in cash and represented a substantial premium over the market price of common stock of Select before the public announcement of the execution of the merger agreement, namely, an approximately 26.6% premium over the stock market closing price of $14.22 per share on October 15, 2004 and an approximately 35.5% premium over the average stock market closing price of $13.28 per share for the 30 trading days preceding the public announcement of the execution of the merger agreement;

the $18.00 per share merger consideration and other terms and conditions of the merger agreement resulted from arm s-length negotiations between the special committee and Welsh Carson;

the ability of Select stockholders to recognize a significant cash value through the proceeds of the merger versus continued risk of operating as a stand-alone company, taking into account uncertainties regarding reimbursement by governmental programs and the unpredictability of future interest rates and stock market valuations, as well as the uncertainty of achieving management s projections, which risks and uncertainties will be borne by Holdings after the merger;

the merger consideration is all cash, thus eliminating any uncertainties in valuing the consideration to be received by the stockholders of Select;

the fact that the merger agreement permitted Select not only to solicit acquisition proposals from other possible buyers through November 5, 2004, but also permits Select to, even after November 5, 2004, provide information and participate in negotiations with respect to other possible buyers that have submitted acquisition proposals under certain circumstances described in the merger agreement and, in either such case, to terminate the merger agreement to accept a superior proposal;

Select issued a press release regarding the merger in which it publicly announced its ability to actively solicit other possible buyers through November 5, 2004 and to respond to unsolicited acquisition proposals from other possible buyers after November 5, 2004 if the special committee determines that the unsolicited acquisition proposals could lead to a superior proposal;

the buying group believes that the termination fee of $40.0 million (or less than 2% of the equity value and the enterprise value of the transaction) was lower than or comparable to most public company merger transactions, even considering the requirement that Select reimburse certain expenses incurred by Welsh Carson and its affiliates in connection with the transaction up to a maximum amount of $750,000, and would not necessarily deter another potential purchaser from considering a transaction with Select at a higher price;

the special committee consists solely of directors who are not officers or employees of Select and are independent of and have no economic interest or expectancy of an economic interest in Welsh Carson, Holdings or the surviving corporation;

the special committee conducted extensive negotiations with Welsh Carson and had the authority to reject the transactions proposed by Welsh Carson (these negotiations led to an increase in cash consideration to be received by the holders of Select common stock from between $16.50 and $17.25 to $18.00 per share);

the special committee s unanimous recommendation to the Select board of directors that the merger agreement and the merger be approved;

the fact that the non-employee directors of Select who are not affiliated with the buying group and who are not paid advisors to Welsh Carson unanimously agreed that it was in the best interests of the unaffiliated stockholders to proceed with the merger;

the buying group did not participate in or have any influence on the deliberative process of, or the conclusions reached by, the special committee or the negotiating positions of the special committee;

the transaction must be approved not only by the holders of a majority of shares of Select common stock but also by holders of a majority of the shares of Select common stock entitled to vote excluding Holdings, Acquisition Corp., Welsh Carson, their respective affiliates, their co-investors and the continuing investors; and

under Delaware law, the stockholders of Select have the right to demand an appraisal of the fair value of their shares.

Each member of the buying group believes that the merger is procedurally fair for all the reasons listed above, including as a result of the creation of the special committee, notwithstanding the fact that Select did not retain an unaffiliated representative to act on behalf of Select s unaffiliated stockholders. In this regard, each member of the buying group notes that our non-employee directors believe it was not necessary to appoint an additional representative unaffiliated with Select to act solely on behalf of the unaffiliated stockholders for purposes of negotiating the terms of the merger agreement or preparing a report concerning the fairness of the merger in light of the fact that the use of a special committee of this type is a well-recognized mechanism to achieve fairness in transactions such as the merger. See Recommendation of the Special Committee and the Board of Directors and Reasons for the Merger Reasons for the Special Committee s Determination.

In evaluating the fairness of the merger to Select s unaffiliated stockholders, the buying group did not consider net book value because they believe that net book value, which is an accounting concept, does not reflect, or have any meaningful impact on, the market trading prices for Select common stock. The buying group noted, however, that the merger consideration of $18.00 per share is significantly higher than $4.72, the net book value per share of Select common stock at September 30, 2004. The buying group did not consider liquidation value in determining the fairness of the merger to Select s unaffiliated stockholders because Select will continue to operate its businesses following completion of the merger and because of the buying group s belief that liquidation sales generally result in proceeds substantially less than sales of a going concern. The buying group did not establish going concern value for the Select common stock as a public company to determine the fairness of the merger consideration to the unaffiliated shareholders. None of the members of the buying group believe that there is a single method for determining going concern value and, therefore, did not base their valuation of Select on a concept that is subject to various interpretations. Further, the members of the buying group believed that, to the extent that Select s pre-merger going concern value was already reflected in the pre-announcement per share stock price of Select s common stock, such pre-merger going concern value undervalued Select in comparison to the offer prices being discussed in the merger negotiations, which from the outset reflected a premium to such pre-announcement stock price. The buying group did not consider the historical market prices of Select s common stock prior to May 12, 2004, the day after CMS announced a proposed regulatory change affecting reimbursement rates applicable to Select s long-term acute care hospitals that resulted in the adoption of the CMS Regulations on August 2, 2004, as a material factor because those prices do not reflect the effect of the CMS Regulations on Select and its business. In addition, the buying group did not consider any other firm offers made by any unaffiliated third parties with respect to a merger or consolidation, sale of assets or other sale of Select, as it was not aware of any such offers during the past 2 years. The buying group also did not assign any significance to recent purchases of Select common stock by members of the buying group described under Common Stock Purchase Information beginning on page 64 because the purchases were all made upon exercise of employee and director stock options or outstanding warrants.

The buying group did not receive any opinion, report or appraisal from an outside party that is materially related to the merger.

In addition, since the members of the buying group relied on their own analysis and conclusions in determining their belief as to the fairness of the proposed merger to Select s unaffiliated stockholders, they did not adopt the conclusions of the special committee or the board of directors of Select with respect to such fairness and accordingly, did not adopt the analysis or opinion of the special committee s financial advisor.

The buying group found it impracticable to assign, nor did they assign, relative weight to the individual factors considered in reaching its conclusion as to fairness. The foregoing discussion of the information and factors considered by the buying group as to the fairness of the merger is believed to include all of the material factors considered by the buying group.

The buying group s views as to the fairness of the merger to the unaffiliated stockholders should not be construed as a recommendation to any stockholder as to whether such stockholder should vote in favor of the merger agreement and the merger.

Many of the members of the buying group are directors and executive officers of Select and have an interest in the merger not shared by other stockholders of Select. These interests are described under Interests of Select Directors and Executive Officers in the Merger. Each member of the buying group that is a stockholder of Select has informed us that such person intends to vote in favor of the approval and adoption of the merger agreement and the merger, although they are under no obligation to do so.

Purpose and Structure of the Merger

The purpose of the merger for Select is to allow its stockholders to realize the value of their investment in Select in cash at a price that represents a premium to the stock market price of Select common stock before the public announcement of the merger. The special committee and the board of directors of Select believe, based upon the reasons discussed under Recommendation of the Special Committee and the Board of Directors and Reasons for the Merger, that the merger is advisable and procedurally and substantively fair to, and in the best interests of, the Select unaffiliated stockholders.

For the buying group, the purpose of the merger is to allow them to benefit from any future earnings and growth of Select after its common stock ceases to be publicly traded. One of the purposes of the merger for the buying group is to afford greater operating flexibility, allowing management to concentrate on long-term growth and to reduce its focus on the quarter-to-quarter performance often emphasized by the public markets. The merger is also intended to enable Select to use in its operations funds that would otherwise be expended in complying with certain requirements applicable to public companies. The members of the buying group, in deciding to engage in the merger, considered these factors as well as the projections for revenues and earnings prepared by Select s management described under the section entitled Certain Projections.

The transaction has been structured as a cash merger in order to provide the unaffiliated stockholders with cash for all of their shares and stock options and to provide a prompt and orderly transfer of ownership of Select with reduced transaction costs.

Effects of the Merger

If the merger is approved by the Select stockholders and the other conditions to the closing of the merger are either satisfied or waived, Acquisition Corp. will be merged with and into Select, with Select being the surviving corporation. After the merger, Holdings will own all of the capital stock of Select, and Holdings will be owned by Welsh Carson, its co-investors and the continuing investors.

