SELECT MEDICAL HOLDINGS CORP
Form S-4/A
July 28, 2006

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As filed with the Securities and Exchange Commission on July 28, 2006
Registration No. 333-133284

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

AMENDMENT NO. 4 TO
Form S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SELECT MEDICAL HOLDINGS CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware	**8060**	**20-1764048**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number of each Registrant)*	*(I.R.S. Employer Identification No.)*

4716 Old Gettysburg Road, P.O. Box 2034
Mechanicsburg, Pennsylvania 17055
(717) 972-1100
(Address, Including Zip Code, and Telephone Number, Including Area Code, of each Registrant s Principal Executive Offices)

Michael E. Tarvin, Esq.
Select Medical Holdings Corporation
4716 Old Gettysburg Road, P.O. Box 2034
Mechanicsburg, Pennsylvania 17055
(717) 972-1100
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

with a copy to:
Carmen J. Romano, Esq.
Dechert LLP
Cira Centre
2929 Arch Street
Philadelphia, PA 19104-2808
(215) 994-4000

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

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, as amended (the Securities Act), check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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

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

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION DATED JULY 28, 2006

PROSPECTUS

Select Medical Holdings Corporation
Offer to Exchange
$175,000,000 principal amount of our Senior Floating Rate Notes due 2015, which have been registered under the Securities Act, for our outstanding Senior Floating Rate Notes due 2015

We are offering to exchange new Senior Floating Rate Notes due 2015, or the senior floating rate exchange notes, for our currently outstanding Senior Floating Rate Notes due 2015, or the outstanding senior floating rate notes. We refer to the outstanding senior floating rate notes as the outstanding notes, the senior floating rate exchange notes as the exchange notes, and the outstanding notes and the exchange notes collectively as the notes. The exchange notes are substantially identical to the outstanding notes, except that the exchange notes have been registered under the federal securities laws, are not subject to transfer restrictions and are not entitled to certain registration rights relating to the outstanding notes. The exchange notes will represent the same debt as the outstanding notes and we will issue the exchange notes under the same indenture as the outstanding notes.

The principal features of the exchange offer are as follows:

The exchange offer expires at 5:00 p.m., New York City time, on , 2006, unless extended. We do not currently intend to extend the expiration date of the exchange offer.

The exchange offer is not subject to any condition other than that the exchange offer not violate applicable law or any applicable interpretation of the Staff of the Securities and Exchange Commission.

We will exchange the exchange notes for all outstanding notes that are validly tendered and not validly withdrawn prior to the expiration of the exchange offer.

You may withdraw tendered outstanding notes at any time prior to the expiration of the exchange offer.

We do not intend to apply for listing of the exchange notes on any securities exchange or automated quotation system.

We will not receive any proceeds from the exchange offer. We will pay all expenses incurred by us in connection with the exchange offer and the issuance of the exchange notes.

You should consider carefully the risk factors beginning on page 13 of this prospectus before participating in the exchange offer.

Neither the U.S. Securities and Exchange Commission nor any other federal or state agency has approved or disapproved of these securities to be distributed in the exchange offer, nor have any of these organizations determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus is , 2006.

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PROSPECTUS SUMMARY

The following summary contains basic information about us and this offering. It is likely that this summary does not contain all of the information that is important to you. You should read the entire offering memorandum, including the risk factors and the financial statements and related notes included elsewhere herein, before making an investment decision.

Unless otherwise indicated or unless the context otherwise requires, the term Holdings refers to Select Medical Holdings Corporation, the term Select refers to Select Medical Corporation (a wholly-owned subsidiary of Holdings) and the terms our company, us, we and our refer to Holdings together with Select and its subsidiaries.

The Exchange Offer

On September 29, 2005, we completed a private offering of $175.0 million in aggregate principal amount of senior floating rate notes due 2015, referred to in this prospectus as the outstanding notes. We entered into an exchange and registration rights agreement with the initial purchasers in the private offering in which we agreed, among other things, to file the registration statement of which this prospectus forms a part within 205 days of the issuance of the outstanding notes. You are entitled to exchange in this exchange offer your outstanding notes for floating rate subordinated notes due 2015 (referred to in this prospectus as the exchange notes), which have been registered under the federal securities laws and have substantially identical terms as the outstanding notes, except for the elimination of certain transfer restrictions and registration rights. You should read the discussion under the heading Summary Description of the Exchange Notes and Description of the Exchange Notes for further information regarding the exchange notes.

Our Business

Company Overview

We are a leading operator of specialty hospitals and outpatient rehabilitation clinics in the United States. As of March 31, 2006, we operated 97 long-term acute care hospitals in 26 states, four acute medical rehabilitation hospitals, which are certified by Medicare as inpatient rehabilitation facilities, in New Jersey, and 613 outpatient rehabilitation clinics in 24 states and the District of Columbia. We also provide medical rehabilitation services on a contract basis at nursing homes, hospitals, assisted living and senior care centers, schools and worksites. We began operations in 1997 under the leadership of our current management team, including our co-founders, Rocco A. Ortenzio and Robert A. Ortenzio, both of whom have significant experience in the healthcare industry. Under this leadership, we have grown our business through internal development initiatives and strategic acquisitions. For the combined twelve months ended December 31, 2005, we had net operating revenues of $1,858.4 million, income from operations of $119.1 million and a net loss of $27.9 million. For the three months ended March 31, 2006, we had net operating revenues of $479.7 million, income from operations of $66.5 million and net income of $28.2 million.

We manage our company through two business segments, our specialty hospital segment and our outpatient rehabilitation segment. For the three months ended March 31, 2006, approximately 75% of our net operating revenues were from our specialty hospitals and approximately 25% were from our outpatient rehabilitation business.

The Merger Transactions

On February 24, 2005, EGL Acquisition Corp. was merged with and into Select, with Select continuing as the surviving corporation and a wholly-owned subsidiary of Holdings (the Merger). Holdings was formerly known as EGL Holding Company. Holdings and EGL Acquisition Corp. were Delaware corporations formed by Welsh, Carson, Anderson & Stowe IX, LP (Welsh Carson), for purposes of engaging in the Merger and the related transactions. The Merger was completed pursuant to an agreement and plan of merger, dated as of October 17, 2004, among EGL Acquisition Corp., Holdings and Select. The Merger and related transactions are collectively referred to in this prospectus as the Transactions.

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As a result of the Transactions, our assets and liabilities have been adjusted to their fair value as of February 25, 2005. We have also experienced an increase in our aggregate outstanding indebtedness as a result of financing associated with the Transactions. Accordingly, our amortization expense and interest expense are higher in periods following the Transactions. The excess of the total purchase price over the fair value of our tangible and identifiable intangible assets of $1.4 billion has been allocated to goodwill, which will be the subject of an annual impairment test.

Corporate Information

Holdings is a corporation organized under the laws of the State of Delaware. Our principal executive offices are located at 4716 Old Gettysburg Road, P.O. Box 2034, Mechanicsburg, Pennsylvania 17055. Our telephone number at our principal executive offices is (717) 972-1100. Our company s website can be located at *www.selectmedicalcorp.com.* The information on our company s website is not part of this prospectus.

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Summary of the Terms of the Exchange Offer

On September 29, 2005, we completed an offering of $175.0 million in aggregate principal amount of senior floating rate notes due 2015, which was exempt from registration under the Securities Act.

We sold the outstanding notes to certain initial purchasers, who subsequently resold the outstanding notes to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act.

In connection with the sale of the outstanding notes, we entered into an exchange and registration rights agreement with the initial purchasers of the outstanding notes. Under the terms of that agreement, we agreed to use commercially reasonable efforts to consummate the exchange offer contemplated by this prospectus.

If we are not able to effect the exchange offer contemplated by this prospectus, we will use commercially reasonable efforts to file and cause to become effective a shelf registration statement relating to the resales of the outstanding notes.

The following is a brief summary of the terms of the exchange offer. For a more complete description of the exchange offer, see The Exchange Offer.

Securities Offered	$175,000,000 in aggregate principal amount of senior floating rate notes due 2015.
Exchange Offer	The exchange notes are being offered in exchange for a like principal amount of outstanding notes. We will accept any and all outstanding notes validly tendered and not withdrawn prior to 5:00 p.m., New York City time, on , 2006. Holders may tender some or all of their outstanding notes pursuant to the exchange offer. However, each of the outstanding notes may be tendered only in integral multiples of $1,000 in principal amount. The form and terms of each of the exchange notes are the same as the form and terms of each of the outstanding notes except that: the exchange notes have been registered under the federal securities laws and will not bear any legend restricting their transfer; each of the exchange notes bear different CUSIP numbers than the applicable outstanding notes; and the holders of the exchange notes will not be entitled to certain rights under the exchange and registration rights agreement, including the provisions for an increase in the interest rate on the applicable outstanding notes in some circumstances.
Resale	Based on an interpretation by the Staff of the SEC set forth in no-action letters issued to third parties, we believe that the exchange notes may be offered for resale, resold and otherwise transferred by you without compliance with the registration and prospectus delivery provisions of the Securities Act provided that: you are acquiring the exchange notes in the ordinary course of your business; you have not participated in, do not intend to participate in, and have no arrangement or understanding with any person to participate in the distribution of exchange notes; and you are not an affiliate of Holdings, within the meaning of Rule 405 of the Securities Act.

Each participating broker-dealer that receives exchange notes for its own account during the exchange offer in exchange for out-

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	standing notes that were acquired as a result of market-making or other trading activity must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. Prospectus delivery requirements are discussed in greater detail in the section captioned Plan of Distribution. Any holder of outstanding notes who: is an affiliate of Holdings, does not acquire exchange notes in the ordinary course of its business, or tenders in the exchange offer with the intention to participate, or for the purpose of participating, in a distribution of exchange notes, cannot rely on the aforementioned position of the Staff of the SEC enunciated in Exxon Capital Holdings Corporation, Morgan Stanley & Co. Incorporated or similar no-action letters and, in the absence of an exemption, must comply with the registration and prospectus delivery requirements of the Securities Act in connection with the resale of the exchange notes.
Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time on , 2006 unless we decide to extend the exchange offer. We may extend the exchange offer for the outstanding notes. Any outstanding notes not accepted for exchange for any reason will be returned without expense to the tendering holders promptly after expiration or termination of the exchange offer.
Conditions to the Exchange Offer	The exchange offer is not subject to any condition other than that the exchange offer not violate applicable law or any applicable interpretation of the Staff of the Securities and Exchange Commission.
Procedures for Tendering Outstanding Notes	If you wish to accept the exchange offer, you must complete, sign and date the letter of transmittal, or a facsimile of the letter of transmittal, in accordance with the instructions contained in this prospectus and in the letter of transmittal. You should then mail or otherwise deliver the letter of transmittal, or facsimile, together with the outstanding notes to be exchanged and any other required documentation, to the exchange agent at the address set forth in this prospectus and in the letter of transmittal. If you hold outstanding notes through The Depository Trust Company, or DTC, and wish to participate in the exchange offer, you must comply with the Automated Tender Offer Program procedures of DTC, by which you will agree to be bound by the applicable letter of transmittal. By executing or agreeing to be bound by the letter of transmittal, you will represent to us that, among other things: any exchange notes to be received by you will be acquired in the ordinary course of business; you have no arrangement or understanding with any person to participate in the distribution (within the meaning of the Securities Act) of exchange notes in violation of the provisions of the Securities Act;

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	you are not an affiliate (within the meaning of Rule 405 under the Securities Act) of Holdings, or if you are an affiliate, you will comply with any applicable registration and prospectus delivery requirements of the Securities Act; and if you are a broker-dealer that will receive exchange notes for your own account in exchange for applicable outstanding notes that were acquired as a result of market-making or other trading activities, then you will deliver a prospectus in connection with any resale of such exchange notes. See The Exchange Offer Procedures for Tendering and Plan of Distribution.
Effect of Not Tendering in the Exchange Offer	Any outstanding notes that are not tendered or that are tendered but not accepted will remain subject to the restrictions on transfer. Since the outstanding notes have not been registered under the federal securities laws, they bear a legend restricting their transfer absent registration or the availability of a specific exemption from registration. Upon the completion of the exchange offer, we will have no further obligations to register, and we do not currently anticipate that we will register, the outstanding notes not exchanged in this exchange offer under the Securities Act.
Special Procedures for Beneficial Owners	If you are a beneficial owner of outstanding notes that are not registered in your name, and you wish to tender outstanding notes in the exchange offer, you should contact the registered holder promptly and instruct the registered holder to tender on your behalf. If you wish to tender on your own behalf, you must, prior to completing and executing the applicable letter of transmittal and delivering your outstanding notes, either make appropriate arrangements to register ownership of the outstanding notes in your name or obtain a properly completed bond power from the registered holder.
Guaranteed Delivery Procedures	If you wish to tender your outstanding notes and your outstanding notes are not immediately available or you cannot deliver your outstanding notes, the applicable letter of transmittal or any other documents required by the applicable letter of transmittal or comply with the applicable procedures under DTC s Automated Tender Offer Program prior to the expiration date, you must tender your outstanding notes according to the guaranteed delivery procedures set forth in this prospectus under The Exchange Offer Guaranteed Delivery Procedures.
Interest on the Exchange Notes and the Outstanding Notes	The exchange notes will bear interest at their respective interest rates from the most recent interest payment date to which interest has been paid on the outstanding notes. Interest on the outstanding notes accepted for exchange will cease to accrue upon the issuance of the exchange notes.
Withdrawal Rights	Tenders of outstanding notes may be withdrawn at any time prior to 5:00 p.m., New York City time, on the expiration date.
Material United States Federal Income Tax Considerations	The exchange of outstanding notes for exchange notes in the exchange offer is not a taxable event for U.S. federal income tax

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	purposes. Please read the section of this prospectus captioned Material U.S. Federal Income Tax Considerations for more information on tax consequences of the exchange offer.
Use of Proceeds	We will not receive any cash proceeds from the issuance of exchange notes pursuant to the exchange offer.
Exchange Agent	U.S. Bank Trust National Association, the trustee under the indenture governing the outstanding notes, is serving as exchange agent in connection with the exchange offer. The address and telephone number of the exchange agent are set forth under the heading The Exchange Offer Exchange Agent.

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Summary Description of the Exchange Notes

The brief summary below describes the principal terms of the exchange notes. The Description of the Exchange Notes section of this prospectus contains a more detailed description of the terms of the exchange notes.

Issuer	Select Medical Holdings Corporation.
Exchange notes	$175,000,000 in aggregate principal amount of senior floating rate notes due 2015.
Maturity date	September 15, 2015.
Interest rate	The notes bear interest at a rate per annum, reset semi-annually on each of the interest payment dates, equal to LIBOR plus 5.75%, as determined by the calculation agent appointed by us, the initial trustee. According to this formula, the current interest rate on the notes is 10.82%. Interest on overdue principal accrues at a rate that is 1% higher than the then applicable interest rate on the notes.
Interest payment dates	March 15 and September 15.
Optional redemption	We may redeem some or all of the notes prior to September 15, 2009 at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest and a make-whole premium. Thereafter, we may redeem some or all of the notes at the redemption prices set forth in this prospectus. See Description of the Exchange Notes Optional Redemption.
Equity offering optional redemption	At any time before September 15, 2008, we may redeem either all remaining outstanding notes or up to 35% of the aggregate principal amount of the notes at 100% of the aggregate principal amount so redeemed plus a premium equal to the interest rate per annum of the notes applicable on the date on which the notice of redemption is given, plus accrued and unpaid interest, with the proceeds of one or more equity offerings or equity contributions to the equity capital of Holdings from the net proceeds of one or more equity offerings by any direct or indirect parent of Holdings, provided that either no notes remain outstanding immediately following such redemption or at least 65% of the originally issued aggregate principal amount of the notes remains outstanding after such redemption and the redemption occurs within 90 days of the date of the closing of such equity offering or equity contribution.
Change of control	Upon the occurrence of certain change of control events, we will be required to offer to repurchase all or a portion of the notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest. See Description of the Exchange Notes Repurchase at the Option of Holders Change of Control.
Guarantees	The notes are not guaranteed by any of our subsidiaries.
Ranking	The notes are Holdings unsecured senior obligations and: rank equally in right of payment to all of its future senior indebtedness; rank senior in right of payment to all of its existing and future senior subordinated indebtedness and subordinated indebtedness, including Holdings existing

10% senior subordinated notes due 2015;

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	are effectively subordinated in right of payment to its secured debt to the extent of the value of the assets securing such debt; and are structurally subordinated to all liabilities and other obligations (including preferred stock) of its current and future subsidiaries, including Select. As of March 31, 2006, Holdings, on an unconsolidated basis, had total outstanding debt of $325.0 million (excluding Holdings guarantee of the indebtedness under Select s existing senior secured credit facility), $150.0 million of which was subordinated to the notes. As of March 31, 2006, Holdings had no other debt that was pari passu with the notes. Holdings is a guarantor of Select s existing senior secured credit facility and has pledged 100% of the capital stock of Select to secure such guarantee. Holders of the notes will only be creditors of Holdings, and not of its subsidiaries. As a result, all the existing and future liabilities and other obligations of its subsidiaries, including Select, and including any claims of trade creditors and preferred stockholders of such subsidiaries, will be effectively senior to the notes. The total consolidated balance sheet liabilities of Select and its subsidiaries, as of March 31, 2006, were $1,601.1 million, of which $1,263.4 million constituted indebtedness (excluding $22.5 million of letters of credit), including $602.2 million of indebtedness under Select s existing senior secured credit facility and $660.0 million of Select s existing 7⅞% senior subordinated notes due 2015. Holdings has guaranteed 100% of Select s obligations under its existing senior credit facility, or $602.2 million as of March 31, 2006. As of such date, Select also would have been able to borrow up to an additional $249.5 million under Select s existing senior secured credit facility (after giving effect to the $22.5 million of letters of credit then outstanding). Holdings and its restricted subsidiaries may incur additional debt in the future, including under Select s existing senior secured credit facility.
Certain covenants	The indenture governing the notes contains covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to: incur additional indebtedness and issue or sell preferred stock, pay dividends on, redeem or repurchase our capital stock, make certain investments, create certain liens, sell certain assets, incur obligations that restrict the ability of our subsidiaries to make dividend or other payments to us,

guarantee indebtedness,

engage in transactions with affiliates,

create or designate unrestricted subsidiaries, and

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	consolidate, merge or transfer all or substantially all of our assets and the assets of our subsidiaries on a consolidated basis. As of March 31, 2006, all of our subsidiaries were restricted subsidiaries, as defined in the indenture. These covenants are subject to important exceptions and qualifications. See Risk Factors Risks Related to the Notes and Description of the Exchange Notes.
No established market for the exchange notes	The exchange notes generally will be freely transferable but will also be new securities for which there will not initially be a market. Accordingly, we cannot assure you that a market for the exchange notes will develop or make any representation as to the liquidity of any market. We do not intend to apply for the listing of the exchange notes on any securities exchange or automated dealer quotation system. The initial purchasers advised us that they intend to make a market in the exchange notes. However, they are not obligated to do so, and any market making with respect to the exchange notes may be discontinued at any time without notice. We believe it is unlikely that a significant market for the notes will develop. See Plan of Distribution.
Tax consequences	For a discussion of certain U.S. federal income tax consequences of an investment in the exchange notes, see Material U.S. Federal Income Tax Considerations. You should consult your own tax advisor to determine the federal, state, local and other tax consequences of an investment in the exchange notes.
Risk factors	See Risk Factors beginning on page 13 of this prospectus for a discussion of factors you should carefully consider before deciding to invest in the exchange notes.