When the merger is completed, each share of Select common stock issued and outstanding immediately prior to the effective time of the merger (other than treasury shares, shares held by Holdings or Acquisition Corp. and shares held by stockholders who validly exercise and perfect their appraisal rights) will be converted into the right to receive $18.00 in cash, without interest. Each outstanding option will be canceled in exchange for an amount in cash determined by multiplying (1) the excess of $18.00 over the per share exercise price of the option by (2) the number of shares of common stock subject to the option. The merger agreement requires the board of directors of Select or any committee administering the stock option plans to take all actions necessary to cause all outstanding stock options granted under the stock option plans to be cancelled as of the effective time of the merger.

At the effective time of the merger, current Select stockholders (other than certain of Welsh Carson s co-investors and the continuing investors) will cease to have ownership interests in Select or rights as Select stockholders. Therefore, such current unaffiliated stockholders will not participate in any future earnings or growth of Select and will not benefit from any appreciation in the value of Select.

Select common stock is currently registered under the Exchange Act and listed on the New York Stock Exchange under the symbol SEM. As a result of the merger, Select will be a privately-held corporation, and there will be no public market for its common stock. After the merger, the common stock will cease to be listed on the New York Stock Exchange, and price quotations with respect to sales of shares of common stock in the public market will no longer be available. In addition, registration of Select common stock under the Exchange Act will be terminated. This termination will make certain provisions of the Exchange Act, such as the requirement of furnishing a proxy or information statement in connection with stockholders meetings, no longer applicable to Select. After the effective time of the merger, Select also will no longer be required to file periodic reports with the Securities and Exchange Commission.

At the effective time of the merger, the directors of Acquisition Corp. will become the initial directors of the surviving corporation, and the officers of Select immediately prior to the effective time of the merger will become the initial officers of the surviving corporation. The certificate of incorporation of Select will be amended to be as set forth on an exhibit to the merger agreement. The bylaws of Select in effect immediately prior to the effective time of the merger will become the initial bylaws of the surviving corporation.

It is expected that, upon completion of the merger, the operations of Select will be conducted substantially as they are currently conducted, except that Select will not be subject to the obligations and constraints, and the related direct and indirect costs and personnel requirements, associated with being a public company. The buying group has advised Select that it does not have any present plans or proposals that relate to or would result in an extraordinary corporate transaction following completion of the merger involving Select s corporate structure, business or management, such as a merger, reorganization, liquidation, relocation of any operations or sale or transfer of a material amount of assets. Holdings and Acquisition Corp. expect, however, that, following the merger, Select s management and new controlling stockholders will continuously evaluate and review Select s business and operations and may develop new plans and proposals that they consider appropriate to maximize the value of Select.

A benefit of the merger to Welsh Carson, its co-investors and the continuing investors is that Select s future earnings and growth will be solely for their benefit and not for the benefit of its current stockholders. An additional benefit of the merger to Welsh Carson is that, at the closing of the merger, the surviving corporation will pay an affiliate of Welsh Carson a financing fee equal to $24.6 million, as agent for itself and certain other investors in Holdings, and will reimburse Welsh Carson and its affiliates for any expenses incurred by them in connection with the transactions contemplated by the merger agreement. The detriments to Welsh Carson, its co-investors and the continuing investors of the merger are the lack of liquidity for Holdings capital stock following the merger, the risk that Select will decrease in value following the merger, the incurrence by Select of up to $1,440.0 million of new long-term debt (in addition to the incurrence by Holdings of up to $150.0 million of new long-term debt to an affiliate of Welsh Carson) and the payment by Select of approximately $133.1 million in estimated fees and expenses related to the merger and the related transactions. See Merger Financing and Fees and Expenses of the Merger.

As described under Interests of Select Directors and Executive Officers in the Merger, certain of the continuing investors will receive benefits in connection with the merger to which they otherwise would not have been entitled. These incremental benefits include the right to continue their equity investment in Select by making an equity investment in Holdings, participation in a new restricted stock and option plan and a new cash incentive plan adopted by Holdings, the receipt of the payment required by the merger agreement for their existing options for Select common stock, the receipt of merger consideration for their Select common stock, continuing as executive officers of the surviving corporation, and executing employment agreements or management agreements with the surviving corporation. In addition, certain existing directors of Select who are not members of the special committee are expected to become directors of Holdings.

The benefit of the merger to our unaffiliated stockholders is the right to receive $18.00 per share for their shares of Select common stock. Our unaffiliated stockholders also will not bear the execution risks associated with Select s implementation of a revised business model designed to remain in compliance with the CMS Regulations. The detriments are that our stockholders, other than certain of Welsh Carson s co-investors and the continuing investors, will cease to participate in our future earnings and growth, if any, and that the receipt of the payment for their shares will be a taxable transaction for federal income tax purposes. See Material U.S. Federal Income Tax Consequences.

Prior to the merger, and excluding the shares contributed to Holdings by the continuing investors immediately prior to the merger, Welsh Carson, WCAS IX Associates, L.L.C., Holdings and Acquisition Corp. will have no interest in Select s net book value or net earnings. The following table sets forth for each member of the buying group, other than Holdings and Acquisition Corp., (1) such investor s interest in the stockholders equity (net book value) of Select at September 30, 2004, (2) such investor s interest in the net income of Select for the 9 months ended September 30, 2004 (in the case of (1) and (2), such investor s interest has been calculated to give pro forma effect to the exercise of all stock options (vested and unvested) that were outstanding on October 15, 2004) and (3) the percentage interest expected to be held by each such investor in the equity (and accordingly the net book value and net income) of Holdings (the sole stockholder of Select after the merger), without giving effect to option or restricted stock ownership, immediately following the merger.

Pro Forma Changes in Investors Interests in the Merger

(Dollars in thousands)

	Net Book Value at September 30, 2004 (1)		Net Income for Nine Months Ended September 30, 2004(2)		Percentage Interest in Net Book Value and Net Income Following the Merger(3)
	Percentage Interest(4)	Amount	Percentage Interest(4)	Amount	
Welsh Carson	0%	$ 0	0%	$ 0	72.3%
WCAS IX Associates, L.L.C.	0	0	0	0	0
Russell L. Carson	0.6	2,893	0.6	530	2.0
Bryan C. Cressey(5)	1.9	9,094	1.9	1,678	11.8
Rocco A. Ortenzio	10.0	48,311	10.0	8,830	4.0
Robert A. Ortenzio	6.8	32,816	6.8	6,004	4.0
Patricia A. Rice	1.1	5,332	1.1	980	0.2
Martin F. Jackson	0.8	3,941	0.8	706	0.2
S. Frank Fritsch	0.4	1,776	0.4	326	0.2
Michael E. Tarvin	0.3	1,414	0.3	256	*
James J. Talalai	0.3	1,311	0.3	238	*
Scott A. Romberger	0.2	744	0.2	132	*

* Less than 0.1%

(1) Total net book value of Select at September 30, 2004 was $481.1 million.

(2) Net income of Select for the 9 months ended September 30, 2004 was $88.3 million.

(3) Amounts represent interests in Holdings. Following the merger, Holdings will have substantially greater indebtedness than Select presently has and, therefore, lower stockholders equity and net income.

(4) Percentage interest gives pro forma effect to the exercise of all stock options (vested and unvested) that were outstanding on October 15, 2004.

(5) Mr. Cressey is a principal of the general partner of Thoma Cressey Fund VI, L.P. and certain of its affiliated funds. Mr. Cressey may be deemed to beneficially own the shares owned by each such fund. For purposes of this table, the percentage interest for Mr. Cressey is calculated taking into account such beneficial ownership.

Upon completion of the merger, unaffiliated stockholders will no longer hold any direct or indirect equity interest in Select and, therefore, will no longer own any interest in its net book value or net earnings.

Risks that the Merger Will Not Be Completed

Completion of the merger is subject to various risks, including, but not limited to, the following:

that the merger agreement and the merger will not be approved and adopted by (1) the holders of at least a majority of the outstanding shares of Select common stock entitled to vote and (2) the holders of at least a majority of the outstanding shares of Select common stock entitled to vote not held by

Holdings, Acquisition Corp., Welsh Carson, their respective affiliates, their co-investors and the continuing investors;

that Select will experience any event, change (including any changes or proposed changes in laws regarding payment or reimbursement by government payors, but excluding the CMS Regulations), condition, circumstance or state of facts that, either individually or in the aggregate has, or would reasonably be expected to have, a material adverse effect (as defined in the merger agreement) on Select;

that there will occur changes or proposed changes in laws (including any changes or proposed changes in laws regarding payment or reimbursement by government payors, but excluding the CMS Regulations) that, either individually or in the aggregate have, or would reasonably be expected to have, a material adverse effect on the business, financial condition, results of operations or prospects of Select;

that Holdings and Acquisition Corp. will not secure the financing necessary to complete the merger on substantially the terms and conditions set forth in the financing commitment letters already obtained, or other financing arrangements on terms which are in the aggregate no less favorable to Holdings, the surviving corporation and the stockholders of Holdings than the terms set forth in the financing commitment letters, as further described in Merger Financing;

that less than a majority of the aggregate principal amount of Select s 9 1/2% senior subordinated notes or its 7 1/2% senior subordinated notes will be tendered in accordance with the terms of Select s debt tender offers, or that the proposed amendments to the indentures governing such notes pursuant to the consent solicitations will not be adopted;

that the total number of shares held by stockholders who validly exercise and perfect their appraisal rights will exceed 8% of the issued and outstanding shares of Select common stock as immediately before the effective time of the merger;

that the parties will not have performed in all material respects their obligations contained in the merger agreement at or before the effective time of the merger;

that Select will not secure required governmental or third party consents to and authorizations for the merger; and

that the representations and warranties made by the parties in the merger agreement will not be true and correct to the extent required in the merger agreement immediately before the effective time of the merger.

As used in the merger agreement, a material adverse effect with respect to Select means (1) a material adverse effect on the business, operations, assets, liabilities, financial condition or results of operations of Select and its subsidiaries, taken as a whole, or (2) a material adverse effect on the ability of Select to perform its obligations under the merger agreement; provided, that material adverse effect will not be deemed to include any such material adverse effect arising as a result of (a) conditions, events or circumstances (other than any changes or proposed changes in laws, including changes or proposed changes in payment or reimbursement by government payors, but excluding CMS Regulations) affecting either (i) the U.S. economy generally or (ii) the industry of Select and its subsidiaries generally, which in each case does not have a materially disproportionate effect on Select and its subsidiaries, taken as a whole, (b) changes in generally accepted accounting principles or in Securities and Exchange Commission accounting rules, policies, practices or interpretations, (c) acts or omissions of Holdings or Acquisition Corp. prior to the effective time of the merger, (d) acts or omissions of Select or any of its subsidiaries taken at the request of Holdings or with the prior written consent of Holdings after the date of the merger agreement, (e) the effects of compliance with the merger agreement by Select or any of its subsidiaries, including the incurrence of expenses by Select or any of its subsidiaries in connection with the consummation of the transactions contemplated hereby, (f) acts or omissions of Holdings, Acquisition Corp., Select or its subsidiaries contemplated hereby that have an effect on Select or its subsidiaries, including any disruptions to the business of Select or any of its subsidiaries as a result of the execution, delivery and performance of the merger agreement or the announcement of the transactions contemplated hereby, (g) any outbreak or escalation of hostilities, any occurrence or threat of acts commonly referred to as terrorist attacks or any armed hostilities associated therewith and any national or international calamity or emergence or any escalation thereof, or (h) changes in the market price or trading volume of the shares of Select common stock (but not any change or effect underlying such decrease to the extent such change or effect would otherwise constitute a material adverse effect).

As a result of various risks to the completion of the merger, there can be no assurance that the merger will be completed even if the requisite stockholder approval is obtained. If Select stockholders do not approve and adopt the merger agreement and the merger or if the merger is not completed for any other reason, the current management of Select, under the direction of its board of directors, is expected to continue to manage Select as an ongoing business.

Interests of Select Directors and Executive Officers in the Merger

In considering the recommendations of the board of directors, Select stockholders should be aware that some of Select s executive officers and directors have interests in the transaction that are different from, or in addition to, the interests of Select stockholders generally. The special committee was aware of these differing interests and considered them, among other matters, in evaluating and negotiating the merger agreement and the merger and in recommending to the board of directors that the merger agreement and the merger be approved and adopted. The total amount payable to directors and executive officers of Select in connection with the merger in respect of shares of Select common stock (excluding any shares contributed to Holdings by the continuing investors immediately prior to the merger) and stock options is $189.7 million. The executive officers or directors of Select who are continuing investors will have the opportunity to invest in equity securities of Holdings on the same terms and conditions as Welsh Carson. Except for payments in accordance with the merger agreement for shares of, and options to acquire shares of, Select common stock owned by such persons, no other payments will be made to executive officers or directors of Select at the time of the merger.

The board of directors appointed the special committee, consisting solely of directors who are not officers or employees of Select and are independent of and have no economic interest or expectancy of an economic interest in Welsh Carson, Holdings or the surviving corporation, to evaluate, negotiate and make a recommendation with respect to the merger agreement and to evaluate whether the merger is in the best interests of the unaffiliated stockholders. The members of the special committee will receive cash payments totaling approximately $1.3 million for their stock options in the merger. These cash payments represent consideration for the cancellation of the stock options on the same terms as provided to other holders of stock options in the merger agreement. The members of the special committee will also receive cash payment for their shares in the merger. As members of the board of directors, the special committee members will also benefit from the indemnification, insurance and related provisions contained in the merger agreement with respect to their acts or omissions as directors. Whether the merger is completed or not, each member of the special committee will be paid $65,000 for such member s service on the special committee and will be reimbursed for out-of-pocket expenses incurred in connection with service on the special committee.

We expect the current executive officers of Select to remain as executive officers after the merger. Certain of the directors of Select, including Meyer Feldberg, Leopold Swergold and LeRoy S. Zimmerman, and the members of the special committee, James E. Dalton, Jr. and David S. Chernow, are not expected to remain as directors after the merger.

Interests of Select Directors in the Merger

Russell L. Carson. Russell L. Carson, a current director of Select, is a managing member of the general partner of Welsh Carson, a co-investor and a founder of Welsh, Carson, Anderson & Stowe. Mr. Carson is expected to join the board of directors of Holdings after the merger. Immediately prior to the merger, Mr. Carson is expected to contribute shares of Select common stock held by him to Holdings in exchange for the same equity securities purchased by Welsh Carson, its other co-investors and the continuing investors, and is expected to invest additional cash in Holdings, in each case, on the same terms and conditions as Welsh Carson, its other co-investors and the other continuing investors. Excluding the direct investment to be made by Welsh Carson, the aggregate investment in Holdings by Mr. Carson is expected to be approximately $14.6 million (which, at the time that the merger is completed, is expected to be approximately 2% of the full equity capitalization of Holdings, as compared to his 0.7% current ownership of Select). In addition, as described below, stock options held by Mr. Carson will be cancelled in exchange for the same consideration received by the other option holders in an aggregate amount equal to $59,700.

Bryan C. Cressey. Bryan C. Cressey, a current director of Select, is a principal of Thoma Cressey Equity Partners. Mr. Cressey is expected to join the board of directors of Holdings after the merger. Mr. Cressey and Thoma Cressey Fund VI, L.P., a fund affiliated with Thoma Cressey Equity Partners, and certain of its affiliates are continuing investors who, immediately prior to the merger, will contribute shares of Select common stock held by them to Holdings in exchange for the same equity securities of Holdings purchased by Welsh Carson, its co-investors and the other continuing investors, in each case, on the same terms and conditions as Welsh Carson, its co-investors and the other continuing investors. In addition, Thoma Cressey Fund VI, L.P. is expected to invest additional cash in such equity securities of Holdings. The aggregate investment in Holdings by Thoma Cressey Fund VI, L.P. and its affiliates is expected to be approximately $89.8 million (which, at the time that the merger is completed, is expected to be approximately 11% of the full equity capitalization of Holdings as compared to its 2.1% current ownership of Select). In addition, as described below, stock options held by Mr. Cressey will be cancelled in exchange for the same consideration received by the other option holders in an aggregate amount equal to $69,700. Mr. Cressey s shares of stock, to the extent not contributed to Holdings, will be exchanged for $18.00 per share in the merger for an aggregate $1,800,324.

Meyer Feldberg. Meyer Feldberg, a current director of Select, will contribute shares of Select common stock held by him to Holdings in exchange for the same equity securities of Holdings purchased by Welsh Carson, its co-investors and the other continuing investors, in each case, on the same terms and conditions as Welsh Carson, its co-investors and the other continuing investors. Mr. Feldberg is a member of the board of advisors for Welsh Carson and certain other affiliated investment funds. Mr. Feldberg is paid by Welsh Carson for his services on such board. In addition, as described below, stock options held by Mr. Feldberg will be cancelled in exchange for the same consideration received by the other option holders in an aggregate amount equal to $515,883.

Thomas A. Scully. Thomas A. Scully is a senior advisor to Welsh Carson and its affiliated investment funds and is a member of the board of directors of various Welsh Carson portfolio companies. Mr. Scully is paid by Welsh Carson for such services. Mr. Scully may invest a portion of the funds he receives in connection with the merger in Holdings on the same terms and conditions as Welsh Carson, its co-investors and the continuing investors. Mr. Scully will receive cash for shares of common stock held by Mr. Scully on the closing date in an aggregate amount of $28,800. As described below, stock options held by Mr. Scully will be cancelled in exchange for the same consideration received by the option holders in an aggregate amount equal to $518,400.