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Summary Consolidated Financial and Other Data

You should read the summary consolidated financial and other data below in conjunction with our consolidated financial statements and the accompanying notes and Unaudited Pro Forma Condensed Consolidated Financial Information. All of these materials are contained later in this prospectus. The data for the years ended December 31, 2003 and 2004, for the period from January 1, 2005 through February 24, 2005 (the Predecessor), and for the period from February 25, 2005 through December 31, 2005 (the Successor) have been derived from our audited consolidated financial statements. We derived the historical financial data for the period from February 25, 2005 through March 31, 2005 and for the three months ended March 31, 2006 from our unaudited interim consolidated financial statements. You should also read Selected Financial Data and the accompanying Management s Discussion and Analysis of Financial Condition and Results of Operations. The unaudited pro forma condensed consolidated statement of operations data for the year ended December 31, 2005 present results of operations before cumulative effects of accounting changes and are pro forma for the Transactions as if the Transactions had been completed on January 1, 2005, and then applies certain pro forma adjustments to give effect to the sale of the old notes as of January 1, 2005. By definition, the Predecessor and Successor results are not comparable due to the Merger and the resulting change in basis.

	Predecessor				Successor		
	Year Ended December 31,		Period from January 1, through February 24,	Period from February 25, through December 31,	2005 Pro Forma Year Ended December 31,	Period from February 25, through March 31,	Three Months Ended March 31,
	2003	2004	2005	2005	2005	2005	2006
	(In thousands)						
Statement of Operations Data:							
Net operating revenues	$ 1,341,657	$ 1,601,524	$ 277,736	$ 1,580,706	$ 1,858,442	$ 188,386	$ 479,743
Operating expenses(1)(2)	1,165,814	1,340,068	373,418	1,322,068	1,695,486	153,749	402,397
Depreciation and amortization	33,663	38,951	5,933	37,922	44,537	4,126	10,895
Income (loss) from operations	142,180	222,505	(101,615)	220,716	118,419	30,511	66,451
Loss on early retirement of debt(3)			(42,736)		(42,736)		
Merger related charges(4)			(12,025)		(12,025)		
Equity in income from joint ventures	824						
Other income		1,096	267	1,092	1,359	103	
Interest expense, net(5)	(24,499)	(30,716)	(4,128)	(101,441)	(133,919)	(10,967)	(32,659)

Income (loss) from continuing operations before minority interests and income taxes	118,505	192,885	(160,237)	120,367	(68,902)	19,647	33,792
Minority interests(6)	1,661	2,608	330	1,776	2,106	302	391
Income (loss) from continuing operations before income taxes	116,844	190,277	(160,567)	118,591	(71,008)	19,345	33,401
Income tax provision (benefit)	46,238	76,551	(59,794)	49,336	(22,536)	7,853	15,230
Income (loss) from continuing operations	70,606	113,726	(100,773)	69,255	$ (48,472)	11,492	18,171
Income from discontinued operations, net	3,865	4,458	522	3,072		672	10,018
Net income (loss)	74,471	118,184	(100,251)	72,327		12,164	28,189
Less: Preferred stock dividends				23,519		2,924	5,488
Net income (loss) available to common stockholders	$ 74,471	$ 118,184	$ (100,251)	$ 48,808		$ 9,240	$ 22,701

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	Predecessor				Successor	
	Year Ended December 31,		Period from January 1, through February 24,	Period from February 25, through December 31,	Period from February 25, through March 31,	Three Months Ended March 31,
	2003	2004	2005	2005	2005	2006
	(In thousands)					
Other Financial Data:						
Capital expenditures	$ 35,852	$ 32,626	$ 2,586	$ 107,360	$ 1,112	$ 38,386
Cash Flow Data:						
Net cash provided by operating activities	$ 246,248	$ 174,276	$ 19,056	$ 38,155	$ (191,971)	$ (5,578)
Net cash used in investing activities	(261,452)	(28,959)	(110,757)	(110,054)	(3,339)	36,734
Net cash provided by (used in) financing activities	124,318	(63,959)	94	(48,604)	58,828	(53,201)
Balance Sheet Data (at end of period):						
Cash and cash equivalents	$ 165,507	$ 247,476		$ 35,861	$ 19,343	$ 13,851
Working capital	188,380	313,715		77,556	157,071	65,809
Total assets	1,078,998	1,113,721		2,168,385	2,160,723	2,135,287
Total debt	367,503	354,590		1,628,889	1,580,824	1,570,327
Total stockholders equity	419,175	515,943		(244,658)	(288,076)	(219,921)

Selected Operating Data

The following table sets forth operating statistics for our specialty hospitals and outpatient rehabilitation business for each of the periods presented. The data in the table reflects the changes in the number of specialty hospitals and outpatient rehabilitation clinics Select operated that resulted from acquisitions, start-up activities and closures. The operating statistics reflect data for the period of time these operations were managed by us. Further information on our acquisition activities can be found in Management s Discussion and Analysis of Financial Condition and Results of Operations Operating Statistics and the notes to our consolidated financial statements.

	Year Ended December 31,			Three Months Ended March 31,	Three Months Ended March 31,
	2003	2004	2005	2005	2006
Specialty hospital data:					
Number of hospitals start of period	72	83	86	86	101

Number of hospitals start-ups	8	4			
Number of hospitals acquired	4		17	17	
Number of hospitals closed	(1)	(1)	(2)		
Number of hospitals end of period(7)	83	86	101	103	101
Available licensed beds(8)	3,204	3,403	3,829	3,907	3,852
Admissions(9)	27,620	33,523	39,963	10,336	10,483
Patient days(10)	722,231	816,898	985,025	250,839	251,701
Average length of stay (days)(11)	26	24	25	25	25
Occupancy rate(12)	70%	67%	70%	71%	73%
Percent patient days Medicare(13)	76%	74%	75%	77%	73%
Outpatient rehabilitation data:(14)					
Number of clinics start of period	568	645	589	589	553
Number of clinics acquired	124	1			
Number of clinics start-ups	27	19	22	9	1
Number of clinics closed/sold	(74)	(76)	(58)	(6)	(1)
Number of clinics owned end of period	645	589	553	592	553
Number of clinics managed end of period(15)	43	51	55	53	60
Total number of clinics	688	640	608	645	613

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

(2) Includes stock compensation expense related to the repurchase of outstanding stock options in the Predecessor period from January 1, 2005 through February 24, 2005, compensation expense related to restricted stock, stock options and long-term incentive compensation in the Successor period from February 25, 2005 through December 31, 2005 and compensation related to restricted stock and stock

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options in the Successor period from February 25, 2005 through March 31, 2005 and for the three months ended March 31, 2006.

(3) In connection with the Merger, Select tendered for all of its 9 1/2% senior subordinated notes due 2009 and all of its 7 1/2 % senior subordinated notes due 2013. The loss in the Predecessor period of January 1, 2005 through February 24, 2005 consists of the tender premium cost of $34.8 million and the remaining write-off of unamortized deferred financing costs of $7.9 million.

(4) As a result of the Merger, Select incurred costs in the Predecessor period of January 1, 2005 through February 24, 2005 directly related to the Merger. This included the cost of the investment advisor hired by the Special Committee of the Board of Directors to evaluate the Merger, legal and accounting fees, costs associated with the Hart-Scott-Rodino filing relating to the Merger, cost associated with purchasing a six year extended reporting period under Select s directors and officers liability insurance policy and other associated expenses.

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

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

(7) As of December 31, 2005, Select owned 100% of the equity interests in all of its hospitals except for one hospital that had a 14% minority ownership, three hospitals that had a 2% minority ownership and two hospitals that had a 7% minority ownership.

(8) Available licensed beds are the number of beds that are licensed with the appropriate state agency and which are readily available for patient use at the end of the period indicated.

(9) Admissions represent the number of patients admitted for treatment.

(10) Patient days represent the total number of days of care provided to patients.

(11) Average length of stay (days) represents the average number of days patients stay in our hospitals per admission, calculated by dividing total patient days by the number of discharges for the period.

(12) We calculate occupancy rate by dividing the average daily number of patients in our hospitals by the weighted average number of available licensed beds over the period indicated.

(13) We calculate percent patient days Medicare by dividing the number of Medicare patient days by the total number of patient days.

(14) Clinic data has been restated to remove the clinics operated by CBIL, which is being reported as a discontinued operation. CBIL operated 102, 101 and 109 clinics at December 31, 2003, 2004 and 2005, respectively and 108 clinics at March 31, 2005. Occupational health clinics have been reclassified from owned to managed clinics.

(15) Managed clinics are clinics that we operate through long-term management arrangements and clinics operated through unconsolidated joint ventures.

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RISK FACTORS

Investing in the notes involves a number of risks and uncertainties, many of which are beyond our control. You should carefully consider each of the risks and uncertainties we describe below and all of the other information in this prospectus before deciding to invest in the exchange notes. The risks and uncertainties we describe below are not the only ones we face. Additional risks and uncertainties that we do not currently know about or that we currently believe to be immaterial may also adversely affect our business, operations, financial condition or financial results.

Risk Related to Our Business

Compliance with recent changes in federal regulations applicable to long-term acute care hospitals operated as hospitals within hospitals or as satellites will result in increased capital expenditures and may have an adverse effect on our future net operating revenues and profitability.

On August 11, 2004, the Centers for Medicare & Medicaid Services, also known as CMS, published final regulations applicable to long-term acute care hospitals that are operated as hospitals within hospitals or as satellites (collectively referred to as HIHs). HIHs are separate hospitals located in space leased from, and located in, general acute care hospitals, known as host hospitals. Effective for hospital cost reporting periods beginning on or after October 1, 2004, the final regulations, subject to certain exceptions, provide lower rates of reimbursement to HIHs for those Medicare patients admitted from their hosts that are in excess of a specified percentage threshold. For HIHs opened after October 1, 2004, the Medicare admissions threshold has been established at 25%. For HIHs that meet specified criteria and were in existence as of October 1, 2004, including all of our existing HIHs, the Medicare admissions thresholds will be phased-in over a four-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 threshold was the Fiscal 2004 Percentage (as defined below) of Medicare discharges admitted from the host hospital; (ii) for discharges during the cost reporting period beginning on or after October 1, 2005 and before October 1, 2006, the Medicare admissions threshold is the lesser of the Fiscal 2004 Percentage of Medicare discharges admitted from the host hospital 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 threshold is the lesser of the Fiscal 2004 Percentage of Medicare discharges admitted from the host hospital or 50%; and (iv) for discharges during cost reporting periods beginning on or after October 1, 2007, the Medicare admissions threshold is 25%. As used above, Fiscal 2004 Percentage means, with respect to any HIH, the percentage of all Medicare patients discharged by such HIH during its cost reporting period beginning on or after October 1, 2003 and before October 1, 2004 who were admitted to such HIH from its host hospital, but in no event is the Fiscal 2004 Percentage less than 25%. As of December 31, 2005, 93 of our 97 long-term acute care hospitals operated as HIHs. For the year ended December 31, 2005, approximately 56% of the Medicare admissions to these HIHs were from host hospitals. For the year ended December 31, 2005, approximately 10% of these HIHs admitted 25% or fewer of their Medicare patients from their host hospitals, approximately 34% of these HIHs admitted 50% or fewer of their Medicare patients from their host hospitals, and approximately 74% of these HIHs admitted 75% or fewer of their Medicare patients from their host hospitals. The admissions data for the year ended December 31, 2005 is not necessarily indicative of the admissions mix these hospitals will experience in the future.

These new HIH regulations had only a negligible impact on our 2005 financial results, but could have a significant negative impact on our financial results thereafter. In order to minimize the more significant impact of the HIH regulations in 2006 and future years, we have developed a business plan and strategy in each of our markets to adapt to the HIH regulations and maintain our company s current business. Our transition plan includes managing admissions at existing HIHs, relocating certain HIHs to leased spaces in smaller host hospitals in the same markets, consolidating HIHs in certain of our markets, relocating certain of our facilities to alternative settings, building or buying free-standing facilities and closing some of our facilities. There can be no assurance that we can successfully implement such changes to our existing HIH business model or successfully control the capital expenditures associated with such changes. As a result, our ability to operate our long-term acute care hospitals effectively and our net operating revenues and profitably may be adversely affected. For example, because physicians generally direct the majority of hospital admissions, our net operating revenues and profitability may decline if the relocation efforts for

certain of our HIHs adversely affect our relationships with the physicians in those communities. See Business Specialty Hospitals

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Recent Long-Term Acute Care Hospital Regulatory Developments and Business Government Regulations Overview of U.S. and State Government Reimbursements Regulatory Changes.

Government implementation of recent changes to Medicare s method of reimbursing our long-term acute care hospitals will reduce our future net operating revenues and profitability.

All Medicare payments to our long-term acute care hospitals are made in accordance with a prospective payment system specifically applicable to long-term acute care hospitals, referred to as LTCH-PPS . Under LTCH-PPS, a long-term acute care hospital is paid a predetermined fixed amount depending upon the long-term care diagnosis-related group, or LTC-DRG, to which each patient is assigned. LTCH-PPS includes special payment policies that adjust the payments for some patients based on a variety of factors. On May 2, 2006, the Centers for Medicare & Medicaid Services (known as CMS) released its final annual payment rate updates for the 2007 LTCH-PPS rate year (affecting discharges and cost reporting periods beginning on or after July 1, 2006 and before July 1, 2007). The May 2006 final rule makes several changes to LTCH-PPS payment methodologies.

For discharges occurring on or after July 1, 2006, the rule changes the payment methodology for Medicare patients with a length of stay less than or equal to five-sixths of the geometric average length of stay for each LTC-DRG (referred to as short-stay outlier or SSO cases). Currently, payment for these patients is based on the lesser of (1) 120 percent of the cost of the case; (2) 120 percent of the LTC-DRG specific per diem amount multiplied by the patient s length of stay; or (3) the full LTC-DRG payment. The final rule modifies the limitation in clause (1) above to reduce payment for SSO cases to 100 percent (rather than 120 percent) of the cost of the case. The final rule also adds a fourth limitation, capping payment for SSO cases at a per diem rate derived from blending 120 percent of the LTC-DRG specific per diem amount with a per diem rate based on the general acute care hospital inpatient prospective payment system (IPPS). Under this methodology, as a patient s length of stay increases, the percentage of the per diem amount based upon the IPPS component will decrease and the percentage based on the LTC-DRG component will increase.

In addition, for discharges occurring on or after July 1, 2006, the final rule provides for (i) a zero-percent update for the 2007 LTCH-PPS rate year to the LTCH-PPS standard federal rate used as a basis for LTCH-PPS payments; (ii) the elimination of the surgical case exception to the three-day or less interruption of stay policy, under which surgical exception Medicare reimburses a general acute care hospital directly for surgical services furnished to a long-term acute care hospital patient during a brief interruption of stay from the long-term acute care hospital, rather than requiring the long-term acute care hospital to bear responsibility for such surgical services; and (iii) increasing the costs that a long-term acute care hospital must bear before Medicare will make additional payments for a case under its high-cost outlier policy for the 2007 LTCH-PPS rate year.

CMS estimates that the changes in the May 2006 final rule will result in an approximately 3.7 percent decrease in LTCH Medicare payments-per-discharge as compared to the 2006 rate year, largely attributable to the revised SSO payment methodology. Based upon our historical Medicare patient volumes and revenues, we expect that the May 2006 final rule will reduce Medicare revenues associated with SSO cases and high cost outlier cases to our long-term acute care hospitals by approximately $30.0 million on an annual basis. Additionally, had CMS updated the LTCH-PPS standard federal rate by the 2007 estimated market basket index of 3.4 percent rather than applying the zero-percent update, we estimate that we would have received approximately $31.0 million in additional annual Medicare revenues, based on our historical Medicare patient volumes and revenues (such revenues would have been paid to our hospitals for discharges beginning on or after July 1, 2006). See Business Specialty Hospitals Recent Long-Term Acute Care Hospital Regulatory Developments and Business Government Regulations Overview of U.S. and State Government Reimbursements Long-term acute care hospital Medicare reimbursement.

If our long-term acute care hospitals fail to maintain their certifications as long-term acute care hospitals or if our facilities operated as HIHs fail to qualify as hospitals separate from their host hospitals, our net operating revenues and profitability may decline.

As of March 31, 2006, all of our long-term acute care hospitals were certified by Medicare as long-term acute care hospitals. If our long-term acute care hospitals fail to meet or maintain the standards for certification as long-term acute care hospitals, namely minimum average length of patient stay, they will receive payments under the

prospective payment system applicable to general acute care hospitals rather than payment under the system applicable to long-term acute care hospitals. Payments at rates applicable to general acute care hospitals would result in our long-term acute care hospitals receiving less Medicare

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reimbursement than they currently receive for their patient services. In its preamble to the May 2006 final rule updating the long-term acute care Medicare prospective payment system, CMS discussed the contract that it has awarded to Research Triangle Institute, International (RTI) to examine recent recommendations made by the Medicare Payment Advisory Commission, or MedPAC, concerning how long-term acute care hospitals are defined and differentiated from other types of Medicare providers. MedPAC is an independent federal body that advises Congress on issues affecting the Medicare program. In its June 2004 Report to Congress, MedPAC recommended the adoption by CMS of new facility staffing and services criteria and patient clinical characteristics and treatment requirements for long-term acute care hospitals in order to ensure that only appropriate patients are admitted to these facilities. CMS indicated that it expects RTI s final report to be submitted to the agency in late Spring 2006. While acknowledging that RTI s findings are expected to have a substantial impact on future Medicare policy for long-term acute care hospitals, CMS stated its belief that many of the specific payment adjustment features of LTCH-PPS presently in place may still be necessary and appropriate even with the development of patient- and facility-level criteria for long-term acute care hospitals. Failure to meet existing long-term acute care certification criteria or implementation of additional criteria that would limit the population of patients eligible for our hospitals services or change the basis on which we are paid could adversely affect our net operating revenues and profitability.

Nearly all of our long-term acute care hospitals operate as HIHs and as a result are subject to additional Medicare criteria that require certain indications of separateness from the host hospital. If any of our long-term acute care HIHs fail to meet the separateness requirements, they will be reimbursed at the lower general acute care hospital rate, which would likely cause our net operating revenues and profitability to decrease. See Business Government Regulations Overview of U.S. and State Government Reimbursements Long-term acute care hospital Medicare reimbursement.

Implementation of modifications to the admissions policies for our inpatient rehabilitation facilities as required in order to achieve compliance with Medicare regulations may result in a loss of patient volume at these hospitals and, as a result, may reduce our future net operating revenues and profitability.

As of March 31, 2006, our four acute medical rehabilitation hospitals were certified by Medicare as inpatient rehabilitation facilities. Under the historic inpatient rehabilitation facility, or IRF, certification criteria that had been in effect since 1983, in order to qualify as an IRF, a hospital was required to satisfy certain operational criteria as well as demonstrate that, during its most recent 12-month cost reporting period, it served an inpatient population of whom at least 75% required intensive rehabilitation services for one or more of ten conditions specified in the regulations (referred to as the 75% test). In 2002, CMS became aware that its various contractors were using inconsistent methods to assess compliance with the 75% test and that many inpatient rehabilitation facilities were not in compliance with the 75% test. In response, in June 2002, CMS suspended enforcement of the 75% test and, on September 9, 2003, proposed modifications to the regulatory standards for certification as an IRF. Notwithstanding concerns stated by the industry and Congress in late 2003 and early 2004 about the adverse impact that CMS s proposed changes and renewed enforcement efforts might have on access to inpatient rehabilitation facility services, and notwithstanding Congressional requests that CMS delay implementation of or changes to the 75% test for additional study of clinically appropriate certification criteria, on May 7, 2004, CMS adopted a final rule that made significant changes to the certification standard. CMS temporarily lowered the 75% compliance threshold to 50%, with a gradual increase back to 75% over the course of a four-year period. CMS also expanded from 10 to 13 the number of medical conditions used to determine compliance with the 75% test (or any phase-in percentage) and finalized the conditions under which comorbidities may be used to satisfy the 75% test. Finally, CMS changed the timeframe used to determine a provider s compliance with the inpatient rehabilitation facility criteria including the 75% test so that any changes in a facility s certification based on compliance with the 75% test may be made effective in the cost reporting period immediately following the review period for determining compliance. Congress temporarily suspended enforcement of the 75% test when it enacted the Consolidated Appropriations Act, 2005, which requires the Secretary of Health and Human Services to respond within 60 days to a report by the Government Accountability Office, or GAO, on the standards for defining inpatient rehabilitation services before the Secretary may terminate a hospital s designation as an inpatient rehabilitation facility for failure to meet the 75% test. The GAO issued its report on April 22, 2005, and recommended that CMS, based on further research, refine the 75% test to describe more thoroughly the subgroups of patients within

the qualifying conditions that are appropriate for care in an inpatient rehabilitation facility. The Secretary issued a formal response to the GAO study on June 24, 2005, in which it concluded

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that the revised inpatient rehabilitation facility certification standards, including the 75% test, were consistent with the recommendations in the GAO report. In light of this determination, the Secretary announced that CMS would immediately begin enforcement of the revised certification standards.

Subsequently, under the Deficit Reduction Act of 2005, enacted on February 8, 2006, Congress extended the phase-in period for the 75% test by maintaining the compliance threshold at 60% (rather than increasing it to 65%) during the 12-month period beginning on July 1, 2006. The compliance threshold then increases to 65% for cost reporting periods beginning on or after July 1, 2007 and again to 75% for cost reporting periods beginning on or after July 1, 2008.

The inpatient rehabilitation facilities we acquired as part of our Kessler acquisition in September 2003 may not have fully met the historic standard. In order to achieve compliance with the revised 75% test, it may be necessary for us to implement more restrictive admissions policies at our inpatient rehabilitation facilities and not admit patients whose diagnoses fall outside the specified conditions. Such policies may result in decreased patient volumes, which could have a negative effect on the financial performance of these facilities. See Business Government Regulations Overview of U.S. and State Government Reimbursements Inpatient rehabilitation facility Medicare reimbursement.

Implementation of annual caps that limit the amounts that can be paid for outpatient therapy services rendered to any Medicare beneficiary may reduce our future net operating revenues and profitability.

Our outpatient rehabilitation clinics receive payments from the Medicare program under a fee schedule. Congress has established annual caps that limit the amounts that can be paid (including deductible and coinsurance amounts) for outpatient therapy services rendered to any Medicare beneficiary. These annual caps were to go into effect on January 1, 1999, however, after their adoption, Congress imposed a moratorium on the caps through 2002, and then re-imposed the moratorium for 2004 and 2005. Congress allowed the therapy caps to go back into effect on January 1, 2006. The inflation adjusted caps are $1,740 in 2006. As directed by Congress in the Deficit Reduction Act of 2005, CMS is implementing an exceptions process for therapy expenses incurred in 2006. Under this process, a Medicare enrollee may request an exception from the therapy caps if the provision of therapy services is deemed to be medically necessary. Therapy cap exceptions will be available automatically for certain conditions and on a case-by-case basis upon submission of documentation of medical necessity.

We believe these therapy caps could have an adverse effect on the net operating revenues we generate from providing outpatient rehabilitation services to Medicare beneficiaries, to the extent that such patients receive services for which total payments would exceed the annual caps. For the three months ended March 31, 2006, we received approximately 8% of our outpatient rehabilitation net operating revenues from Medicare. See Business Government Regulations Overview of U.S. and State Government Reimbursements Outpatient rehabilitation services Medicare reimbursement.

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

Approximately 56% of our net operating revenues for the three months ended March 31, 2006 came from the highly regulated federal Medicare program. In recent years, through legislative and regulatory actions, the federal government has made substantial changes to various payment systems under the Medicare program. Additional changes to these payment systems, including modifications to the conditions on qualification for payment and the imposition of enrollment limitations on new providers, may be proposed or could be adopted, either in Congress or by CMS. For instance, in its preamble to the January 27, 2006 proposed rule updating the long-term acute care hospital Medicare prospective payment system, CMS announced that it is studying whether payment adjustments similar to those adopted with respect to HIHs in 2004 should also be adopted with respect to free-standing long-term acute care hospitals. Such adjustments could include limiting payments to free-standing long-term acute care hospitals to the extent that greater than 25% of a facility s admissions come from a single general acute care hospital. Because of the possibility of adoption of these kinds of proposals, the availability, methods and rates of Medicare reimbursements for services of the type furnished at our facilities could change at any time. Some of these changes and proposed changes could adversely affect our business strategy, operations and financial results. In addition, there can be no assurance that any increases in Medicare reimbursement rates established by CMS will fully reflect increases in our operating

costs.

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We conduct business in a heavily regulated industry, and changes in regulations or violations of regulations may result in increased costs or sanctions that reduce our net operating revenues and profitability.

The healthcare industry is subject to extensive federal, state and local laws and regulations relating to:

facility and professional licensure, including certificates of need;

conduct of operations, including financial relationships among healthcare providers, Medicare fraud and abuse, and physician self-referral;

addition of facilities and services and enrollment of newly developed facilities in the Medicare program; and

payment for services.

Recently, there have been heightened coordinated civil and criminal enforcement efforts by both federal and state government agencies relating to the healthcare industry. The ongoing investigations relate to, among other things, various referral practices, cost reporting, billing practices, physician ownership and joint ventures involving hospitals. In the future, different interpretations or enforcement of these laws and regulations could subject our current practices to allegations of impropriety or illegality or could require us to make changes in our facilities, equipment, personnel, services and capital expenditure programs, increase our operating expenses and reduce our operating revenues. If we fail to comply with these extensive laws and government regulations, we could become ineligible to receive government program reimbursement, suffer civil or criminal penalties or be required to make significant changes to our operations. In addition, we could be forced to expend considerable resources responding to an investigation or other enforcement action under these laws or regulations. See Business Government Regulations.

Future acquisitions may use significant resources, may be unsuccessful and could expose us to unforeseen liabilities.

As part of our growth strategy, we may pursue acquisitions of specialty hospitals and outpatient rehabilitation clinics. Acquisitions may involve significant cash expenditures, debt incurrence, additional operating losses and expenses that could have a material adverse effect on our financial condition and results of operations. Acquisitions involve numerous risks, including:

the difficulty and expense of integrating acquired personnel into our business;

diversion of management s time from existing operations;

potential loss of key employees or customers of acquired companies; and

assumption of the liabilities and exposure to unforeseen liabilities of acquired companies, including liabilities for failure to comply with healthcare regulations.

We cannot assure you that we will succeed in obtaining financing for acquisitions at a reasonable cost, or that such financing will not contain restrictive covenants that limit our operating flexibility. We also may be unable to operate acquired hospitals and outpatient rehabilitation clinics profitably or succeed in achieving improvements in their financial performance.

Future cost containment initiatives undertaken by private third-party payors may limit our future net operating revenues and profitability.

Initiatives undertaken by major insurers and managed care companies to contain healthcare costs affect the profitability of our specialty hospitals and outpatient rehabilitation clinics. These payors attempt to control healthcare costs by contracting with hospitals and other healthcare providers to obtain services on a discounted basis. We believe that this trend may continue and may limit reimbursements for healthcare services. If insurers or managed care companies from whom we receive substantial payments reduce the amounts they pay for services, our profit margins may decline, or we may lose patients if we choose not to renew our contracts with these insurers at lower rates.

If we fail to maintain established relationships with the physicians in our markets, our net operating revenues may decrease.

Our success is, in part, dependent upon the admissions and referral practices of the physicians in the communities our hospitals and our outpatient rehabilitation clinics serve, and our ability to maintain good

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relations with these physicians. Physicians referring patients to our hospitals and clinics are generally not our employees and, in many of the markets that we serve, most physicians have admitting privileges at other hospitals and are free to refer their patients to other providers. If we are unable to successfully cultivate and maintain strong relationships with these physicians, our hospitals admissions and clinics businesses may decrease, and our net operating revenues may decline.

Shortages in qualified nurses or therapists could increase our operating costs significantly.

Our specialty hospitals are highly dependent on nurses for patient care and our outpatient rehabilitation clinics are highly dependant on therapists for patient care. The availability of qualified nurses and therapists nationwide has declined in recent years, and the salaries for nurses and therapists have risen accordingly. We cannot assure you we will be able to attract and retain qualified nurses or therapists in the future. Additionally, the cost of attracting and retaining nurses and therapists may be higher than we anticipate, and as a result, our profitability could decline.

Competition may limit our ability to acquire hospitals and clinics and adversely affect our growth.

We have historically faced limited competition in acquiring specialty hospitals and outpatient rehabilitation clinics, but we may face heightened competition in the future. Our competitors may acquire or seek to acquire many of the hospitals and clinics that would be suitable acquisition candidates for us. In addition, in recent years we have experienced increased competition for hospitals and clinics that would be suitable acquisition candidates for us from financial buyers. This increased competition could hamper our ability to acquire companies because we are outbid, or such increased competition may cause us to pay a higher price than we would otherwise pay in a less competitive environment. Increased competition from both strategic and financial buyers could limit our ability to grow by acquisitions or make our cost of acquisitions higher and therefore decrease our profitability.

If we fail to compete effectively with other hospitals, clinics and healthcare providers, our net operating revenues and profitability may decline.

The healthcare business is highly competitive, and we compete with other hospitals, rehabilitation clinics and other healthcare providers for patients. If we are unable to compete effectively in the specialty hospital and outpatient rehabilitation businesses, our net operating revenues and profitability may decline. Many of our specialty hospitals operate in geographic areas where we compete with at least one other hospital that provides similar services. Our outpatient rehabilitation clinics face competition from a variety of local and national outpatient rehabilitation providers. Other outpatient rehabilitation clinics in markets we serve may have greater name recognition and longer operating histories than our clinics. The managers of these clinics may also have stronger relationships with physicians in their communities, which could give them a competitive advantage for patient referrals.

Our business operations could be significantly disrupted if we lose key members of our management team.

Our success depends to a significant degree upon the continued contributions of our senior officers and key employees, both individually and as a group. Our future performance will be substantially dependent in particular on our ability to retain and motivate four key employees, Rocco A. Ortenzio, Robert A. Ortenzio, Patricia A. Rice and Martin F. Jackson. We currently have an employment agreement in place with Mr. Ortenzio, Mr. Ortenzio and Ms. Rice and a change in control agreement with Mr. Jackson. See Management Employment Agreements. Each also has a significant equity ownership in Holdings. See Security Ownership of Certain Beneficial Owners and Management. We have no reason to believe that we will lose the services of any of these individuals in the foreseeable future; however, we currently have no effective replacement for each of these individuals, due to their experience, reputation in the industry and special role in our operations. The loss of the services of any of these individuals would disrupt significant aspects of our business, could prevent us from successfully executing our business strategy and could have a material adverse affect on our results of operations.

Significant legal actions as well as the cost and possible lack of available insurance could subject us to substantial uninsured liabilities.

In recent years, physicians, hospitals and other healthcare providers have become subject to an increasing number of legal actions alleging malpractice, product liability or related legal theories. Many of these actions

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involve large claims and significant defense costs. We are also subject to lawsuits under a federal whistleblower statute designed to combat fraud and abuse in the healthcare industry. These whistleblower lawsuits are not covered by insurance and can involve significant monetary damages and award bounties to private plaintiffs who successfully bring the suits. See Legal Proceedings.

To mitigate our financial risk, we maintain professional malpractice liability insurance and general liability insurance coverages under a combination of policies with a total annual aggregate limit of $30 million. Our insurance for the professional liability coverage is written on a claims-made basis and our commercial general liability coverage is maintained on an occurrence basis. These coverages are generally subject to a self-insured retention of $2 million per medical incident for professional liability claims and $2 million per occurrence for general liability claims. In recent years, many insurance underwriters have become more selective in the insurance limits and types of coverage they will provide as a result of rising settlement costs. In some instances, insurance underwriters will no longer underwrite risk in certain states that have a history of high medical malpractice awards. There can be no assurance that in the future, malpractice insurance will be available in certain states nor that we will be able to obtain insurance coverage at a reasonable price. Since our professional liability insurance is on a claims-made basis, any failure to obtain malpractice insurance in any state in the future would increase our exposure not only to claims arising in the future in such state but to claims arising from injuries that may have already occurred but which had not been reported during the period in which we previously had insurance coverage in that state. In addition, our insurance coverage does not cover punitive damages and may not cover all claims against us. See Business Government Regulations Other Healthcare Regulations and Management s Discussion and Analysis of Financial Condition and Results of Operations Medical and Professional Malpractice Insurance.