Rocco A. Ortenzio and Robert A. Ortenzio. Rocco A. Ortenzio, Select s Executive Chairman and the chairman of its board of directors, Robert A. Ortenzio, Select s Chief Executive Officer and a member of its board of directors, and various members of the Ortenzio family and entities controlled by one or more Ortenzios will each be a continuing investor. Rocco A. Ortenzio and Robert A. Ortenzio are expected to join the board of directors of Holdings after the merger. Together with other continuing investors, Rocco A. Ortenzio, Robert A. Ortenzio, and various members of the Ortenzio family and entities controlled by one or more Ortenzios immediately prior to the merger, will contribute shares of Select common stock held by them to Holdings in exchange for the same equity securities of Holdings purchased by Welsh Carson, its co-investors and the other continuing investors, in each case, on the same terms and conditions as Welsh Carson, its co-investors and the other continuing investors. In addition, Rocco A. Ortenzio and Robert A. Ortenzio, similar to the other executive officers of Select, will participate in equity incentive plans of Holdings, will receive cash for shares of Select common stock not contributed to Holdings, will receive cash for stock options, and will remain as executive officers of the surviving corporation with employment agreements, all as described below. The aggregate amount that Rocco A. Ortenzio will receive in exchange for the shares of Select common stock not contributed to Holdings and for stock options is equal to approximately $96.3 million. The aggregate amount that Robert A. Ortenzio will receive in exchange for the shares not contributed to Holdings and for stock options is equal to approximately $49.6 million. The aggregate equity investment in Holdings by Rocco A. Ortenzio is expected to be approximately $32.4 million (which, at the time that the merger is completed, is expected to be approximately 4% of the full equity capitalization of Holdings as compared to his 4.7% current ownership of Select). In addition, Rocco A. Ortenzio will receive a warrant for 2% of the common stock of Holdings at an exercise price equal to the fair market value of the common stock of Holdings on the closing date. The aggregate equity investment in Holdings by Robert A. Ortenzio is expected to be approximately $30.6 (which, at the time the merger is completed, is expected to be approximately 4% of the full equity capitalization of Holdings as compared to his 2.1% current ownership of Select). We also expect that Rocco A. Ortenzio, Robert A. Ortenzio, and various members of the Ortenzio family and entities controlled by one or more Ortenzios will purchase up to $12.0 million of senior subordinated notes to be purchased by WCAS Capital Partners IV, L.P. and described under Special Factors Merger Financing Other Debt Commitments, on the same terms and conditions as WCAS Capital Partners IV, L.P.

Interests of Select Executive Officers in the Merger

Equity Investment. In addition to the directors referred to above, Holdings expects that each of Patricia A. Rice, Select s President and Chief Operating Officer, Martin F. Jackson, Select s Chief Financial Officer, S. Frank Fritsch, Select s Senior Vice President, Human Resources, Michael E. Tarvin, Select s Senior Vice President, General Counsel and Secretary, James J. Talalai, Select s Senior Vice President and Chief Information Officer, and Scott A. Romberger, Select s Vice President, Controller and Chief Accounting Officer will be a continuing investor and, immediately prior to the merger, will contribute shares of Select common stock held by them to Holdings in exchange for the same equity securities of Holdings to be purchased by Welsh Carson, its co-investors and the other continuing investors and may invest additional cash in Holdings, in each case on the same terms and conditions as Welsh Carson, its co-investors and the other continuing investors. The aggregate investment in Holdings by Mrs. Rice is expected to be approximately $1.8 million (which, at the time that the merger is completed, is expected to be less than 1% of the full equity capitalization of Holdings, as compared to her less than 1% current ownership of Select). The aggregate investment in Holdings by Mr. Jackson is expected to be approximately $1.8 million (which, at the time that the merger is completed, is expected to be less than 1% of the full equity capitalization of Holdings compared to his less than 1% current ownership of Select). The aggregate investment by Mr. Fritsch is expected to be approximately $1.6 million (which, at the time the merger is completed, is expected to be less than 1% of the full equity capitalization of Holdings, compared to his less than 1% current ownership of Select). The aggregate investment in Holdings by Mr. Tarvin is expected to be approximately $0.3 million (which, at the time that the merger is completed, is expected to be less than 1% of the full equity capitalization of Holdings, as compared to his less than 1% current ownership of Select). The aggregate investment of Mr. Talalai is expected to be approximately $0.3 million (which, at the time that the merger is completed, is expected to be less than 1% of the full equity capitalization of Holdings, as compared to his less than 1% current ownership of Select). The aggregate investment by Mr. Romberger is expected to be approximately $0.1 million (which, at the time that the merger is completed, is expected to be less than 1% of the full equity capitalization of Holdings, as compared to his less than 1% current ownership of Select). In addition, David W. Cross, Select s Senior Vice President and Chief Development Officer, may invest $300,000 in cash in Holdings on the same terms and conditions as Welsh Carson, its co-investors and the continuing investors. Also, in consideration for the cancellation of their existing stock options in connection with the merger, Mrs. Rice will receive $8,093,439, Mr. Jackson will receive $7,613,502, Mr. Fritsch will receive $2,781,888, Mr. Tarvin will receive $2,815,219, Mr. Talalai will receive $2,659,285, Mr. Romberger will receive $774,496, and Mr. Cross will receive $6,534,061.

Employee Plans. In connection with the merger, Holdings will adopt an equity incentive plan providing for the grant of restricted stock and stock options. The aggregate amount of shares of restricted stock issuable under that plan is expected to be approximately 20% of the fully-diluted common stock of Holdings upon completion of the merger (which, at that time, is expected to be approximately 6% of the full equity capitalization of Holdings). Rocco A. Ortenzio is expected to receive 25% of the restricted stock issuable pursuant to this plan, and Robert A. Ortenzio is expected to receive 35% of the restricted stock issuable pursuant to this plan. The aggregate amount of shares of common stock available for issuance pursuant to options granted under the plan is expected to be approximately 15% of the fully-diluted common stock of Holdings upon completion of the merger, of which, not more than one percentage point (which, at the time the merger is completed, is expected to be less than 1% of the full equity capitalization of Holdings) may be issued until Holdings completes an initial public offering in which the aggregate proceeds to it are at least $100.0 million. Depending on the future results of Holdings, the value of the common equity received under the restricted stock and option plan may increase over time as a percentage of the full equity capitalization of Holdings. Other of Select s executive officers, including some of the continuing investors, are expected to receive awards of restricted stock and/or options under this plan upon completion of the merger. The timing and amounts of such awards, as well as the specific recipients of such awards, will be determined by the compensation committee of the board of directors of Holdings following the merger based on such criteria as it may determine. In addition, management will be entitled to participate in a long-term cash incentive plan to the extent Select exceeds targeted returns on invested equity as of a liquidity event, such as a sale of Select or an initial public offering by Holdings of its stock within a specified number of years.

Executive Officers of the Surviving Corporation. The members of the current management of Select are expected to remain as members of management of the surviving corporation under new employment agreements or arrangements. The executive officers of Select are expected to remain executive officers of the surviving corporation following completion of the merger.

Employment Agreements with the Surviving Corporation. Each of Rocco A. Ortenzio, Robert A. Ortenzio, Patricia A. Rice, David W. Cross, S. Frank Fritsch, Michael E. Tarvin and Scott A. Romberger, each an executive officer of Select, currently has an employment agreement or management agreement with Select. Upon completion of the merger, those officers are expected to enter into new employment agreements or management agreements with substantially the same terms and provisions as the previous agreements, including salaries, entitlement to annual bonuses and noncompetition provisions, except that the agreements for members of management who are continuing investors will contain acknowledgements that the merger would not trigger any change of control payments under their existing agreements. We also expect that certain other executive officers of Select will enter into employment agreements upon completion of the merger on substantially similar terms.

Payments to the Executive Officers of Select. Each executive officer who does not remain a member of management of the surviving corporation may be entitled to a lump sum cash payment equal to the aggregate amount of his or her base salary and bonus for the previous 3 years if the officer is no longer employed by Select within a specified period of time after the merger under certain circumstances. Each of the executive officers of Select has an agreement with Select with such a change of control provision. Each of these executive officers has agreed or, is expected to agree prior to closing, that the merger will not be considered a change of control for purposes of their employment agreement or change of control agreement, as the case may be. All of the executive officers of Select are expected to remain as executive officers of the surviving corporation; therefore, no executive officer will be entitled to receive a change of control payment under their current employment agreements or change of control agreements as a result of the closing of the merger, whether he or she leaves Select voluntarily or is terminated.