The interests of our principal stockholder may conflict with your interests as a holder of the notes.

An investor group led by Welsh Carson and Thoma Cressey owns substantially all of the outstanding equity securities of our parent. Welsh Carson controls a majority of the voting power of such outstanding equity securities and therefore ultimately controls all of our affairs and policies, including the election of our board of directors, the approval of certain actions such as amending our charter, commencing bankruptcy proceedings and taking certain corporate actions (including, without limitation, incurring debt, issuing stock, selling assets and engaging in mergers and acquisitions), and appointing members of our management. Welsh Carson s interests in exercising control over our business may conflict with your interests as a holder of the exchange notes.

Risks Related to the Notes

The notes are non-investment grade, and the market price for the notes may be volatile.

The notes currently have non-investment grade ratings of Caa1 and B- under Moody s and Standard & Poors, respectively. The notes may never be rated investment grade, and if they are rated investment grade, the notes may not maintain such rating. Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the exchange notes. The market for the exchange notes, if any, may be subject to similar disruptions. Any such disruptions may have a negative effect on you, as a holder of the exchange notes, regardless of our prospects and financial performance. If any of the exchange notes are traded after their initial issuance, they may trade at a discount from the initial offering price of the old notes. In addition to disruptions in the non-investment grade debt market, factors that could cause the notes to trade at a discount include an increase in interest rates, a decline in economic conditions generally and a decline in our financial condition.

Holdings is the sole obligor under the notes. Our subsidiaries, including Select, will not guarantee our obligations under the notes and do not have any obligation with respect to the notes; the notes will be structurally subordinated to all indebtedness and other obligations of Holdings subsidiaries, including Select. Holdings is a holding company and therefore depends on its subsidiaries to service its obligations under the notes and its other indebtedness. Holdings ability to repay the notes depends upon the performance of its subsidiaries and their ability to make distributions.

Holdings has no operations of its own and derives all of its revenues and cash flow from its subsidiaries. None of Holdings subsidiaries have guaranteed the notes. Holdings subsidiaries are separate and distinct legal entities and have

no obligation, contingent or otherwise, to pay any amounts due under the notes, or to make any funds available therefore, whether by dividend, distribution, loan or other payments, and the

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consequent rights of holders of notes to realize proceeds from the sale of any of those subsidiaries assets will be structurally subordinated to the claims of subsidiaries creditors, including trade creditors and holders of debt of those subsidiaries. As a result, the notes are structurally subordinated to the prior payment of all of the debts (including trade payables) of Holdings subsidiaries. Holdings subsidiaries have a significant amount of indebtedness. The total consolidated balance sheet liabilities of Select and its subsidiaries, as of March 31, 2006, were $1,601.1 million, of which $1,263.4 million constituted indebtedness, including $602.2 of indebtedness (excluding $22.5 million of letters of credit) under Select s existing senior secured credit facility and $660.0 million of Select s existing 7⅝% senior subordinated notes. All such indebtedness will mature prior to the notes. In addition, as of such date, Select also would have been able to borrow up to an additional $249.5 million under Select s existing senior secured credit facility. Holdings and its restricted subsidiaries may incur additional debt in the future, including under Select s existing senior secured credit facility.

You and the other holders of Holdings indebtedness and liabilities are only entitled to participate in the assets of Holdings subsidiaries remaining after the subsidiaries have paid all of their debts and liabilities.

The following table summarizes our indebtedness at December 31, 2005, and the effect such indebtedness is expected to have on our liquidity and cash flow in future periods.

	Balance at December 31, 2005	Payments Due by Year					
		2006	2007	2008	2009	2010	Thereafter
Select:							
Senior Secured Credit Facility	$ 660,650	$ 5,800	$ 5,800	$ 5,800	$ 5,800	$ 5,800	$ 631,650
7⅝% Senior Subordinated Notes	660,000						660,000
Seller Notes	899	355	389	155			
Capital Lease Obligations	359	197	162				
Other Debt Obligations	372	164	208				
Total Debt	1,322,280	6,516	6,559	5,955	5,800	5,800	1,291,650
Interest(2)		90,972	90,572	90,169	89,802	89,445	228,758
Total	$ 1,322,280	$ 97,488	$ 97,131	$ 96,124	$ 95,602	$ 95,245	$ 1,520,408
Holdings:							
10% Senior Subordinated Notes(1)	$ 131,609	$	$	$	$	$	$ 131,609
Senior Floating Rate Notes	175,000						175,000
Total Debt	306,609						306,609
Interest(2)		32,850	32,850	32,850	32,850	32,850	159,193
Total	$ 306,609	$ 32,850	$ 32,850	$ 32,850	$ 32,850	$ 32,850	$ 465,802

(1) Reflects the balance sheet liability of Holdings senior subordinated notes calculated in accordance with GAAP. The balance sheet liability so reflected is less than the $150.0 million aggregate principal amount of such notes because such notes were issued with original issue discount totaling $18.4 million. Interest on the senior subordinated notes accrues on the full principal amount thereof and Holdings will be obligated to repay the full principal amount thereof at maturity or upon any mandatory or voluntary prepayment thereof.

(2) The interest obligation was calculated using the average interest rate for the quarter ended December 31, 2005 of 6.158% for the senior credit facility, the stated interest rate for the 7^{5}/8 % senior subordinated notes and the 10% senior subordinated notes, 10.2% for the senior floating rate notes and 6.0% for seller notes, capital lease obligations and other debt obligations.

Holdings depends on its subsidiaries, who conduct the operations of the business, for dividends and other payments to generate the funds necessary to meet its financial obligations, including payments of principal and interest on the notes. However, none of Holdings subsidiaries is obligated to make funds available to it for payment on the notes. The terms of Select s existing senior secured credit facility and the terms of the indentures governing Select s existing 7^{5}/8 % senior subordinated notes restrict Select and its subsidiaries from, in each case, paying dividends or otherwise transferring its assets to Holdings. Such restrictions include, among others, financial covenants, prohibition of dividends in the event of a default and limitations on the total amount of dividends. In addition, legal and contractual restrictions in agreements governing other current and future indebtedness, as well as financial condition and operating requirements of Holdings subsidiaries,

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currently limit and may, in the future, limit Holdings ability to obtain cash from its subsidiaries. The earnings from, or other available assets of Holdings subsidiaries may not be sufficient to pay dividends or make distributions or loans to enable Holdings to make payments in respect of the notes when such payments are due. In addition, even if such earnings were sufficient, we cannot assure you that the agreements governing the current and future indebtedness of Holdings subsidiaries will permit such subsidiaries to provide Holdings with sufficient dividends, distributions or loans to fund interest and principal payments on the notes offered hereby when due.

The following table summarizes the amount of funds that Select remitted to Holdings in the period from February 25, 2005 through December 31, 2005 and for the three months ended March 31, 2006. As of March 31, 2006, Select had remitted to Holdings all the funds it was permitted to remit to Holdings through that date under the terms of Select s senior secured credit facility and senior subordinated notes. We expect in the future that Select will continue to remit to Holdings the maximum amount that is permitted under the terms of Select s senior secured credit facility and senior subordinated notes, which includes amounts necessary to fund the interest payments on the notes and our 10% senior subordinated notes and other permitted payments.

	Period from February 25, 2005 through December 31, 2005(1)	Three months ended March 31, 2006(2)
	(In thousands)	
Funds remitted by Select to Holdings	$ 24,441	$ 15,733

(1) Funds are comprised of $14.5 million paid to certain members of senior management of Select under the terms of our long-term incentive compensation plan, $6.5 million to fund the interest payment on our $150.0 million 10% senior subordinated notes and $3.4 million in other general and administrative expenses primarily related to the issuance of our $175.0 million senior floating rate notes.

(2) Funds are comprised of $7.5 million to fund the interest payment on our $150.0 million 10% senior subordinated notes and $8.2 million to fund the interest payment on our $175.0 million senior floating rate notes.

Our substantial indebtedness may limit the amount of cash flow available to invest in the ongoing needs of our business, which could prevent us from generating the future cash flow needed to fulfill our obligations under the notes.

We have a substantial amount of indebtedness. As of March 31, 2006, we had approximately $1,570.3 million of total indebtedness and a total debt to total capitalization ratio of 0.9 to 1.0.

Our indebtedness could have important consequences to you. For example, it:

requires us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, reducing the availability of our cash flow to fund working capital, capital expenditures, development activity, acquisitions and other general corporate purposes;

increases our vulnerability to adverse general economic or industry conditions;

limits our flexibility in planning for, or reacting to, changes in our business or the industries in which we operate;

makes us more vulnerable to increases in interest rates, as borrowings under Select s existing senior secured credit facility and the notes are at variable rates;

limits our ability to obtain additional financing in the future for working capital or other purposes, such as raising the funds necessary to repurchase all notes tendered to us upon the occurrence of specified changes of control in our ownership; or

places us at a competitive disadvantage compared to our competitors that have less indebtedness.

See Unaudited Pro Forma Condensed Consolidated Financial Information of Select, and Description of Certain Other Indebtedness Select s existing senior secured credit facility.

Despite our substantial level of indebtedness, we and our subsidiaries may be able to incur additional indebtedness. This could further exacerbate the risks described above.

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We and our subsidiaries may be able to incur additional indebtedness in the future. Although Select s existing senior secured credit facility, the indenture governing Select s existing 7 7/8 % senior subordinated notes and the indenture governing the notes each contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. Also, these restrictions do not prevent us or our subsidiaries from incurring obligations that do not constitute indebtedness. As of March 31, 2006, Select had $249.5 million of revolving loan availability under its existing senior secured credit facility with $22.5 million in outstanding letters of credit, all of which are senior to the notes. To the extent new debt is added to our and our subsidiaries current debt levels, the substantial leverage risks described above would increase. See Description of the Notes and Description of Certain Other Indebtedness Select s existing senior secured credit facility.

To service our indebtedness and meet our other ongoing liquidity needs, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control, including possible changes in government reimbursement rates or methods. If we cannot generate the required cash, we may not be able to make the required payments under the notes.

Our ability to make payments on our indebtedness, including the notes, and to fund our planned capital expenditures and our other ongoing liquidity needs will depend on our ability to generate cash in the future. Our future financial results will be subject to substantial fluctuations upon a significant change in government reimbursement rates or methods. We cannot assure you that our business will generate sufficient cash flow from operations to enable us to pay our indebtedness, including our indebtedness in respect of the notes, or to fund our other liquidity needs. Our inability to pay our debts would require us to pursue one or more alternative strategies, such as selling assets, refinancing or restructuring our indebtedness or selling equity capital. However, we cannot assure you that any alternative strategies will be feasible at the time or provide adequate funds to allow us to pay our debts as they come due and fund our other liquidity needs. Also, some alternative strategies would require the prior consent of our senior secured lenders, which we may not be able to obtain. See Management s Discussion and Analysis of Financial Condition and Results of Operations of Select Liquidity and capital resources and Description of Certain Other Indebtedness Select s existing senior secured credit facility.

The notes are not secured by our assets and the lenders under Select s existing senior secured credit facility will be entitled to remedies available to a secured lender, which gives them priority over you to collect amounts due to them.

The notes will not be secured by any of our assets. Select s existing senior secured credit facility is secured by, among other things, a first priority pledge of all of Select s capital stock, which is our only asset. If we become insolvent or are liquidated, or if payment under Select s existing senior secured credit facility or in respect of any other secured indebtedness is accelerated, the lenders under Select s existing senior secured credit facility or holders of other secured indebtedness will be entitled to exercise the remedies available to a secured lender under applicable law (in addition to any remedies that may be available under documents pertaining to Select s existing senior secured credit facility or other secured debt). These remedies would include the ability to sell all of Select s capital stock or substantially all of its assets and use the proceeds from such sale or sales to repay the secured indebtedness. This may leave no additional funds for Select to distribute to us to enable us to satisfy our obligations under the notes. As of March 31, 2006, Select had outstanding $602.2 million of indebtedness (excluding $22.5 million of letters of credit) under its existing senior credit facility, and as of such date would have also been able to borrow an additional $249.5 million under its existing senior credit facility (after giving effect to $22.5 million of letters of credit then outstanding.) See Description of Certain Other Indebtedness Select s existing senior secured credit facility and Description of the Notes.

Restrictions imposed by Select s existing senior secured credit facility and the indenture governing the notes limit our ability to engage in or enter into business, operating and financing arrangements, which could prevent us from taking advantage of potentially profitable business opportunities.

The operating and financial restrictions and covenants in Select s existing senior secured credit facility and the indenture governing the notes may adversely affect our ability to finance our future operations or

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capital needs or engage in other business activities that may be in our interest. For example, Select s existing senior secured credit facility restricts, among other things, Select s ability to:

- incur, assume, permit to exist or guarantee additional debt and issue or sell or permit any subsidiary to issue or sell preferred stock;
- pay dividends or other distributions on, redeem, repurchase, retire or cancel capital stock;
- purchase or acquire any debt or equity securities of, make any loans or advances to, guarantee any obligation of, or make any other investment in, any other company;
- incur or permit to exist certain liens on property or assets owned or accrued or assign or sell any income or revenues with respect to such property or assets;
- sell or otherwise transfer property or assets to, purchase or otherwise receive property or assets from, or otherwise enter into transactions with affiliates;
- merge, consolidate or amalgamate with another company or permit any subsidiary to merge, consolidate or amalgamate with another company;
- sell, transfer or otherwise dispose of assets, including any equity interests;
- repay, redeem, repurchase, retire or cancel any subordinated debt;
- incur capital expenditures;
- engage to any material extent in any business other than business of the type currently conducted by Select or reasonably related businesses; and
- incur obligations that restrict the ability of its subsidiaries to incur or permit to exist any liens on its property or assets or to make dividends or other payments to us.

The indenture governing the notes includes similar restrictions. See Description of the Notes. Select s existing senior secured credit facility also requires it to maintain certain interest expense coverage ratios and leverage ratios which become more restrictive over time. For the four consecutive fiscal quarters ended March 31, 2006, Select was required to maintain an interest expense coverage ratio (its ratio of consolidated EBITDA to cash interest expense) for the prior four consecutive quarters of at least 2.00 to 1.00. Select s interest expense coverage ratio was 2.96 to 1.00 for such period. As of March 31, 2006, Select was required to maintain its leverage ratio (its ratio of total indebtedness to consolidated EBITDA for the prior four consecutive fiscal quarters) at less than 4.75 to 1.00. Select s leverage ratio was 3.79 to 1.00 as of such date. Select s ability to comply with these ratios in the future may be affected by events beyond its control. A breach of any of these covenants or its inability to comply with the required financial ratios could result in a default under Select s existing senior secured credit facility. In the event of any default under Select s existing senior secured credit facility, the lenders under Select s existing senior secured credit facility could elect to terminate borrowing commitments and declare all borrowings outstanding, together with accrued and unpaid interest and other fees, to be due and payable, to require Select to apply all of its available cash to repay these borrowings or to prevent Select from making debt service payments on its existing $7^5/8$ % senior subordinated notes, any of which would be an event of default under the notes. See Description of the Notes and Description of Certain Other Indebtedness Select s existing senior secured credit facility and Select s existing senior subordinated notes.

We may not have the funds to purchase the notes upon a change of control as required by the indenture governing the notes. This could result in the occurrence of an event of default under our existing debt

agreements and the acceleration of some or all of our outstanding debt, which may result in our having insufficient funds to repay the notes.

If we were to experience a change of control as described under Description of the Notes, we would be required to make an offer to purchase all of the notes then outstanding at 101% of their principal amount, plus accrued and unpaid interest to the date of purchase. A change of control is defined as the occurrence of any of the following:

a sale of all or substantially all of our assets;

the adoption of a plan relating to our liquidation or dissolution;

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the consummation of a transaction the result of which is that any person (other than Welsh Carson, Thoma Cressey, Rocco Ortenzio or Robert Ortenzio and their respective affiliates and family members) become the beneficial owner of more than 40% of the voting stock of Holdings; and

the first day that a majority of the members of our Board of Directors are not Continuing Directors as described under Description of the Notes.

The source of funds for any purchase of the notes would be our available cash or cash generated from other sources, including borrowings, sales of assets, sales of equity or funds provided by our existing or new stockholders. We cannot assure you that any of these sources will be available or sufficient to make the required repurchase of the notes, and restrictions in Select s existing senior secured credit facility and other indebtedness may not allow such repurchases. We currently do not have sufficient funds on hand to pay for the required purchase of the notes upon a change of control should the need arise. Upon the occurrence of a change of control event, we may seek to refinance the debt outstanding under Select s existing senior secured credit facility, Select s existing 5/8% senior subordinated notes and the notes. However, it is possible that we will not be able to complete such refinancing on commercially reasonable terms or at all. In such event, we would not have the funds necessary to finance the required change of control offer. See Description of the Notes Repurchase at the option of holders Change of control.