Payments Under the Merger Agreement

Pursuant to the merger agreement, Select s directors and executive officers will receive an aggregate of $189.7 million for their shares of Select common stock not contributed to Holdings and options to purchase Select common stock. The table below sets forth, as of January 1, 2005, for each of Select s executive officers and directors, (1) the number of shares currently held (excluding any shares held by continuing investors which will be contributed to Holdings immediately prior to the merger), (2) the amount of cash that will be paid in respect to such shares upon consummation of the merger, (3) the number of shares subject to the options held by such person, whether or not vested (4) the amount of cash that will be paid in respect of cancellation of such options upon consummation of the merger, and (5) the total amount of cash that will be received by each such person in respect of such shares and options upon consummation of the merger. All dollar amounts are gross amounts and do not reflect deductions for income taxes and other withholding. In each case with respect to the options, the payment amount is calculated by multiplying (a) the excess of $18.00 over the per share exercise price of the option by (b) the number of shares subject to the option. The merger agreement requires the board of directors of Select or any committee administering the stock option plans to take all actions necessary to cause all outstanding stock options granted under the stock option plans to be cancelled as of the effective time of the merger.

	Common Stock Owned as of January 1, 2005		Options Owned as of January 1, 2005		
Name	**Shares(a)**	**Consideration**	**Shares(b)**	**Consideration**	**Total Consideration**
Members of the Special Committee:					
James E. Dalton, Jr.	0	$ 0.00	70,800	$ 715,552.00	$ 715,552.00
David S. Chernow(c)	17,040	$ 306,720.00	62,800	$ 593,456.00	$ 900,176.00
Other Non-Employee Directors:					
Russell L. Carson	0	$ 0.00	20,000	$ 59,700.00	$ 59,700.00
Bryan C. Cressey	100,018	$ 1,800,324.00	24,000	$ 69,700.00	$ 1,870,024.00
Meyer Feldberg	0	$ 0.00	48,480	$ 515,883.20	$ 515,883.20
Leopold Swergold(d)	207,538	$ 3,735,684.00	70,800	$ 696,256.00	$ 4,431,940.00
Thomas A. Scully	1,600	$ 28,800.00	28,800	$ 518,400.00	$ 547,200.00
LeRoy S. Zimmerman	16,358	$ 294,444.00	20,000	$ 138,200.00	$ 432,644.00
Executive Officers:					
Rocco A. Ortenzio(e)	2,991,291	$ 53,843,238.00	7,778,000	$ 42,459,260.00	$ 96,302,498.00
Robert A. Ortenzio(f)	459,284	$ 8,267,112.00	6,180,000	$ 41,381,700.00	$ 49,648,812.00
Patricia A. Rice(g)	101,000	$ 1,818,000.00	1,168,602	$ 8,093,439.08	$ 9,911,439.08
Martin F. Jackson	0	$ 0.00	911,378	$ 7,613,502.00	$ 7,613,502.00
S. Frank Fritsch	0	$ 0.00	368,726	$ 2,781,887.80	$ 2,781,887.80
David W. Cross	0	$ 0.00	516,662	$ 6,534,060.90	$ 6,534,060.90
Scott A. Romberger	90,802	$ 1,634,436.00	91,520	$ 774,495.52	$ 2,408,931.52
James J. Talalai	0	$ 0.00	322,520	$ 2,659,284.64	$ 2,659,284.64
Michael E. Tarvin	0	$ 0.00	359,728	$ 2,815,219.12	$ 2,815,219.12
All directors and officers as a group (17 persons)(h)	3,957,451	$ 71,234,118.00	18,042,816	$ 118,419,996.26	$ 189,654,114.26

(a) Excludes an aggregate 722,960 shares of common stock held by Russell L. Carson, an aggregate 2,211,870 shares of common stock held by Thoma Cressey Fund VI, L.P. and its affiliates (including 113,274 shares of common stock held by Bryan C. Cressey), an aggregate 1,800,000 shares of common stock held by Rocco A. Ortenzio, an aggregate 1,700,000 shares of common stock held by Robert A.

Ortenzio, an aggregate 14,320 shares of common stock held by Meyer Feldberg, an aggregate 100,000 shares of common stock held by Patricia A. Rice, an aggregate 101,000 shares of common stock held by Martin F. Jackson, an aggregate 87,546 shares of common stock held by S. Frank Fritsch, an aggregate 3,524 shares of common stock held by Michael E. Tarvin, an aggregate 14,324 shares of common stock held by James J. Talalai, and an aggregate 8,000 shares of common stock held by Scott A. Romberger. All such shares will be contributed to Holdings in exchange for equity securities of Holdings immediately prior to the merger. If these common shares were converted into the merger consideration instead of being so contributed, the cash payment in respect of such shares would be equal to $13,013,280 for shares held by Russell L. Carson, $39,813,660 for shares held by Thoma Cressey Fund IV, L.P. and its affiliates, $257,760 for shares held by Meyer Feldberg, $32,400,000 for shares held by Rocco A. Ortenzio, $30,600,000 for shares held by Robert A. Ortenzio, $1,800,000 for shares held by Patricia A. Rice, $1,818,000 for shares held by Martin F. Jackson, $1,575,828 for shares held by S. Frank Fritsch, $63,432 for shares held by Michael E. Tarvin, $257,832 for shares held by James J. Talalai, and $144,000 for shares held by Scott A. Romberger. See also Security Ownership of Certain Beneficial Owners and Management on page 95.

(b) This column reflects all vested and unvested stock options for the individuals in the table as of January 1, 2005. The merger agreement requires the board of directors of Select or any committee administering the stock option plans to take all actions necessary to cause all outstanding stock options granted under the stock option plans to be cancelled as of the effective time of the merger. All dollar amounts are gross amounts and do not reflect deductions for income taxes and other withholding. In each case with respect to the options, the payment amount is calculated by multiplying (a) the excess of $18.00 over the per share exercise price of the option by (b) the number of shares subject to the option.

(c) Includes 15,040 shares held by David S. Chernow and Elizabeth A. Chernow as tenants in common.

(d) Common shares held include 100,004 shares owned by Anvers, L.P. and 40,000 shares owned by Anvers II, L.P. Mr. Swergold is the senior managing director of FSIP, LLC, which is the general partner of Anvers, L.P. and Anvers II, L.P., Mr. Swergold disclaims beneficial ownership of any shares held by Anvers, L.P. and Anvers II, L.P. that exceed his pecuniary interest therein. Also includes 3,770 shares held by Jane Swergold, spouse of Leopold Swergold. Includes 8,000 shares held by the Swergold Family Foundation.

(e) Includes 866 shares owned by Select Investments I, a Pennsylvania general partnership. Rocco A. Ortenzio is the managing partner and a 25% owner of Select Investments I. Rocco A. Ortenzio disclaims beneficial ownership of any shares held by Select Investments I that exceed his pecuniary interest therein. Includes 27,480 common shares owned by Select Capital Corporation, of which Rocco A. Ortenzio is a 25% owner, Director and Chief Executive Officer. Rocco A. Ortenzio disclaims beneficial ownership of any shares held by Select Capital Corporation that exceed his pecuniary interest therein. Includes 11,002 shares owned by the R.A. Ortenzio Family Partnership, L.P., of which Rocco A. Ortenzio is a general partner. Rocco A. Ortenzio disclaims beneficial ownership of any shares owned by the R.A. Ortenzio Family Partnership that exceed his pecuniary interest therein. Includes 380,386 shares held by the Ortenzio Family Foundation. Also includes 10,400 shares held by Nancy Ortenzio, spouse of Rocco A. Ortenzio. Rocco A. Ortenzio s business address is 4716 Old Gettysburg Road, P.O. Box 2034, Mechanicsburg, PA 17055.

(f) Includes 78,338 shares owned by the Ortenzio Family Partnership, L.P., of which Robert A. Ortenzio is the general partner. Includes 27,480 shares owned by Select Capital Corporation, of which Robert A. Ortenzio is a 25% owner, Director and President. Robert A. Ortenzio disclaims beneficial ownership of any shares held by Select Capital Corporation that exceed his pecuniary interest therein. Includes 153,466 shares owned by the Robert and Angela Ortenzio Family Foundation. Also includes 200,000 shares owned by The Robert A. Ortenzio GRAT.

(g) Includes 101,000 common shares issued to Patricia A. Rice and Jesse W. Rice as Trustees under the Patricia Ann Rice Living Trust.

(h) The 27,480 shares owned by Select Capital Corporation regarding which both Rocco A. Ortenzio and Robert A. Ortenzio are attributed beneficial ownership on the table above are only included once for purposes of this calculation.

As of the record date, directors and executive officers of Select beneficially owned 3,957,451 shares (representing 3.9% of shares outstanding as of such date), not including shares that will be contributed to Holdings in exchange for equity securities of Holdings immediately prior to the merger or shares that may be acquired upon the exercise of stock options. Stockholders should note that, in addition to an affirmative vote by holders of a majority of outstanding shares of Select, approval of the merger requires an affirmative vote by holders of a majority of shares other than shares owned by Holdings, Acquisition Corp., Welsh Carson, their respective affiliates, their co-investors and the continuing investors. As a result, 12,917,403 of the shares beneficially held by these directors and executive officers who are continuing investors and the co-investors and other continuing investors will not be counted for purposes of determining whether the merger has been approved by the unaffiliated stockholders.

Directors and Officers Indemnification and Insurance

The merger agreement provides that, in the event of any threatened or actual claim, action, suit, proceeding or investigation, whether civil, criminal or administrative, including any of the foregoing in which any current or former director, officer, employee or agent of Select or any of its subsidiaries is, or is threatened to be, made a party based, in whole or in part, out of the fact that such person was a director, officer, employee or agent, or the transactions contemplated by the merger agreement, Holdings and the surviving corporation will jointly and severally indemnify and hold harmless such persons to the fullest extent permitted by law.

The merger agreement also provides that all rights of indemnification and exculpation from liability for acts and omissions occurring at or prior to the effective time of the merger (including the advancement of funds for expenses) of the current and former directors, officers, employees and agents of Select and its subsidiaries, as provided in their respective charters, bylaws or indemnification agreements, will survive the merger and for 6 years after the effective time of the merger may not be amended, repealed or modified in any manner that would adversely affect such rights, unless otherwise required by law or with the consent of each affected party.

For 6 years after the effective time of the merger, the parties have agreed that the surviving corporation will maintain officers and directors insurance for acts and omissions occurring at or prior to the effective time of the merger and covering those persons who are currently covered by Select s existing officers and directors insurance policies, on terms no less advantageous to the covered parties than Select s currently existing insurance coverage. However, the surviving corporation is not required to pay an annual premium in excess of 300% of Select s currently existing annual premium, and if the provision of existing insurance expires or is terminated during the 6 year period, the parties have agreed that the surviving corporation will use reasonable best efforts to obtain the greatest amount of coverage for the remainder of the period for a premium on an annualized basis of not more than 300% of the current annual premium.

If Holdings, the surviving corporation or any of their successors or assigns (1) consolidates with or merges into any other entity and is not the continuing or surviving entity or (2) transfers all or substantially all of its properties and assets to any entity, Holdings and the surviving corporation will cause the surviving transferee entity to assume the indemnification and insurance obligations discussed above.

Merger Financing

The total amount of funds necessary to complete the merger and the related transactions is anticipated to be approximately $2,310.0 million, consisting of (1) approximately $1,826.9 million to pay Select s stockholders (other than Holdings and Acquisition Corp., and other than shares that will be contributed to Holdings by the co-investors and the continuing investors prior to the merger in return for equity interests in Holdings) and option holders the amounts due to them under the merger agreement, assuming that no Select stockholder validly exercises and perfects his, her or its appraisal rights, (2) approximately $350.0 million to refinance existing indebtedness of Select (assuming the holders of all of Select s existing 9 1/2% senior subordinated notes and 7 1/2% senior subordinated notes tender their notes in the debt tender offers contemplated by the merger agreement), which amount is exclusive of any debt tender premium, and (3) approximately $133.1 million to pay related fees and expenses in connection with the merger, the financing arrangements and the transactions described in this paragraph, including the premium paid in connection with the tender for the senior subordinated notes.

These funds are anticipated to come from the following sources:

- a cash equity investment by Welsh Carson, its co-investors and certain of the continuing investors of up to $610.0 million in Holdings;

- the issuance by Holdings of a senior subordinated note with a principal amount of up to $150.0 million to an affiliate of Welsh Carson;

- borrowings by the surviving corporation of $780.0 million of term and revolving loans under a $880.0 million senior secured credit facility to be provided by lenders pursuant to a syndication managed by J.P. Morgan Securities, Inc., which is referred to as JP Morgan in this proxy statement, and for which JP Morgan and Wachovia Capital Markets, LLC, which is referred to as Wachovia in this proxy statement, will act as joint lead arrangers and bookrunners and Merrill Lynch, Pierce, Fenner & Smith Incorporated, which is referred to as Merrill Lynch in this proxy statement, will act as an arranger;

- the issuance by Acquisition Corp. of up to $660.0 million of senior subordinated notes in a public offering or Rule 144A or other private offering, and if and to the extent such offering of notes cannot be completed prior to the closing of the merger, borrowings by the surviving corporation of senior subordinated loans under a bridge loan facility to be provided by lenders pursuant to a syndication to be managed by Merrill Lynch, and for which Merrill Lynch, JP Morgan and Wachovia will act as joint arrangers and joint bookrunners. The total principal amount of senior subordinated notes and loans under the bridge loan facility will be reduced if and to the extent that (1) the sum of (a) the aggregate principal amount of Select s existing 9 1/2% senior subordinated notes and 7 1/2% senior subordinated notes not tendered in the debt tender offers contemplated by the merger agreement and (b) the amount of the tender premium offered in the debt tender offers and accrued but unpaid interest in respect of the untendered notes, exceeds (2) $10.0 million; and

- excess cash on hand of Select.

Holdings Equity Commitments

Holdings has received a commitment letter from Welsh Carson, pursuant to which Welsh Carson has committed, subject to the terms and conditions set forth in such commitment letter, to provide Holdings with up to an aggregate of $567.2 million in cash in exchange for stock of Holdings. In addition, certain co-investors of Welsh Carson, including Russell L. Carson, a member of the board of directors of Select, are expected to contribute approximately 2.0 million shares of Select common stock to Holdings immediately prior to the merger in exchange for stock of Holdings. In the event that such co-investors contribute less than 2.0 million shares of Select common stock to Holdings, Welsh Carson has agreed to increase its equity investment in Holdings by an amount equal to the product of (1) 2.0 million less the number of shares actually contributed to Holdings by such co-investors, and (2) $18.00. Welsh Carson may assign to certain of its limited partners a portion of its right to purchase equity interests in Holdings. Holdings has also received a commitment letter from Thoma Cressey Fund VI, L.P., pursuant to which Thoma Cressey Fund VI, L.P. has committed, subject to the terms and conditions set forth in such commitment letter, to provide Holdings with up to an aggregate of $50.0 million in cash in exchange for stock of Holdings. Thoma Cressey Fund VI, L.P. may assign to certain of its limited partners a portion of its right to purchase equity interests in Holdings. In addition, Holdings has agreements with the continuing investors, whereby the continuing investors are expected to contribute an aggregate of 6,373,584 shares of Select common stock to Holdings in return for equity interests in Holdings. Based on a valuation of $18.00 per share of Select common stock, the aggregate equity investment in Holdings is expected to be up to $761.9 million as of the effective time of the merger.

The equity commitment letter from Welsh Carson also provides that, at the closing, the surviving corporation will pay an affiliate of Welsh Carson, as agent for such Welsh Carson affiliate and certain other investors in Holdings, a financing fee equal to $24.6 million and will reimburse Welsh Carson and its affiliates for any expenses incurred by them in connection with the transactions contemplated by the merger agreement.

The equity investors in Holdings each will acquire preferred and common stock of Holdings. Approximately 80% of the amount invested by each investor will be used to acquire preferred stock, and approximately 20% will be used to acquire common stock. The material terms of the preferred and common stock of Holdings are set forth below.

Preferred Stock. The Holdings preferred stock will rank senior to the Holdings common stock as to dividends and rights to payment upon liquidation or a change of control transaction and will participate with the common stock in such payments and other corporate events to the extent of approximately 10% of the fully-diluted common equity of Holdings outstanding immediately after the merger. The Holdings preferred stock also will be entitled to receive cumulative dividends on a non-cash accrual basis at a rate equal to 5% per annum, compounded quarterly, on the stated value thereof. The Holdings preferred stock has no fixed redemption date, but Holdings will be required to redeem the preferred stock, together with all accrued and unpaid dividends thereon, upon a change of control transaction. In addition, upon the consummation of a qualified public offering of Holdings common stock, each share of Holdings preferred stock will be automatically converted into Holdings common stock through the issuance of an equivalent value of Holdings common stock determined by reference to the public offering price and a fixed conversion ratio for shares of common stock issuable in respect of the participation feature of the Holdings preferred stock. All shares of Holdings preferred stock that are automatically converted into Holdings common stock upon a qualified public offering, other than those shares issued in respect of the participation feature of the Holdings preferred stock, will be redeemed to the extent of available cash at a redemption price equal to the public offering price of the Holdings common stock in such offering.