In addition, a change of control would be an event of default under Select s existing senior secured credit facility and Select s existing 5/8% senior subordinated notes. Any future credit agreement or other agreements relating to our senior debt to which we become a party may contain similar provisions. Our failure to purchase the notes upon a change of control under the indenture would constitute an event of default under the indenture. This default would, in turn, constitute an event of default under Select s existing senior secured credit facility and Select s existing 5/8% senior subordinated notes and may constitute an event of default under future debt, any of which may cause the related debt to be accelerated after any applicable notice or grace periods. If debt were to be accelerated, we might not have sufficient funds to repurchase the notes and repay the debt.

There may be no active trading market for the exchange notes.

The exchange notes will constitute a new issue of securities for which there will be no established trading market. We do not intend to list the exchange notes on any national securities exchange or to seek the admission of the exchange notes for quotation through the National Association of Securities Dealers Automated Quotation System. Although the initial purchasers advised us that they intend to make a market in the exchange notes, they are not obligated to do so and may discontinue such market making activity at any time without notice. We believe it is unlikely that a significant market for the notes will develop.

There can be no assurance as to the development or liquidity of any market for the exchange notes, the ability of the holders of the exchange notes to sell their exchange notes or the price at which the holders would be able to sell their exchange notes.

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INDUSTRY AND MARKET DATA

Throughout this prospectus we rely on and refer to information and statistics regarding the healthcare industry. We obtained this information and these statistics from various third-party sources, discussions with our customers and our own internal estimates.

FORWARD LOOKING STATEMENTS

This prospectus contains forward-looking statements regarding, among other things, our financial condition, results of operations, plans, objectives, future performance and business. All statements contained in this document other than historical information are forward-looking statements. Forward-looking statements include, but are not limited to, statements that represent our beliefs concerning future operations, strategies, financial results or other developments, and contain words and phrases such as may, expects, believes, anticipates, estimates, should, c expressions. Because these forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond our control or are subject to change, actual results could be materially different. Although we believe that our plans, intentions and expectations reflected in or suggested by these forward-looking statements are reasonable, we cannot assure you that we will achieve or realize these plans, intentions or expectations. Forward-looking statements are inherently subject to risks, uncertainties and assumptions. Important factors that could cause actual results to differ materially from the forward-looking statements include, but are not limited to:

compliance with the Medicare hospital within a hospital regulation changes will require increased capital expenditures and may have an adverse effect on our future net operating revenues and profitability;

additional changes in government reimbursement for our services may have an adverse effect on our future net operating revenues and profitability, such as the final regulations released by the Centers for Medicare & Medicaid Services on May 2, 2006;

the failure of our long-term acute care hospitals to maintain their status as such may cause our net operating revenues and profitability to decline;

the failure of our facilities operated as hospitals within hospitals to qualify as hospitals separate from their host hospitals may cause our net operating revenues and profitability to decline;

implementation of modifications to the admissions policies for our inpatient rehabilitation facilities, as required to achieve compliance with Medicare guidelines, may result in a loss of patient volume at these hospitals and, as a result, may reduce our future net operating revenues and profitability;

implementation of annual caps that limit the amounts that can be paid for outpatient therapy services rendered to any Medicare beneficiary may reduce our future net operating revenues and profitability;

changes in applicable regulations or a government investigation or assertion that we have violated applicable regulations may result in increased costs or sanctions that reduce our net operating revenues and profitability;

integration of recently acquired operations and future acquisitions may prove difficult or unsuccessful, use significant resources or expose us to unforeseen liabilities;

private third-party payors for our services may undertake future cost containment initiatives that limit our future net operating revenues and profitability;

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the failure to maintain established relationships with the physicians in our markets could reduce our net operating revenues and profitability;

shortages in qualified nurses or therapists could increase our operating costs significantly;

competition may limit our ability to grow and result in a decrease in our net operating revenues and profitability;

the loss of key members of our management team could significantly disrupt our operations; and

the effect of claims asserted against us or lack of adequate available insurance could subject us to substantial uninsured liabilities.

Consequently, such forward-looking statements should be regarded solely as our current plans, estimates and beliefs. You should review carefully the section captioned Risk Factors in this prospectus for a more complete discussion of the risks of an investment in the notes.

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THE EXCHANGE OFFER

General

Concurrently with the sale of the outstanding notes on September 29, 2005, we entered into an exchange and registration rights agreement with the initial purchasers of the outstanding notes, which requires us to file a registration statement under the Securities Act with respect to the exchange notes and, upon the effectiveness of the registration statement, offer to the holders of the outstanding notes the opportunity to exchange their outstanding notes for a like principal amount of exchange notes. The exchange notes will be issued without a restrictive legend and generally may be reoffered and resold without registration under the Securities Act. The exchange and registration rights agreement further provides that we must (i) file on or prior to 205 days, and use commercially reasonable efforts to cause to become effective on or prior to 295 days, from the date of the original issue of the outstanding notes, the registration statement of which this prospectus is a part with respect to the exchange of the outstanding notes for the exchange notes to be issued in the exchange offer and (ii) use commercially reasonable efforts to cause the exchange offer to be completed on or prior to 325 days from the original issue of the outstanding notes.

Except as described below, upon the completion of the exchange offer, our obligations with respect to the registration of the outstanding notes and the exchange notes will terminate. A copy of the exchange and registration rights agreement has been filed as an exhibit to the registration statement of which this prospectus is a part. Following the completion of the exchange offer, holders of outstanding notes not tendered will not have any further registration rights other than as set forth in the paragraphs below, and the outstanding notes will continue to be subject to certain restrictions on transfer.

In order to participate in the exchange offer, a holder must represent to us, among other things, that:

- the exchange notes acquired pursuant to the exchange offer are being obtained in the ordinary course of business of the holder;
- the holder does not have an arrangement or understanding with any person to participate in the distribution of the exchange notes;
- the holder is not an affiliate, as defined under Rule 405 under the Securities Act, of Holdings; and
- if the holder is a broker-dealer that will receive exchange notes for its own account in exchange for outstanding notes that were acquired as a result of market-making or other trading activities, then the holder will deliver a prospectus in connection with any resale of such exchange notes.

Under certain circumstances specified in the exchange and registration rights agreement, we may be required to file a shelf registration statement covering resales of the outstanding notes pursuant to Rule 415 under the Securities Act.

Based on an interpretation by the SEC s staff set forth in no-action letters issued to third parties unrelated to us, we believe that, with the exceptions set forth below, the exchange notes issued in the exchange offer may be offered for resale, resold and otherwise transferred by the holder of exchange notes without compliance with the registration and prospectus delivery requirements of the Securities Act, unless the holder:

- is an affiliate, within the meaning of Rule 405 under the Securities Act, of Holdings;
- is a broker-dealer who acquired outstanding notes directly from us and not as a result of market making activities or other trading activities;
- acquired the exchange notes other than in the ordinary course of the holder s business;
- has an arrangement with any person to engage in the distribution of the exchange notes; or
- is prohibited by any law or policy of the SEC from participating in the exchange offer.

Any holder who tenders in the exchange offer for the purpose of participating in a distribution of the exchange notes cannot rely on this interpretation by the SEC s staff and must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction. Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes, where such outstanding notes were acquired by such broker-dealer as a result of market making activities or other trading

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activities, must acknowledge that it will deliver a prospectus in connection with any resale of such exchange note. See Plan of Distribution. Broker-dealers who acquired outstanding notes directly from us and not as a result of market making activities or other trading activities may not rely on the staff s interpretations discussed above or participate in the exchange offer, and must comply with the prospectus delivery requirements of the Securities Act in order to sell the outstanding notes.

Terms of the Exchange Offer

Upon the terms and subject to the conditions set forth in this prospectus and in the letter of transmittal, we will accept any and all outstanding notes validly tendered and not withdrawn prior to 5:00 p.m., New York City time, on , 2006, or such date and time to which we extend the offer. We will issue $1,000 in principal amount of exchange notes in exchange for each $1,000 principal amount of outstanding notes accepted in the exchange offer. Holders may tender some or all of their outstanding notes pursuant to the exchange offer. However, outstanding notes may be tendered only in integral multiples of $1,000 in principal amount.

The exchange notes will evidence the same debt as the outstanding notes and will be issued under the terms of, and entitled to the benefits of, the indenture relating to the outstanding notes.

As of the date of this prospectus, $175.0 million in aggregate principal amount of outstanding notes were outstanding, and there was one registered holder, a nominee of The Depository Trust Company. This prospectus, together with the letter of transmittal, is being sent to the registered holder and to others believed to have beneficial interests in the outstanding notes. We intend to conduct the exchange offer in accordance with the applicable requirements of the Exchange Act and the rules and regulations of the SEC promulgated under the Exchange Act.

We will be deemed to have accepted validly tendered outstanding notes when, as and if we have given oral or written notice thereof to U.S. Bank Trust National Association, the exchange agent. The exchange agent will act as agent for the tendering holders for the purpose of receiving the exchange notes from us. If any tendered outstanding notes are not accepted for exchange because of an invalid tender, the occurrence of certain other events set forth under the heading Conditions to the Exchange Offer, certificates for any such unaccepted outstanding notes will be returned, without expense, to the tendering holder of those outstanding notes promptly after the expiration date unless the exchange offer is extended.

Holders who tender outstanding notes in the exchange offer will not be required to pay brokerage commissions or fees or, subject to the instructions in the letter of transmittal, transfer taxes with respect to the exchange of outstanding notes in the exchange offer. We will pay all charges and expenses, other than certain applicable taxes, applicable to the exchange offer. See Fees and Expenses.

Expiration Date; Extensions; Amendments

The expiration date shall be 5:00 p.m., New York City time, on , 2006, unless we, in our sole discretion, extend the exchange offer, in which case the expiration date shall be the latest date and time to which the exchange offer is extended. In order to extend the exchange offer, we will notify the exchange agent and each registered holder of any extension by oral or written notice prior to 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date and will also disseminate notice of any extension by press release or other public announcement prior to 9:00 a.m., New York City time on such date. We reserve the right, in our sole discretion:

- to delay accepting any outstanding notes, to extend the exchange offer or, if any of the conditions set forth under Conditions to the Exchange Offer shall not have been satisfied, to terminate the exchange offer, by giving oral or written notice of that delay, extension or termination to the exchange agent, or

- to amend the terms of the exchange offer in any manner.

In the event that we make a fundamental change to the terms of the exchange offer, we will file a post-effective amendment to the registration statement. In the event that we make a material change in the exchange offer, including the waiver of a material condition, we will extend the expiration date of the exchange offer so that at least five business days remain in the exchange offer following notice of the material change.

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Procedures for Tendering

Only a holder of outstanding notes may tender the outstanding notes in the exchange offer. Except as set forth under Book-Entry Transfer, to tender in the exchange offer a holder must complete, sign and date the letter of transmittal, or a copy of the letter of transmittal, have the signatures on the letter of transmittal guaranteed if required by the letter of transmittal and mail or otherwise deliver the letter of transmittal or copy to the exchange agent prior to the expiration date. In addition:

- certificates for the outstanding notes must be received by the exchange agent along with the letter of transmittal prior to the expiration date, or
- a timely confirmation of a book-entry transfer, or a book-entry confirmation, of the outstanding notes, if that procedure is available, into the exchange agent s account at The Depository Trust Company, which we refer to as the book-entry transfer facility, following the procedure for book-entry transfer described below, must be received by the exchange agent prior to the expiration date, or you must comply with the guaranteed delivery procedures described below.

To be tendered effectively, the letter of transmittal and the required documents must be received by the exchange agent at the address set forth under Exchange Agent prior to the expiration date.

Your tender, if not withdrawn prior to 5:00 p.m., New York City time, on the expiration date, will constitute an agreement between you and us in accordance with the terms and subject to the conditions set forth herein and in the letter of transmittal.

The method of delivery of outstanding notes and the letter of transmittal and all other required documents to the exchange agent is at your election and risk. Instead of delivery by mail, it is recommended that you use an overnight or hand delivery service. In all cases, sufficient time should be allowed to assure delivery to the exchange agent before the expiration date. No letter of transmittal or outstanding notes should be sent to us. You may request your broker, dealer, commercial bank, trust company or nominee to effect these transactions for you.

Any beneficial owner whose outstanding notes are registered in the name of a broker, dealer, commercial bank, trust company, or other nominee and who wishes to tender should contact the registered holder promptly and instruct the registered holder to tender on the beneficial owner s behalf. If the beneficial owner wishes to tender on its own behalf, the beneficial owner must, prior to completing and executing the letter of transmittal and delivering the owner s outstanding notes, either make appropriate arrangements to register ownership of the outstanding notes in the beneficial owner s name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time.

Signatures on a letter of transmittal or a notice of withdrawal, as the case may be, must be guaranteed by an eligible guarantor institution within the meaning of Rule 17Ad-15 under the Exchange Act unless outstanding notes tendered pursuant thereto are tendered:

- by a registered holder who has not completed the box entitled Special Issuance Instruction or Special Delivery Instructions on the letter of transmittal, or
- for the account of an eligible guarantor institution.

If signatures on a letter of transmittal or a notice of withdrawal, as the case may be, are required to be guaranteed, the guarantee must be by any eligible guarantor institution that is a member of or participant in the Securities Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Program or an eligible guarantor institution.

If the letter of transmittal is signed by a person other than the registered holder of any outstanding notes listed in the letter of transmittal, the outstanding notes must be endorsed or accompanied by a properly completed bond power, signed by the registered holder as that registered holder s name appears on the outstanding notes.

If the letter of transmittal or any outstanding notes or bond powers are signed by any trustee, executor, administrator, guardian, attorney-in-fact or officer, such person should so indicate when signing, and evidence satisfactory to us of their authority to so act must be submitted with the letter of transmittal unless waived by us.

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All questions as to the validity, form, eligibility, including time of receipt, acceptance, and withdrawal of tendered outstanding notes will be determined by us in our sole discretion, which determination will be final and binding. We reserve the absolute right to reject any and all outstanding notes not properly tendered or any outstanding notes our acceptance of which would, in the opinion of our counsel, be unlawful. We also reserve the right to waive any defects, irregularities or conditions of tender as to particular outstanding notes. Our interpretation of the terms and conditions of the exchange offer, including the instructions in the letter of transmittal, will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of outstanding notes must be cured within such time as we shall determine. Although we intend to notify holders of defects or irregularities with respect to tenders of outstanding notes, neither we, the exchange agent, nor any other person shall incur any liability for failure to give that notification. Tenders of outstanding notes will not be deemed to have been made until such defects or irregularities have been cured or waived. Any outstanding notes received by the exchange agent that are not properly tendered and as to which the defects or irregularities have not been cured or waived will be returned by the exchange agent to the tendering holders, unless otherwise provided in the letter of transmittal, promptly following the expiration date, unless the exchange offer is extended.

In addition, we reserve the right in our sole discretion to purchase or make offers for any outstanding notes that remain outstanding after the expiration date or, as set forth under Conditions to the Exchange Offer, to terminate the exchange offer and, to the extent permitted by applicable law, purchase outstanding notes in the open market, in privately negotiated transactions, or otherwise. The terms of any such purchases or offers could differ from the terms of the exchange offer.

In all cases, issuance of exchange notes for outstanding notes that are accepted for exchange in the exchange offer will be made only after timely receipt by the exchange agent of certificates for such outstanding notes or a timely book-entry confirmation of such outstanding notes into the exchange agent s account at the book-entry transfer facility, a properly completed and duly executed letter of transmittal or, with respect to The Depository Trust Company and its participants, electronic instructions in which the tendering holder acknowledges its receipt of and agreement to be bound by the letter of transmittal, and all other required documents. If any tendered outstanding notes are not accepted for any reason set forth in the terms and conditions of the exchange offer or if outstanding notes are submitted for a greater principal amount than the holder desires to exchange, such unaccepted or non-exchanged outstanding notes will be returned without expense to the tendering holder or, in the case of outstanding notes tendered by book-entry transfer into the exchange agent s account at the book-entry transfer facility according to the book-entry transfer procedures described below, those non-exchanged outstanding notes will be credited to an account maintained with that book-entry transfer facility, in each case, promptly after the expiration or termination of the exchange offer.

Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes, where those outstanding notes were acquired by such broker-dealer as a result of market making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of those exchange notes. See Plan of Distribution.

Book-Entry Transfer

The exchange agent will make a request to establish an account with respect to the outstanding notes at the book-entry transfer facility for purposes of the exchange offer promptly after the date of this prospectus, and any financial institution that is a participant in the book-entry transfer facility s systems may make book-entry delivery of outstanding notes being tendered by causing the book-entry transfer facility to transfer such outstanding notes into the exchange agent s account at the book-entry transfer facility in accordance with that book-entry transfer facility s procedures for transfer. However, although delivery of outstanding notes may be effected through book-entry transfer at the book-entry transfer facility, the letter of transmittal or copy of the letter of transmittal, with any required signature guarantees and any other required documents, must, in any case other than as set forth in the following paragraph, be transmitted to and received by the exchange agent at the address set forth under Exchange Agent on or prior to the expiration date or the guaranteed delivery procedures described below must be complied with.

The Depository Trust Company s Automated Tender Offer Program is the only method of processing exchange offers through The Depository Trust Company. To accept the exchange offer through the Automated Tender Offer Program, participants in The Depository Trust Company must send electronic

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instructions to The Depository Trust Company through The Depository Trust Company s communication system instead of sending a signed, hard copy letter of transmittal. The Depository Trust Company is obligated to communicate those electronic instructions to the exchange agent. To tender outstanding notes through the Automated Tender Offer Program, the electronic instructions sent to The Depository Trust Company and transmitted by The Depository Trust Company to the exchange agent must contain the character by which the participant acknowledges its receipt of and agrees to be bound by the letter of transmittal.

Guaranteed Delivery Procedures

If a registered holder of the outstanding notes desires to tender outstanding notes and the outstanding notes are not immediately available, or time will not permit that holder s outstanding notes or other required documents to reach the exchange agent prior to 5:00 p.m., New York City time, on the expiration date, or the procedure for book-entry transfer cannot be completed on a timely basis, a tender may be effected if:

the tender is made through an eligible guarantor institution;

prior to 5:00 p.m., New York City time, on the expiration date, the exchange agent receives from that eligible guarantor institution a properly completed and duly executed letter of transmittal or a facsimile of a duly executed letter of transmittal and notice of guaranteed delivery, substantially in the form provided by us, by telegram, fax transmission, mail or hand delivery, setting forth the name and address of the holder of outstanding notes and the amount of the outstanding notes tendered and stating that the tender is being made by guaranteed delivery, the certificates for all physically tendered outstanding notes, in proper form for transfer, or a book-entry confirmation, as the case may be, will be deposited by the eligible guarantor institution with the exchange agent; and

the certificates for all physically tendered outstanding notes, in proper form for transfer, or a book-entry confirmation, as the case may be, are received by the exchange agent within five business days after the date of execution of the notice of guaranteed delivery.

Withdrawal Rights

Tenders of outstanding notes may be withdrawn at any time prior to 5:00 p.m., New York City time, on the expiration date.

For a withdrawal of a tender of outstanding notes to be effective, a written or, for The Depository Trust Company participants, electronic Automated Tender Offer Program transmission, notice of withdrawal, must be received by the exchange agent at its address set forth under Exchange Agent prior to 5:00 p.m., New York City time, on the expiration date. Any such notice of withdrawal must:

specify the name of the person having deposited the outstanding notes to be withdrawn, whom we refer to as the depositor;

identify the outstanding notes to be withdrawn, including the certificate number or numbers and principal amount of such outstanding notes;

be signed by the holder in the same manner as the original signature on the letter of transmittal by which such outstanding notes were tendered, including any required signature guarantees, or be accompanied by documents of transfer sufficient to have the trustee register the transfer of such outstanding notes into the name of the person withdrawing the tender; and

specify the name in which any such outstanding notes are to be registered, if different from that of the depositor.

All questions as to the validity, form, eligibility and time of receipt of such notices will be determined by us, whose determination shall be final and binding on all parties. Any outstanding notes so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer. Any outstanding notes which have been tendered for exchange, but which are not exchanged for any reason, will be returned to the holder of those

outstanding notes without cost to that holder promptly after withdrawal, rejection of tender, or termination of the exchange offer. Properly withdrawn outstanding notes may be retendered by following one of the procedures under Procedures for Tendering at any time on or prior to the expiration date.

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Conditions to the Exchange Offer

Notwithstanding any other provision of the exchange offer, we will not be required to accept for exchange, or to issue exchange notes in exchange for, any outstanding notes and may terminate or amend the exchange offer if at any time before the expiration of the exchange offer, we determine that the exchange offer violates applicable law, any applicable interpretation of the staff of the SEC or any order of any governmental agency or court of competent jurisdiction.

The foregoing conditions are for our sole benefit and may be asserted by us regardless of the circumstances giving rise to any such condition or may be waived by us in whole or in part at any time and from time to time. The failure by us at any time to exercise any of the foregoing rights shall not be deemed a waiver of any of those rights and each of those rights shall be deemed an ongoing right which may be asserted at any time and from time to time.

In addition, we will not accept for exchange any outstanding notes tendered, and no exchange notes will be issued in exchange for those outstanding notes, if at such time any stop order shall be threatened or in effect with respect to the registration statement of which this prospectus constitutes a part or the qualification of the indenture under the Trust Indenture Act of 1939. In any of those events we are required to use every reasonable effort to obtain the withdrawal of any stop order at the earliest possible time.

Effect of Not Tendering

Holders of outstanding notes who do not exchange their outstanding notes for exchange notes in the exchange offer will remain subject to the restrictions on transfer of such outstanding notes:

- as set forth in the legend printed on the outstanding notes as a consequence of the issuance of the outstanding notes pursuant to the exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws; and

- otherwise set forth in the prospectus distributed in connection with the private offering of the outstanding notes.

Exchange Agent

All executed letters of transmittal should be directed to the exchange agent. U.S. Bank Trust National Association has been appointed as exchange agent for the exchange offer. Questions, requests for assistance and requests for additional copies of this prospectus or of the letter of transmittal should be directed to the exchange agent addressed as follows:

By Mail, Hand Delivery or Facsimile:	U.S. Bank Trust National Association Specialized Finance Group 60 Livingston Avenue St. Paul, MN 55107 Facsimile: (651) 495-8158

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Originals of all documents sent by facsimile should be sent promptly by registered or certified mail, by hand or by overnight delivery service.

Fees and Expenses

We will not make any payments to brokers, dealers or others soliciting acceptances of the exchange offer. The principal solicitation is being made by mail; however, additional solicitations may be made in person or by telephone by our officers and employees. The estimated cash expenses to be incurred in connection with the exchange offer will be paid by us and will include fees and expenses of the exchange agent, accounting, legal, printing and related fees and expenses.

Transfer Taxes

Holders who tender their outstanding notes for exchange will not be obligated to pay any transfer taxes in connection with that tender or exchange, except that holders who instruct us to register exchange notes in the name of, or request that outstanding notes not tendered or not accepted in the exchange offer be returned to, a person other than the registered tendering holder will be responsible for the payment of any applicable transfer tax on those outstanding notes.

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THE TRANSACTIONS

On February 24, 2005, EGL Acquisition Corp. was merged with and into Select, with Select continuing as the surviving corporation and a wholly-owned subsidiary of Holdings. Holdings was formally known as EGL Holding Company. Holdings and EGL Acquisition Corp. were Delaware corporations formed by Welsh Carson for purposes of engaging in the Merger and the related transactions. The Merger was completed pursuant to an agreement and plan of merger, dated as of October 17, 2004, among EGL Acquisition Corp., Holdings and Select.

Upon the consummation of the Merger, Select became a wholly-owned subsidiary of Holdings and all of the capital stock of Holdings was owned by an investor group that includes Welsh Carson and Thoma Cressey Equity Partners, Inc. (Thoma Cressey), and certain other rollover investors that participated in the Merger. We refer to those other investors as the continuing investors. The continuing investors include Rocco A. Ortenzio, our Executive Chairman and the chairman of our board of directors, Robert A. Ortenzio, our Chief Executive Officer and a member of our board of directors, certain other investors who are members of or affiliated with the Ortenzio family, certain individuals affiliated with Welsh Carson, including Russell L. Carson, a member of our board of directors and a founding general partner of Welsh Carson, Bryan C. Cressey, a member of our board of directors and a founding partner of Thoma Cressey, various investment funds affiliated with Thoma Cressey, Patricia A. Rice, our President and Chief Operating Officer, Martin F. Jackson, our Senior Vice President and Chief Financial Officer, S. Frank Fritsch, our Senior Vice President, Human Resources, Michael E. Tarvin, our Senior Vice President, General Counsel and Secretary, James J. Talalai, our Senior Vice President and Chief Information Officer, and Scott A. Romberger, our Vice President, Controller and Chief Accounting Officer. Immediately prior to the Merger, shares of Select s common stock which were owned by the continuing investors were contributed to Holdings in exchange for equity securities of Holdings. For purposes of such exchange, these rollover shares were valued at $152.0 million in the aggregate, or $18.00 per share (the per share merger consideration). Upon consummation of the Merger, these rollover shares were cancelled without payment of any merger consideration.

The amount of funds and rollover equity used to consummate the Transactions was $2,443.1 million, including:

- $1,827.7 million to pay Select s then existing stockholders (other than rollover stockholders) and option holders all amounts due under the merger agreement;
- $152.0 million of rollover equity from the continuing investors;
- $344.2 million to repay existing indebtedness of Select; and
- $119.2 million to pay related fees and expenses, including premiums, consent fees and interest payable in connection with the tender offers and consent solicitations for our then existing senior subordinated notes.

The Transactions were financed by:

- a cash equity investment in Holdings of $570.0 million by an investor group led by Welsh Carson and Thoma Cressey and a rollover equity investment in Holdings of $152.0 million by the continuing investors;
- Holdings issuance and sale of senior subordinated notes, preferred stock and common stock to WCAS Capital Partners IV, L.P., an investment fund affiliated with Welsh Carson, Rocco A. Ortenzio, Robert A. Ortenzio and certain other investors who are members of or affiliated with the Ortenzio family, for an aggregate purchase price of $150.0 million;
- borrowing of $580.0 million in term loans and $200.0 million in revolving loans under Select s senior secured credit facility;
- existing cash on hand at Select of $131.1 million; and
- the issuance by Select of $660.0 million in aggregate principal amount of 7^{5}/8 % senior subordinated notes.

In connection with the Merger, Select commenced tender offers to acquire all of Select s 9⁄2% senior subordinated notes due 2009 and all of Select s 7⁄2 % senior subordinated notes due 2013. Upon completion of

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the tender offers on February 24, 2005, holders of all of Select s 7/2% senior subordinated notes and holders of approximately 96.7% of Select s 9/2 % senior subordinated notes had delivered consents and tendered their notes in connection with such tender offers and consent solicitations.

As a result of the Transactions, the majority of our assets and liabilities were adjusted to their fair value as of February 25, 2005. The excess of the total purchase price over the fair value of our tangible and identifiable intangible assets was allocated to goodwill, which is the subject of an annual impairment test. Additionally, pursuant to Financial Accounting Standards Board Emerging Issues Task Force Issue No. 88-16 Basis in Leveraged Buyout Transactions, a portion of the equity related to the continuing investors was recorded at the investor s predecessor basis and a corresponding portion of the fair value of the acquired assets was reduced accordingly. By definition, our statements of financial position and results of operations subsequent to the Transactions are not comparable to the same statements for the periods prior to the Transactions due to the resulting change in basis. See Unaudited Pro Forma Condensed Consolidated Financial Information.

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USE OF PROCEEDS

This exchange offer is intended to satisfy certain of our obligations under the exchange and registration rights agreement, dated September 29, 2005, by and among us and the initial purchasers of the outstanding notes. We will not receive any proceeds from the issuance of the exchange notes in the exchange offer. In exchange for each of the exchange notes, we will receive outstanding notes in like principal amount. We will retire or cancel all of the outstanding notes tendered in the exchange offer. Accordingly, issuance of the exchange notes will not result in any change in our capitalization.

CAPITALIZATION

The following table sets forth our consolidated capitalization as of March 31, 2006 on an actual basis. You should read this table in conjunction with our audited consolidated financial statements and the related notes thereto included in this prospectus.

		As of March 31, 2006
		(In millions)
Cash and cash equivalents	$	13.9
Debt:		
Select:		
Revolving credit facility(1)	$	28.0
Term loan facility(2)		574.2
7 5/8 % senior subordinated notes due 2015		660.0
Other debt		1.2
Total Select debt		1,263.4
Holdings:		
Senior floating rate notes		175.0
10% senior subordinated notes due 2015(3)		131.9
Total Holdings debt		306.9
Total debt		1,570.3
Participating preferred stock		450.2
Total stockholder s equity		(219.9)
Total capitalization	$	1,800.6

(1) The revolving credit facility is a part of Select s existing senior secured credit facility and provides for borrowings of up to $300.0 million of which $249.5 million was available as of March 31, 2006 for working capital and general corporate purposes (after giving effect to $22.5 million of outstanding letters of credit at March 31, 2006).

(2) In connection with the Transactions, Select borrowed $580 million in term loans under its existing senior secured credit facility. Between February 24, 2005 and March 31, 2006 Select repaid approximately $5.8 million of its

outstanding term loans.

(3) Reflects the balance sheet liability of Holdings senior subordinated notes calculated in accordance with GAAP. The balance sheet liability so reflected is less than the $150.0 million aggregate principal amount of such notes because such notes were issued with original issue discount totaling $18.1 million. Interest on the senior subordinated notes accrues on the full principal amount thereof and Holdings will be obligated to repay the full principal amount thereof at maturity or upon any mandatory or voluntary prepayment thereof.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

You should read the following selected consolidated historical financial data in conjunction with our consolidated financial statements and the accompanying notes. You should also read Management s Discussion and Analysis of Financial Condition and Results of Operations. All of these materials are contained elsewhere in this prospectus. The data as of December 31, 2001, 2002, 2003, 2004 and 2005 and for the years ended December 31, 2001, 2002, 2003 and 2004, for the period from January 1, 2005 through February 24, 2005 (the Predecessor), and for the period from February 25, 2005 through December 31, 2005 (the Successor) have been derived from consolidated financial statements audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. We derived the historical financial data for the period from February 25, 2005 through March 31, 2005 and for the three months ended March 31, 2006 from our unaudited interim consolidated financial statements. Consolidated balance sheets at December 31, 2004 and 2005 and March 31, 2006 and the related statements of operations, stockholders equity and comprehensive income (loss), and cash flows for the years ended December 31, 2003 and 2004, the period from January 1, 2005 through February 24, 2005, the period from February 25, 2005 through March 31, 2005, the period from February 25, 2005 through December 31, 2005 and the three months ended March 31, 2006 and the related notes appear elsewhere in this prospectus. By definition, our statements of financial position and results of operations subsequent to the Transactions are not comparable to the same statements for the periods prior to the Transactions due to the resulting change in basis.

	Predecessor					Successor		
	Year Ended December 31,				Period from January 1 through February 24, 2005	Period from February 25 through December 31, 2005	Period from February 25, through March 31, 2005	Three Months Ended March 31, 2006
	2001	2002	2003	2004				
	(In thousands)							
Statement of Operations Data:								
Net operating revenues	$ 921,692	$ 1,086,894	$ 1,341,657	$ 1,601,524	$ 277,736	$ 1,580,706	$ 188,386	$ 479,743
Operating expenses(1)(2)	816,358	966,596	1,165,814	1,340,068	373,418	1,322,068	153,749	402,397
Depreciation and amortization	31,297	25,071	33,663	38,951	5,933	37,922	4,126	10,895
Income (loss) from operations	74,037	95,227	142,180	222,505	(101,615)	220,716	30,511	66,451
Loss on early retirement of debt(3)	(14,223)				(42,736)			

Merger related charges(4)					(12,025)			
Equity in income from joint ventures			824					
Other income				1,096	267	1,092	103	
Interest expense, net(5)	(27,604)	(25,293)	(24,499)	(30,716)	(4,128)	(101,441)	(10,967)	(32,659)
Income (loss) from continuing operations before minority interests and income taxes	32,210	69,934	118,505	192,885	(160,237)	120,367	19,647	33,792
Minority interests(6)	2,135	1,404	1,661	2,608	330	1,776	302	391
Income (loss) from continuing operations before income taxes	30,075	68,530	116,844	190,277	(160,567)	118,591	19,345	33,401
Income tax provision (benefit)	2,185	26,822	46,238	76,551	(59,794)	49,336	7,853	15,230
Income (loss) from continuing operations	27,890	41,708	70,606	113,726	(100,773)	69,255	11,492	18,171
Income from discontinued operations, net of tax	1,791	2,523	3,865	4,458	522	3,072	672	10,018
Net income (loss)	29,681	44,231	74,471	118,184	(100,251)	72,327	12,164	28,189
	2,513					23,519	2,924	5,488

Less: Preferred dividends								
Net income (loss) available to common stockholders	$ 27,168	$ 44,231	$ 74,471	$ 118,184	$ (100,251)	$ 48,808	$ 9,240	$ 22,701
Other Financial Data:								
Capital expenditures	$ 24,011	$ 43,183	$ 35,852	$ 32,626	$ 2,586	$ 107,360	$ 1,112	$ 38,386
Ratio of earnings to fixed charges(7)	1.5x	2.3x	3.1x	3.9x	n/a	1.7x	2.0x	1.6x
Cash Flow Data								
Net cash provided by operating activities	$ 95,770	$ 120,812	$ 246,248	$ 174,276	$ 19,056	$ 38,155	$ (191,971)	$ (5,578)
Net cash used in investing activities	(61,947)	(54,048)	(261,452)	(28,959)	(110,757)	(110,054)	(3,339)	36,734
Net cash provided by (used in) financing activities	(26,164)	(21,423)	124,318	(63,959)	94	(48,604)	58,828	(53,201)
Balance Sheet Data (at end of period):								
Cash and cash equivalents	$ 10,703	$ 56,062	$ 165,507	$ 247,476		$ 35,861	$ 19,343	$ 13,851
Working capital	126,749	130,621	188,380	313,715		77,556	157,071	65,809
Total assets	650,845	739,059	1,078,998	1,113,721		2,168,385	2,160,723	2,135,287
Total debt	288,423	260,217	367,503	354,590		1,628,889	1,580,824	1,570,327
	234,284	286,418	419,175	515,943		(244,658)	(288,076)	(219,921)

Total stockholders equity	

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

(2) Includes stock compensation expense related to the repurchase of outstanding stock options in the Predecessor period from January 1, 2005 through February 24, 2005, compensation expense related to restricted stock, stock options and long-term incentive compensation in the Successor period from February 25, 2005 through December 31, 2005 and compensation related to restricted stock and stock options in the Successor period from February 25, 2005 through March 31, 2005 and for the three months ended March 31, 2006.