The Holdings preferred stock will vote together with the Holdings common stock, other than in connection with the election or removal of directors, with each share of Holdings preferred stock having voting rights equivalent to one (subject to appropriate adjustment in the event of any stock split or similar event affecting the Holdings common stock) share of Holdings common stock issuable in respect of the participation right of the Holdings preferred stock. In addition, the Holdings preferred stock, voting as a separate class, will be entitled to elect 2 directors to the Holdings board of directors.

For so long as any shares of Holdings preferred stock remain outstanding, the consent of the holders of not less than 66 2/3% of the Holdings preferred stock will be required for any action that alters or changes the rights, preferences or privileges of the Holdings preferred stock. In addition, consent of the holders of at least a majority of the Holdings preferred stock will be required for any action that increases or decreases the authorized number of shares of Holdings preferred stock otherwise adversely affects the rights or preferences of the holders of the Holdings preferred stock.

Common Stock. The Holdings common stock will rank junior to the Holdings preferred stock as to dividends and rights to payment upon liquidation, except with respect to the participation feature of the Holdings preferred stock, which will rank on an equal basis with the Holdings common stock. The Holdings common stock will be entitled to receive dividends as from time to time may be declared by the board of directors of Holdings, but dividends cannot be paid on the Holdings common stock without the consent of holders of a majority of the Holdings preferred stock. Upon any liquidation, dissolution or winding up of Holdings, after the payment of or provision for all debts and liabilities of Holdings and the preferential amounts payable to the holders of the Holdings preferred stock, the holders of the Holdings common stock will be entitled to share ratably, together with the holders of the Holdings preferred stock to the extent of the participation feature of the Holdings preferred stock, in the remaining assets of Holdings available for distribution to the Holdings stockholders. With respect to any matter to be voted on by the stockholders of Holdings (other than the election of the 2 directors to be elected separately by the Holdings preferred stock), the holders of the Holdings common stock will be entitled to 1 vote for each share of Holdings common stock held by them.

Senior Secured Credit Facilities

Holdings has received a commitment letter pursuant to which JPMorgan Chase Bank, Wachovia Bank, National Association and Merrill Lynch Capital Corporation, which are referred to as the Agents in this proxy statement, will provide the surviving corporation with up to $880.0 million in senior secured credit facilities, consisting of a $580.0 million term loan and a $300.0 million revolving credit facility. Up to $580.0 million of the term loan and up to $200.0 million of the revolving credit facility may be used to fund a portion of the merger consideration, to refinance existing indebtedness of Select (including the funding of the debt tender offers for Select s existing 9 1/2% senior subordinated notes and 7 1/2% senior subordinated notes contemplated by the merger agreement) and to pay related fees and expenses. As a result of the merger, Acquisition Corp. will be merged with and into Select, and Select, as the surviving corporation, will be the borrower under the senior secured credit facilities. All obligations of Select under the senior credit facilities will be guaranteed by Holdings and each existing and subsequently acquired or organized domestic subsidiary of Select, subject to certain exceptions. The senior credit facilities will be secured by substantially all the assets of Holdings, Select and any existing or subsequently acquired or organized domestic subsidiary of Holdings, subject to certain exceptions. The term loan is expected to bear interest at either the adjusted London inter-bank offered rate, which is referred to as LIBOR in this proxy statement, plus 2.5% per annum, or the alternate base rate, which is referred to as ABR in this proxy statement, plus 1.5% per annum, at the option of Select. Subject to adjustment, the revolving credit facility is expected to bear interest at either adjusted LIBOR plus 2.5% per annum or ABR plus 1.5% per annum, at the option of Select. The term loan will mature 7 years after the effective date of the merger, and the revolving credit facility will mature 6 years after the effective date of the merger.

The commitment of each of the Agents to provide senior secured financing is subject to a number of conditions set forth in the commitment letter, including, but not limited to, the following:

such party not having discovered or otherwise become aware of information not previously disclosed to it that it reasonably believes to be materially inconsistent with the information provided to it by Holdings prior to October 17, 2004 of the business, operations, assets, liabilities, financial condition or results of operations of Select and its subsidiaries, taken as a whole;

the absence, since December 31, 2003, of any event, change, condition, circumstance or state of facts or aggregation of events, changes, conditions, circumstances or state of facts that has had or could reasonably be expected to have, individually or in the aggregate, a material adverse effect on the business, operations, assets, liabilities, financial condition or results of operations of Select and its subsidiaries, taken as a whole, whether or not covered by insurance, or on Acquisition Corp. s ability to perform its obligations under the senior secured credit facilities and the bridge facility (including any material adverse change or proposed change in laws or changes in payment or reimbursement by government payors, other than the CMS Regulations, but excluding conditions generally affecting the economy or the industry of Select and its subsidiaries which do not disproportionately affect Select and its subsidiaries, taken as a whole);

the absence of any significant change or condition in the loan syndication, financial or capital markets, including the high-yield market, that could in the Agents judgment be reasonably expected to materially impair the syndication of the senior secured debt facilities, the bridge facility or the public offering or Rule 144A or other private offering of up to $660.0 million of notes of Acquisition Corp.;

the Agents satisfaction that, prior to and during any syndication of the senior secured credit facilities and bridge facility, there will be no competing issues of debt securities or commercial bank or other credit facilities of Holdings, Acquisition Corp., Select or any of their respective subsidiaries being offered, placed or arranged (other than the notes of Acquisition Corp.);

the purchase of a majority of Select s existing 9 1/2% senior subordinated notes and 7 1/2% senior subordinated notes pursuant to the debt tender offers on terms and conditions reasonably acceptable to the Agents and the elimination of substantially all restrictive covenants contained in the indentures for each series of such notes;

the funding of the Holdings equity;

the consummation of the merger in accordance with the merger agreement and not more than 8% of the outstanding Select common stock being subject to properly exercised appraisal rights;

(1) Holdings and the surviving corporation s ratio of total indebtedness to pro forma adjusted EBITDA for the most recent 4 fiscal quarters ending at least 40 days prior to the closing of the merger exceeding 6.10 to 1.00 and 5.50 to 1.00, respectively and (2) Holdings pro forma adjusted EBITDA for the most recent 12-month period ending at least 40 days prior to the closing of the merger exceeding $264.0 million;

the obtaining of all requisite material approvals and consents from governmental authorities and third parties;

the obtaining of ratings by Standard & Poor s Rating Services and Moody s Investors Services; and

the preparation and execution of definitive loan agreements.

Senior Subordinated Notes

Merrill Lynch, JP Morgan and Wachovia have been engaged to provide capital markets and other financial advisory services to Holdings in connection with a public offering or Rule 144A or other private offering of senior subordinated notes of Acquisition Corp. As a result of the merger, Acquisition Corp. will be merged with and into Select, and, thereafter, Select, as the surviving corporation, will be the issuer of any such notes.

Senior Subordinated Increasing Rate Bridge Loans

The commitment letter described above also includes commitments by the Agents to provide up to $660.0 million of senior subordinated loans under a bridge loan facility if and to the extent a public offering or Rule 144A or other private placement of notes cannot be completed prior to the closing of the merger. As a result of the merger, Acquisition Corp. will be merged with and into Select, and Select, as the surviving corporation, will be the borrower under the bridge loan facility. Select s obligations under the bridge loan facility will be guaranteed on a senior subordinated basis by each of its subsidiaries that is a guarantor of the senior secured credit facilities. For the initial 3 month period of the bridge facility loan, interest is expected to accrue at a rate per annum equal to the higher of (1) 3 month adjusted LIBOR as determined on the effective date of the merger, plus a spread initially equal to 650 basis points and (2) 8.5%. If the loans under the bridge loan facility are not fully repaid at the end of the initial 3 month period after the effective date of the merger, the spread will increase by 50 basis points at the end of such 3 month period, and will increase by an additional 50 basis points at the end of any additional 3 month period, subject to a maximum overall interest cap of 12% and a cash interest cap of 10%. All loans under the bridge loan facility will mature 1 year after the effective date of the merger but, subject to certain conditions, the maturity of such loans may be extended to the 10th anniversary of the effective date of the merger. The commitment to provide Select with the bridge loan facility is subject to substantially the same conditions as the commitment for the senior secured credit facilities.