(3) In connection with the Merger, Select tendered for all of its 9 1/2% senior subordinated notes due 2009 and all of its 7 1/2 % senior subordinated notes due 2013. The loss in the Predecessor period of January 1, 2005 through February 24, 2005 consists of the tender premium cost of $34.8 million and the remaining write-off of unamortized deferred financing costs of $7.9 million.

(4) As a result of the Merger, we incurred costs in the Predecessor period of January 1, 2005 through February 24, 2005 directly related to the Merger. This included the cost of the investment advisor hired by the Special Committee of the Board of Directors to evaluate the Merger, legal and accounting fees, costs associated with the Hart-Scott-Rodino filing relating to the Merger, cost associated with purchasing a six year extended reporting period under our directors and officers liability insurance policy and other associated expenses.

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

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

(7) For purposes of computing the ratio of earnings to fixed charges, earnings consist of income (loss) from continuing operations before income taxes, fixed charges, minority interest in income of subsidiaries, and income (loss) from unconsolidated joint ventures. Fixed charges include preferred dividend requirements of subsidiaries, deemed dividends on preferred stock conversion, interest expense, capitalized interest, interest related to discontinued operations, and the portion of operating rents that is deemed representative of an interest factor. For the period January 1, 2005 through February 24, 2005 (Predecessor period), the ratio coverage was less than 1:1, and we would have had to generate additional earnings of approximately $160.3 million to achieve a coverage ratio of 1:1.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma condensed consolidated financial information has been derived by the application of pro forma adjustments to our historical consolidated statements of operations. The unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2005 give effect to the Transactions as if such events occurred on January 1, 2005 and then applies certain pro forma adjustments to give effect to the sale of the outstanding notes described in this prospectus as of January 1, 2005. The unaudited pro forma condensed consolidated statements of operations is for comparative purposes only and does not purport to represent what our results of operations would actually have been had the Transactions and the sale of the outstanding notes in fact occurred on the assumed dates or to project our results of operations for any future date or future period. A pro forma consolidated statement of operations for the three months ended March 31, 2006 is not presented because the Transactions and the sale of the outstanding notes are reflected in our historical consolidated statement of operations for this period which is contained herein. A pro forma balance sheet is not presented because the Transactions and the sale of the outstanding notes are reflected in our historical balance sheets as of December 31, 2005 and March 31, 2006 that are contained herein.

The Transactions are accounted for, and are presented in the pro forma condensed consolidated statements of operations, under the purchase method of accounting prescribed in Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, with intangible assets recorded in accordance with SFAS No. 142, Goodwill and Other Intangible Assets. As a result of a 26% continuing ownership interest by certain stockholders, 74% of the purchase price was allocated to the assets and liabilities acquired at their respective fair values with the remaining 26% recorded at the historical book values as of the date of the acquisition in accordance with Emerging Issues Task Force Issue No. 88-16 Basis in Leveraged Buyout Transactions. You should read our historical consolidated financial statements and related notes thereto for further description of the accounting for the Transactions found in this prospectus.

Assumptions underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with these unaudited pro forma condensed consolidated statements of operations.

You should read our unaudited pro forma condensed consolidated statements of operations and the related notes thereto in conjunction with our historical consolidated financial statements and related notes thereto and other information in Selected Historical Consolidated Financial Data, and Management s Discussion and Analysis of Financial Condition and Results of Operations.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2005

	Predecessor	Successor			
	For the Period January 1 Through February 24, 2005	For the Period February 25 Through December 31, 2005	Year Ended December 31, 2005	Adjustments	Pro Forma
			(In thousands)		
Net operating revenues	$ 277,736	$ 1,580,706	$ 1,858,442	$	$ 1,858,442
Costs and expenses:					
Cost of services	244,321	1,244,361	1,488,682		1,488,682
General and administrative	122,509	59,494	182,003		182,003
Bad debt expense	6,588	18,213	24,801		24,801
Depreciation and amortization	5,933	37,922	43,855	682(1)	44,537
Total costs and expenses	379,351	1,359,990	1,739,341	682	1,740,023
Income (loss) from operations	(101,615)	220,716	119,101	(682)	118,419
Other income and expense:					
Loss on early retirement of debt	(42,736)		(42,736)		(42,736)
Merger related charges	(12,025)		(12,025)		(12,025)
Other income	267	1,092	1,359		1,359
Interest expense, net	(4,128)	(101,441)	(105,569)	(28,350)(2)	(133,919)
Income (loss) before minority interests and income taxes	(160,237)	120,367	(39,870)	(29,032)	(68,902)
Minority interest in consolidated subsidiary companies	330	1,776	2,106		2,106
Income (loss) before income taxes	(160,567)	118,591	(41,976)	(29,032)	(71,008)
Income tax expense (benefit)	(59,794)	49,336	(10,458)	(12,078)(3)	(22,536)
Income (loss) from continuing operations	$ (100,773)	$ 69,255	$ (31,518)	$ (16,954)	$ (48,472)

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NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(1) Represents amortization on an incremental increase in identifiable intangible assets of which $20.5 million would be amortized over a five year life.

(2) The adjustment to interest expense represents the elimination of historical interest expense related to Select s 9 1/2% and 7 1/2% senior subordinated notes that were tendered in the Transactions. In addition, the adjustment includes the recording of interest expense for the Transactions and the sale of the outstanding notes, as if such events had occurred as of January 1, 2005. The following presents the interest expense for the 7 5/8 % senior subordinated notes issued by Select and the senior subordinated notes issued by Holdings in the Transactions, the interest expense related to the senior floating rate notes issued by Holdings in September 2005 and the interest expense for Select s existing term loans and revolving credit facility calculated based on the initial principal amount outstanding using the following assumed interest rates:

	Outstanding Principal	Interest Rate
	(In thousands)	
Existing revolving credit facility	$ 200,000	6.620%
Existing term loans	580,000	6.090%
Senior subordinated notes	660,000	7.625%
Holdings senior subordinated notes	150,000	10.000%
Holdings senior floating rate notes	175,000	10.167%

The following table summarizes the pro forma interest expense adjustment:

	Year Ended December 31, 2005(a)
	(In thousands)
Eliminate interest expense on 9 1/2 % senior subordinated notes	$ (2,457)
Eliminate interest expense on 7 1/2 % senior subordinated notes	(2,005)
Eliminate amortization of deferred financing fees from the tendered 9 1/2% and 7 1/2 % senior subordinated notes and former credit facility	(361)
Eliminate commitment fees related to former credit facility	(147)
Interest on existing revolving credit facility	2,023
Commitment fee on unused portion of credit facility	65
Interest on existing term loan facility	5,396
Interest on Select s senior subordinated notes	7,689
Interest on Holdings senior subordinated notes	2,292
Amortization of discount on Holding s senior subordinated notes	321
Interest on Holdings senior floating rate notes	13,344
Amortization of deferred financing fees from senior subordinated notes, senior floating rate notes and existing credit facility	1,510
Reduction of interest income related to use of existing cash to fund the Transactions(b)	680
Pro forma interest adjustment	$ 28,350

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(a) The pro forma interest adjustment represents elimination of historical amounts from January 1, 2005 to February 24, 2005 and inclusion of pro forma amounts for that same period, except for the interest on the senior floating rate notes and the related amortization of deferred financing fees which is pro forma for the period January 1, 2005 through September 29, 2005 (the issuance date).

(b) The reduction in interest income is related to the use of $131.1 million of Select s existing cash to fund the Transactions. The interest rate used was 3.113% and represents the average interest rate earned by us during the period presented.

An increase or decrease in 12.5 basis points would result in an increase or decrease of annual interest expense associated with the Select s revolving credit facility, Select s term loan facility and Holdings senior floating rate notes of approximately $1.2 million.

(3) Represents the incremental tax effect of the adjustments based upon Select s effective statutory tax rate of 41.6%.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this discussion together with our consolidated financial statements and the accompanying notes and Selected Historical Consolidated Financial Data included elsewhere in this prospectus.

Overview

We are a leading operator of specialty hospitals and outpatient rehabilitation clinics in the United States. As of March 31, 2006, we operated 97 long-term acute care hospitals in 26 states, four acute medical rehabilitation hospitals, which are certified by Medicare as inpatient rehabilitation facilities, in New Jersey and 613 outpatient rehabilitation clinics in 24 states and the District of Columbia. We also provide medical rehabilitation services on a contract basis at nursing homes, hospitals, assisted living and senior care centers, schools and work sites. We began operations in 1997 under the leadership of our current management team.

On February 24, 2005, Select merged with a wholly-owned subsidiary of Holdings pursuant to which Select became a wholly-owned subsidiary of Holdings. Holdings only asset is its investment in Select. Holdings is owned by an investor group that includes Welsh Carson, Thoma Cressey, and members of our senior management. As a result of the Merger, Select s assets and liabilities have been adjusted to their fair value as of the closing. We have also experienced an increase in our aggregate outstanding indebtedness as a result of the financing transactions associated with the Merger. Accordingly, amortization expense and interest expense are higher in periods following the Merger. The excess of the total purchase price over the fair value of our tangible and identifiable intangible assets of $1.4 billion has been allocated to goodwill, which will be the subject of an annual impairment test.

Although the Predecessor and Successor results are not comparable by definition due to the Merger and the resulting change in basis, for ease of comparison in the following discussion and to assist the reader in understanding our operating performance and operating trends, the financial data for the period after the Merger, February 25, 2005 through December 31, 2005 (Successor period), has been added to the financial data for the period from January 1, 2005 through February 24, 2005 (Predecessor period), to arrive at the combined year ended December 31, 2005. In addition, the financial data for the period after the Merger, February 25, 2005 through March 31, 2005 (Successor period), has been added to the financial data for the period from January 1, 2005 through February 24, 2005 (Predecessor period), to arrive at the combined three months ended March 31, 2005. The combined data is referred to herein as the combined year ended December 31, 2005 and the combined three months ended March 31, 2005. As a result of the Merger, interest expense, loss on early retirement of debt, merger related charges, stock compensation expense, long-term incentive compensation, depreciation and amortization have been impacted. We believe this combined presentation is a reasonable means of presenting our operating results.

We manage our company through two business segments, our specialty hospital segment and our outpatient rehabilitation segment. We had net operating revenues of $1,858.4 million and $479.7 million for the combined year ended December 31, 2005 and the three months ended March 31, 2006, respectively. Of this total, we earned approximately 74% and 75% of our net operating revenues from our specialty hospitals and approximately 26% and 25% from our outpatient rehabilitation business for the combined year ended December 31, 2005 and the three months ended March 31, 2006, respectively.

Our specialty hospital segment consists of hospitals designed to serve the needs of long-term stay acute patients and hospitals designed to serve patients that require intensive medical rehabilitation care. Patients in our long-term acute care hospitals typically suffer from serious and often complex medical conditions that require a high degree of care. Patients in our inpatient rehabilitation facilities typically suffer from debilitating injuries, including traumatic brain and spinal cord injuries, and require rehabilitation care in the form of physical and vocational rehabilitation services. Our outpatient rehabilitation business consists of clinics and contract services that provide physical, occupational and speech rehabilitation services. Our outpatient rehabilitation patients are typically diagnosed with musculoskeletal impairments that restrict their ability to perform normal activities of daily living.

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Recent Trends and Events

CBIL Sale

On March 1, 2006, we sold our wholly-owned subsidiary Canadian Back Institute Limited (CBIL) for approximately C$89.8 million in cash (US$79.0 million). At the time of the sale, CBIL operated 109 outpatient rehabilitation clinics in seven Canadian provinces. We conducted all of our Canadian operations through CBIL. The purchase price is subject to a post-closing adjustment based on the amount of net working capital and long term liabilities of CBIL and its subsidiaries on the closing date. The financial results of CBIL have been reclassified as discontinued operations for all periods presented in this prospectus, and its assets and liabilities have been reclassified as held for sale on our December 31, 2005 balance sheet. As a result of this transaction, we have recognized a gain on sale (net of tax) of $9.1 million in our first quarter ended March 31, 2006.

Note Offering

On September 29, 2005, Holdings sold $175.0 million of senior floating rate notes due 2015, which bear interest at a rate per annum, reset semi-annually, equal to the 6-month LIBOR plus 5.75%. Interest is payable semi-annually in arrears on March 15 and September 15 of each year, with the principal due in full on September 15, 2015. The floating notes are general unsecured obligations and are not guaranteed by any of our subsidiaries. The net proceeds of the issuance of the senior floating rate notes, together with cash were used to reduce the amount of preferred stock, to make a payment to participants in our long-term cash incentive plan, and to pay related fees and expenses.

First Quarter Ended March 31, 2006

For the three months ended March 31, 2006, our net operating revenues increased 2.9% to $479.7 million compared to $466.1 million for the combined three months ended March 31, 2005. This increase in net operating revenues was attributable to a 5.2% increase in our specialty hospital net operating revenues offset by a 1.8% decline in our outpatient rehabilitation net operating revenues that resulted from a decline in the number of clinics we operate and in the volume of visits occurring at the operating clinics. We realized income from operations for the three months ended March 31, 2006 of $66.5 million compared to a loss from operations of $71.1 million for the combined three months ended March 31, 2005. The loss from operations for the combined three months ended March 31, 2005 was attributable to the stock compensation expense of $146.5 million which resulted from the Merger. Interest expense for the three months ended March 31, 2006 was $32.9 million compared to $15.7 million for the combined three months ended March 31, 2005. This increase resulted from the significant increase in Merger related debt.

Our cash flow from operations used $5.6 million of cash for the three months ended March 31, 2006.

Combined Year Ended December 31, 2005

For the combined year ended December 31, 2005, our net operating revenues increased 16.0% to $1,858.4 million compared to the year ended December 31, 2004. This increase in net operating revenues was principally attributable to our acquisition of SemperCare Inc. on January 1, 2005 and the growth in net operating revenues at our same store hospitals. This growth in net operating revenue was offset by a decline in our outpatient rehabilitation net operating revenues that resulted from a decline in the number of clinics we operate and in the volume of visits occurring at the clinics. We had income from operations for the combined year ended December 31, 2005 of $119.1 million compared to $222.5 million for the year ended December 31, 2004. The decline in income from operations was principally related to stock compensation costs of $152.5 million and a long-term incentive compensation payment of $14.5 million. For the combined year ended December 31, 2005, we also incurred a loss on early retirement of debt of $42.7 million related to the repayment of our 7 1/2% and 9 1/2 % senior subordinated notes and other expenses related to the Merger of $12.0 million.

Our cash flow from operations provided $57.2 million of cash for the combined year ended December 31, 2005, which includes $186.0 million in cash expenses related to the Merger.

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SemperCare Acquisition

On January 1, 2005, we acquired SemperCare, Inc., or SemperCare, for approximately $100.0 million in cash. SemperCare operated 17 long-term acute care hospitals in 11 states. All of the SemperCare facilities are HIHs, and we expect to transition these facilities to adapt to the new HIH regulations within a similar time frame and using strategies similar to those that we will use to transition our other HIHs.

Year Ended December 31, 2004

In 2004 our net operating revenues increased 19.4%, income from operations increased 56.5%, net income increased 58.7% over 2003. Our specialty hospital segment was the primary source of this growth. In our specialty hospital segment we experienced growth resulting from the addition of four inpatient rehabilitation facilities acquired through our September 2003 acquisition of Kessler Rehabilitation Corporation, growth from our hospitals opened in 2003 and 2004, and an increase in our revenue per patient day in our same store hospitals. Our outpatient segment experienced growth related primarily to the full year effect of the Kessler outpatient clinics in 2004. We also continued to experience significant cash flow from operations resulting from our growth in net income and a continued reduction in accounts receivable days outstanding.

Regulatory Changes

On May 2, 2006, CMS released its final annual payment rate updates for the 2007 LTCH-PPS rate year (affecting discharges and cost reporting periods beginning on or after July 1, 2006 and before July 1, 2007). The May 2006 final rule makes several changes to LTCH-PPS payment methodologies and amounts.

For discharges occurring on or after July 1, 2006, the rule changes the payment methodology for Medicare patients with a length of stay less than or equal to five-sixths of the geometric average length of stay for each LTC-DRG (referred to as short-stay outlier or SSO cases). Currently, payment for these patients is based on the lesser of (1) 120 percent of the cost of the case; (2) 120 percent of the LTC-DRG specific per diem amount multiplied by the patient s length of stay; or (3) the full LTC-DRG payment. The final rule modifies the limitation in clause (1) above to reduce payment for SSO cases to 100 percent (rather than 120 percent) of the cost of the case. The final rule also adds a fourth limitation, capping payment for SSO cases at a per diem rate derived from blending 120 percent of the LTC-DRG specific per diem amount with a per diem rate based on the general acute care hospital inpatient prospective payment system (IPPS). Under this methodology, as a patient s length of stay increases, the percentage of the per diem amount based upon the IPPS component will decrease and the percentage based on the LTC-DRG component will increase. The final rule reflects a moderation of the SSO payment policy that CMS had proposed in January 2006, which would have limited SSO payments solely to an amount based on the IPPS.