Other Debt Commitments

Holdings has received a commitment letter from WCAS Capital Partners IV, L.P., an affiliate of Welsh Carson, pursuant to which WCAS Capital Partners IV, L.P. has committed, subject to the terms and conditions set forth in the commitment letter, to purchase for $150.0 million (1) a senior subordinated note from Holdings with a principal amount of up to $150.0 million and (2) certain equity securities of Holdings. The senior subordinated note will mature 10 years after the effective date of the merger and has an interest rate of 10% per annum for interest paid in cash and 12% per annum for interest paid in kind. Holdings has also agreed to reimburse WCAS Capital Partners IV, L.P. for any expenses incurred by it in connection with the transactions contemplated by the merger agreement.

Federal Regulatory Matters

The HSR Act and the rules and regulations promulgated thereunder require that each of Select and Welsh Carson, as the ultimate parent entity of Holdings and Acquisition Corp., file notification and report forms with respect to the merger and related transactions with the Antitrust Division of the Department of Justice and the Federal Trade Commission. The parties filed such notification and reports on November 9, 2004. The HSR waiting period expired on December 10, 2004. Holdings paid the associated $250,000 filing fee. The Department of Justice, the Federal Trade Commission, state antitrust authorities or a private person or entity could seek to enjoin the merger under federal or state antitrust laws at any time before completion of the merger or to compel rescission or divestiture at any time subsequent to the merger.

Material U.S. Federal Income Tax Consequences

The following discussion summarizes the material U.S. federal income tax consequences of the merger that are generally applicable to (1) United States holders (as defined below) of Select common stock, (2) Welsh Carson s co-investors that will contribute shares of common stock of Select to Holdings in exchange for capital stock of Holdings and the continuing investors and (3) Select. This discussion is based on currently existing provisions of the Internal Revenue Code of 1986, as amended, which is referred to as the Code in this proxy statement, existing and proposed Treasury Regulations promulgated under the Code, and current administrative rulings and court decisions, all of which are subject to change, possibly with retroactive effect. This discussion does not address state, local or foreign tax consequences that may be applicable to the parties specified in the first sentence of this paragraph, and such parties should consult their own tax advisors with respect to such consequences.

United States Holders

The following discussion applies only to United States holders of Select common stock who hold such shares as capital assets and may not apply to shares of Select common stock acquired pursuant to the exercise of employee stock options or other compensation arrangements (and does not, except as specifically set forth below, apply to the exchange or cancellation of employee stock options, including the receipt of cash therefor), and this discussion does not address tax issues relevant to certain classes of taxpayers who may be subject to special treatment under the Code, such as banks, other financial institutions, insurance companies, tax-exempt investors, regulated investment companies, real estate investment trusts, persons subject to the alternative minimum tax, persons who hold their Select common stock as part of a position in a straddle or as part of a hedging or conversion transaction, persons who are deemed to sell their Select common stock under the constructive sale provisions of the Code, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, persons that have a functional currency other than the U.S. dollar, expatriates, S corporations, entities classified as partnerships for U.S. federal income tax purposes or stockholders who hold Select common shares as dealers. All such United States holders should consult their own tax advisors concerning the U.S. federal income tax consequences of the merger to their particular situations.

Tax matters are very complex and the tax consequences of the merger to you will depend on the facts of your particular situation. You should consult your tax advisor for a full understanding of the tax consequences of the merger to you, including the federal, state, local and foreign tax consequences of the merger.

If a partnership holds Select common stock, the tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner of a partnership holding Select common stock should consult its tax advisors.

For purposes of this discussion, a United States holder means a holder that is (1) a citizen or resident of the United States for federal income tax purposes, (2) a corporation (or other entity treated as an association taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state, (3) an estate, the income of which is subject to U.S. federal income taxation regardless of its source, or (4) a trust if (a) a U.S. court is able to exercise primary supervision over the administration of the trust and 1 or more U.S. persons have authority to control all substantial decisions of the trust, or (b) the trust has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

In general, United States holders of Select stock who receive cash in exchange for their shares pursuant to the merger should recognize gain or loss for U.S. federal income tax purposes equal to the difference, if any, between their adjusted tax basis in their shares and the amount of cash received. If a stockholder holds Select common stock as a capital asset, the gain or loss should generally be a capital gain or loss. If the stockholder has held the shares for more than 1 year, the gain or loss should generally be a long-term gain or loss. The deductibility of capital losses is subject to limitations.

In general, stockholders who receive cash in connection with the exercise of their appraisal rights will recognize gain or loss. Any stockholder considering exercising statutory appraisal rights should consult with his or her own tax advisor.

United States holders of Select common stock may be subject to backup withholding on cash payments received in exchange for shares in the merger or received upon the exercise of appraisal rights. Backup withholding generally will apply only if the stockholder fails to furnish a correct social security number or other taxpayer identification number, or otherwise fails to comply with applicable backup withholding rules and requirements. Corporations generally are exempt from backup withholding. Stockholders should complete and sign the substitute Form W-9 that will be part of the letter of transmittal to be returned to the paying agent to provide the information and certification necessary to avoid backup withholding.

Certain of Welsh Carson s Co-Investors and the Continuing Investors

The following discussion applies only to Welsh Carson s co-investors that contribute shares of common stock of Select to Holdings in exchange for capital stock of Holdings and the continuing investors to the extent such investors hold any shares of Select common stock as capital assets. These investors will contribute certain shares of Select common stock held by them, as well as an agreed amount of cash, to Holdings in exchange for capital stock of Holdings. These investors should not recognize any gain or loss for U.S. federal income tax purposes in connection with such contribution. The aggregate tax basis of these investors in their capital stock of Holdings should equal the sum of their tax basis in the shares of Select common stock contributed to Holdings plus the amount of cash contributed by them to Holdings.

The continuing investors who are directors and executive officers of Select and who will be receiving cash in exchange for surrendering their options to purchase shares of Select common stock will recognize ordinary compensation income with respect to any surrendered option in an amount equal to the product of (1) the excess of $18.00 over the per share exercise price of the option multiplied by (2) the number of shares of Select subject to the option. In the case of any continuing investor who is an employee of Select, this amount of ordinary compensation income will be subject to federal, state and local income withholding tax as well as the employee s share of social security, Medicare and other applicable payroll taxes. The amount of cash actually distributed to the continuing investors with respect to their surrendered options will be net of these withholding and payroll taxes.

Select

The merger will cause an ownership change of Select for purposes of Section 382 of the Code. As a result, Select s use of pre-merger tax net operating losses and certain other tax attributes, if any, will be limited following the merger. This limitation should not have any material impact on Select, because Select is not expected to have any significant pre-merger net operating losses or other such tax attributes. In addition, Select should be entitled to an ordinary compensation deduction for U.S. federal income tax purposes with respect to cash paid for the surrender of any compensatory option in an amount equal to the product of (1) the excess of $18.00 over the per share exercise price of the option multiplied by (2) the number of shares of Select subject to the option. With respect to any such cash payments to its employees, Select will be responsible for withholding federal, state and local income tax as well as the employee s share of social security, Medicare and other applicable payroll taxes. In addition, Select will be responsible for paying the employer s share of social security, Medicare and other applicable payroll taxes. Subsequent to the merger, Select will join in the U.S. federal income consolidated tax group that includes Holdings. The merger should not cause any other material U.S. federal income tax consequences to Select.

Fees and Expenses of the Merger

The estimated fees and expenses in connection with the merger are as follows (in millions):

Financial Advisor Fees and Expenses(1):	$ 8.9
Legal, Accounting and Other Professional Fees:	7.0
Printing, Proxy Solicitation and Mailing Costs:	0.4
Financing Related Fees and Debt Prepayment Penalties:	112.4
Filing Fees:	0.2
Miscellaneous:	4.2
Total:	$ 133.1

(1) Of such financial advisor fees and expenses, approximately $8.9 million is expected to be paid to Banc of America Securities LLC for financial advisory services provided to the special committee, and a financing fee of approximately $24.6 million is expected to be paid to WCAS Management Corporation, an affiliate of Welsh Carson, as agent for itself and certain other investors in Holdings.

Except as described below, the merger agreement provides that Select, Holdings and Acquisition Corp. each will pay all costs and expenses incurred by it in connection with the merger agreement and the merger. None of these costs and expenses will reduce the $18.00 per share merger consideration payable to holders of Select common stock or the amount payable to stock option holders.

If the merger agreement is terminated under certain circumstances, including acceptance of a superior proposal by Select, Select may be required to pay to a Welsh Carson affiliate, WCAS Management Corporation, a $40.0 million termination fee and up to $750,000 in reimbursement of documented out-of-pocket fees and expenses incu