In addition, for discharges occurring on or after July 1, 2006, the final rule provides for (i) a zero-percent update for the 2007 LTCH-PPS rate year to the LTCH-PPS standard federal rate used as a basis for LTCH-PPS payments; (ii) the elimination of the surgical case exception to the three-day or less interruption of stay policy, under which surgical exception Medicare reimburses a general acute care hospital directly for surgical services furnished to a long-term acute care hospital patient during a brief interruption of stay from the long-term acute care hospital, rather than requiring the long-term acute care hospital to bear responsibility for such surgical services; and (iii) increasing the costs that a long-term acute care hospital must bear before Medicare will make additional payments for a case under its high-cost outlier policy for the 2007 LTCH-PPS rate year.

CMS estimates that the changes in the May 2006 final rule will result in an approximately 3.7 percent decrease in LTCH Medicare payments-per-discharge as compared to the 2006 rate year, largely attributable to the revised SSO payment methodology. Based upon our historical Medicare patient volumes and revenues, we expect that the May 2006 final rule will reduce Medicare revenues associated with SSO cases and high cost outlier cases to our long-term acute care hospitals by approximately $30.0 million on an annual basis. Additionally, had CMS updated the LTCH-PPS standard federal rate by the 2007 estimated market basket index of 3.4 percent rather than applying the zero-percent update, we estimate that we would have received approximately $31.0 million in additional annual Medicare revenues, based on our historical Medicare patient volumes and revenues (such revenues would have been paid to our hospitals for discharges beginning on or after July 1, 2006).

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On August 11, 2004, the Centers for Medicare & Medicaid Services, also known as CMS, published final regulations applicable to long-term acute care hospitals that are operated as hospitals within hospitals or as satellites (collectively referred to as HIHs). HIHs are separate hospitals located in space leased from, and located in, general acute care hospitals, known as host hospitals. Effective for hospital cost reporting periods beginning on or after October 1, 2004, subject to certain exceptions, the final regulations provide lower rates of reimbursement to HIHs for those Medicare patients admitted from their hosts that are in excess of a specified percentage threshold. For HIHs opened after October 1, 2004, the Medicare admissions threshold has been established at 25%. For HIHs that meet specified criteria and were in existence as of October 1, 2004, including all of our existing HIHs, the Medicare admissions thresholds will be phased-in over a four-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 threshold is the Fiscal 2004 Percentage (as defined below) of Medicare discharges admitted from the host hospital; (ii) for discharges during the cost reporting period beginning on or after October 1, 2005 and before October 1, 2006, the Medicare admissions threshold is the lesser of the Fiscal 2004 Percentage of Medicare discharges admitted from the host hospital 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 threshold is the lesser of the Fiscal 2004 Percentage of Medicare discharges admitted from the host hospital or 50%; and (iv) for discharges during cost reporting periods beginning on or after October 1, 2007, the Medicare admissions threshold is 25%. As used above, Fiscal 2004 Percentage means, with respect to any HIH, the percentage of all Medicare patients discharged by such HIH during its cost reporting period beginning on or after October 1, 2003 and before October 1, 2004 who were admitted to such HIH from its host hospital, but in no event is the Fiscal 2004 Percentage less than 25%. We have developed a business plan and strategy in each of our markets to adapt to the HIH regulations and maintain our company s current business. Our transition plan includes managing admissions at existing HIHs, relocating certain HIHs to leased spaces in smaller host hospitals in the same markets, consolidating HIHs in certain of our markets, relocating certain of our facilities to alternative settings, building or buying free-standing facilities and closing some of our facilities. We currently anticipate that approximately 42% of our hospitals will not require a move and 8% of our hospitals will be closed. At this time we cannot predict with any certainty the impact on revenues or operating expenses at the hospitals being moved. If CMS implements certain additional regulatory changes that it has proposed and discussed and that would affect long-term acute care hospitals more generally, our plan would have to be further modified. See Business Specialty Hospitals.

The new HIH regulations established exceptions to the Medicare admissions thresholds with respect to patients who reach outlier status at the host hospital, HIHs located in MSA-dominant hospitals or HIHs located in rural areas. As of March 31, 2006, we operated 97 long-term acute care hospitals, 91 of which operated as HIHs.

Development of New Specialty Hospitals and Clinics

We expect to continue evaluating opportunities to develop new long-term acute care hospitals, primarily in settings where the new HIH regulations would have little or no impact, for example, in free-standing buildings. Additionally, we are evaluating opportunities to develop free-standing inpatient rehabilitation facilities similar to the four inpatient rehabilitation facilities acquired through our September 2003 Kessler acquisition. We also intend to open new outpatient rehabilitation clinics in our current markets where we can benefit from existing referral relationships and brand awareness to produce incremental growth.

Critical Accounting Matters

Sources of Revenue

Our net operating revenues are derived from a number of sources, including commercial, managed care, private and governmental payors. Our net operating revenues include amounts estimated by management to be reimbursable from each of the applicable payors and the federal Medicare program. Amounts we receive for treatment of patients are generally less than the standard billing rates. We account for the differences between the estimated reimbursement rates and the standard billing rates as contractual adjustments, which we deduct from gross revenues to arrive at net operating revenues.

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Net operating revenues generated directly from the Medicare program from all segments represented approximately 56%, 50%, and 48% of net operating revenues for the combined year ended December 31, 2005 and for the years ended December 31, 2004 and 2003, respectively and approximately 56% and 57% of net operating revenues for the three months ended March 31, 2006 and the combined three months ended March 31, 2005, respectively. The increase in the percentage of our revenues generated from the Medicare program is due to the growth in the number of specialty hospitals and their higher respective share of Medicare revenues generated in this segment of our business compared to our outpatient rehabilitation segment.

Approximately 73%, 68%, and 69% of our specialty hospital revenues for the combined year ended December 31, 2005 and for the years ended December 31, 2004 and 2003, respectively and approximately 72% and 74% of our specialty hospital revenues for the three months ended March 31, 2006 and the combined three months ended March 31, 2005, respectively were received in respect of services provided to Medicare patients. For the year ended December 31, 2004 and the combined year ended December 31, 2005, all of our Medicare payments were paid under a prospective payment system. For the year ended December 31, 2003, approximately 23% were paid by Medicare under a full cost-based reimbursement methodology. Payments made under a cost-based reimbursement methodology are subject to final cost report settlements based on administrative review and audit by third parties. An annual cost report was filed for each provider to report the cost of providing services and to settle the difference between the interim payments we receive and final costs. We record adjustments to the original estimates in the periods that such adjustments become known. Historically these adjustments have not been significant. Substantially all of our Medicare cost reports are settled through 2003. Because our routine payments from Medicare are different than the final reimbursement due to us under the cost based reimbursement system, we record a receivable or payable for the difference.

The LTCH-PPS regulations also refined the criteria that must be met in order for a hospital to be certified as a long-term acute care hospital. For cost reporting periods beginning on or after October 1, 2002, a long-term acute care hospital must have an average inpatient length of stay for Medicare patients (including both Medicare covered and non-covered days) of greater than 25 days. Previously, average lengths of stay were measured with respect to all patients.

Most of our specialty hospitals receive bi-weekly periodic interim payments (PIP) from Medicare instead of being paid on an individual claim basis. Under a PIP payment methodology, Medicare estimates a hospital s claim volume based on historical trends and periodically reconciles the differences between the actual claim data and the estimated payments. At each balance sheet date, we record the difference between our actual claims and the PIP payments as a receivable or payable from third-party payors on our balance sheet.

Contractual Adjustments

Net operating revenues include amounts estimated by us to be reimbursable by Medicare and Medicaid under prospective payment systems and provisions of cost-reimbursement and other payment methods. In addition, we are reimbursed by non-governmental payors using a variety of payment methodologies. Amounts we receive for treatment of patients covered by these programs are generally less than the standard billing rates. Contractual allowances are calculated and recorded through our internally developed systems. Within our hospital segment our billing system automatically calculates estimated Medicare reimbursement and associated contractual allowances. For non-governmental payors, we manually calculate the contractual allowance for each patient based upon the contractual provisions associated with the specific payor. In our outpatient segment, we perform provision testing, using internally developed systems, whereby we monitor a payors historical paid claims data and compare it against the associated gross charges. This difference is determined as a percentage of gross charges and is applied against gross billing revenue to determine the contractual allowances for the period. Additionally, these contractual percentages are applied against the gross receivables on the balance sheet to determine that adequate contractual reserves are maintained for the gross accounts receivables reported on the balance sheet. We account for any difference as additional contractual adjustments deducted from gross revenues to arrive at net operating revenues in the period that the difference is determined. The estimation processes described above and used in recording our contractual adjustments have historically yielded consistent and reliable results.

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Allowance for Doubtful Accounts

Substantially all of our accounts receivable are related to providing healthcare services to patients. Collection of these accounts receivable is our primary source of cash and is critical to our operating performance. Our primary collection risks relate to non-governmental payors who insure these patients and deductibles, co-payments and self-insured amounts owed by the patient. Deductible, co-payments and self-insured amounts are an immaterial portion of our net accounts receivable balance. At December 31, 2005, deductible, co-payments and self-insured amounts owed by the patient accounted for approximately 0.9% of our net accounts receivable balance before doubtful accounts. Our general policy is to verify insurance coverage prior to the date of admission for a patient admitted to our hospitals or in the case of our outpatient rehabilitation clinics, we verify insurance coverage prior to their first therapy visit. Our estimate for the allowance for doubtful accounts is calculated by generally reserving as uncollectible all governmental accounts over 365 days and non-governmental accounts over 180 days from discharge. This method is monitored based on our historical cash collections experience. Collections are impacted by the effectiveness of our collection efforts with non-governmental payors and regulatory or administrative disruptions with the fiscal intermediaries that pay our governmental receivables.

We estimate bad debts for total accounts receivable within each of our operating units. We believe our policies have resulted in reasonable estimates determined on a consistent basis. We believe that we collect substantially all of our third-party insured receivables (net of contractual allowances) which includes receivables from governmental agencies. To date, we believe there has not been a material difference between our bad debt allowances and the ultimate historical collection rates on accounts receivables. We review our overall reserve adequacy by monitoring historical cash collections as a percentage of net revenue less the provision for bad debts.

Uncollected accounts are written off the balance sheet when they are turned over to an outside collection agency, or when management determines that the balance is uncollectible, whichever occurs first.

The following table is an aging of our net (after allowances for contractual adjustments but before doubtful accounts) accounts receivable (in thousands):

	Balance as of December 31,			
	2004		2005	
	Predecessor		Successor	
	0-90 Days	Over 90 Days	0-90 Days	Over 90 Days
Medicare and Medicaid	$ 88,174	$ 20,182	$ 111,707	$ 24,141
Commercial insurance, and other	127,692	75,426	131,087	64,754
Total net accounts receivable	$ 215,866	$ 95,608	$ 242,794	$ 88,895

The approximate percentage of total net accounts receivable (after allowance for contractual adjustments but before doubtful accounts) summarized by aging categories is as follows:

	As of December 31,	
	2004	2005
	Predecessor	Successor

0 to 90 days	69.3%	73.2%
91 to 180 days	11.2%	9.7%
181 to 365 days	9.9%	7.6%
Over 365 days	9.6%	9.5%
Total	100.0%	100.0%

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The approximate percentage of total net accounts receivable (after allowance for contractual adjustments but before doubtful accounts) summarized by payor is as follows:

	As of December 31,	
	2004	2005
	Predecessor	Successor
Insured receivables	98.3%	99.1%
Self-pay receivables (including deductible and copayments)	1.7%	0.9%
Total	100.0%	100.0%

Insurance

Under a number of our insurance programs, which include our employee health insurance program and certain components under our property and casualty insurance program, we are liable for a portion of our losses. In these cases we accrue for our losses under an occurrence based principle whereby we estimate the losses that will be incurred by us in a given accounting period and accrue that estimated liability. Where we have substantial exposure, we utilize actuarial methods in estimating the losses. In cases where we have minimal exposure, we will estimate our losses by analyzing historical trends. We monitor these programs quarterly and revise our estimates as necessary to take into account additional information. As of March 31, 2006, we had no reason to believe that material adjustments will occur to such estimates. The estimation processes described above that we use in recording our estimated losses have historically produced accruals that have not required material adjustments. At March 31, 2006 and December 31, 2005, we have recorded a liability of $57.4 million and $55.7 million, respectively, for our estimated losses under these insurance programs.

Related Party Transactions

We are party to various rental and other agreements with companies affiliated with us through common ownership. Our payments to these related parties amounted to $0.6 million and $2.0 million for the three months ended March 31, 2006 and the combined year ended December 31, 2005, respectively. Our future commitments are related to commercial office space we lease for our corporate headquarters in Mechanicsburg, Pennsylvania. These future commitments amount to $16.6 million through 2014. These transactions and commitments are described more fully in the notes to our consolidated financial statements included herein. See also Certain Relationships and Related Transactions.

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Operating Statistics

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

	Fiscal Year Ended December 31,		Combined Year Ended December 31,	Combined Three Months Ended	Three Months Ended
	2003	2004	2005	March 31, 2005	March 31, 2006
Specialty hospital data(1):					
Number of hospitals start of period	72	83	86	86	101
Number of hospital start-ups	8	4			
Number of hospitals acquired	4		17	17	
Number of hospitals closed	(1)	(1)	(2)		
Number of hospitals end of period	83	86	101	103	101
Available licensed beds	3,204	3,403	3,829	3,907	3,852
Admissions	27,620	33,523	39,963	10,336	10,483
Patient days	722,231	816,898	985,025	250,839	251,701
Average length of stay (days)	26	24	25	25	25
Net revenue per patient day(2)	$ 1,173	$ 1,306	$ 1,357	$ 1,330	$ 1,405
Occupancy rate	70%	67%	70%	71%	73%
Percent patient days Medicare	76%	74%	75%	77%	73%
Outpatient rehabilitation data(3):					
Number of clinics owned start of period	568	645	589	589	553
Number of clinics acquired	124	1			
Number of clinic start-ups	27	19	22	9	1
Number of clinics closed/sold	(74)	(76)	(58)	(6)	(1)
Number of clinics owned end of period	645	589	553	592	553
Number of clinics managed end of period	43	51	55	53	60
Total number of clinics (all) end of period	688	640	608	645	613

Number of visits	3,865,637	3,621,129	3,308,620	863,173	784,839
Net revenue per visit(4)	$ 87	$ 90	$ 89	$ 90	$ 91

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

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

(3) Clinic data has been restated to remove the clinics operated by CBIL, which is being reported as a discontinued operation. CBIL operated 102, 101 and 109 clinics at December 31, 2003, 2004 and 2005, respectively, and 108 clinics at March 31, 2005. Occupational health clinics have been reclassified from owned to managed clinics.

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

Results of Operations

The following tables present the combined consolidated statement of operations for the year ended December 31, 2005 and for the three months ended March 31, 2005.

The financial data for the period after the Merger, February 25, 2005 through December 31, 2005 (Successor period), has been added to the financial data for the period from January 1, 2005 through February 24, 2005 (Predecessor period), to arrive at the combined consolidated statement of operations for the year ended December 31, 2005.

	Period from January 1, 2005 through February 24, 2005	Period from February 25, 2005 through December 31, 2005	Year Ended December 31, 2005
	Predecessor	Successor	Combined
		(In thousands)	
Net operating revenues	$ 277,736	$ 1,580,706	$ 1,858,442
Costs and expenses:			
Cost of services	244,321	1,244,361	1,488,682
General and administrative	122,509	59,494	182,003
Bad debt expense	6,588	18,213	24,801
Depreciation and amortization	5,933	37,922	43,855
Total costs and expenses	379,351	1,359,990	1,739,341
Income (loss) from operations	(101,615)	220,716	119,101
Other income and expense:			
Loss on early retirement of debt	(42,736)		(42,736)
Merger related charges	(12,025)		(12,025)
Other income	267	1,092	1,359
Interest income	523	767	1,290
Interest expense	(4,651)	(102,208)	(106,859)
Income (loss) before minority interests and income taxes	(160,237)	120,367	(39,870)
Minority interest in consolidated subsidiary companies	330	1,776	2,106
Income (loss) before income taxes	(160,567)	118,591	(41,976)
Income tax expense (benefit)	(59,794)	49,336	(10,458)
Income (loss) from continuing operations	(100,773)	69,255	(31,518)
Income from discontinued operations, net of tax	522	3,072	3,594

Net income (loss)	$ (100,251)	$ 72,327	$ (27,924)

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The financial data for the period after the Merger, February 25, 2005 through March 31, 2005 (Successor period), has been added to the financial data for the period from January 1, 2005 through February 24, 2005 (Predecessor Period), to arrive at the combined consolidated statement of operations for the three months ended March 31, 2005.

	Period from January 1, 2005 through February 24, 2005	Period from February 25, 2005 through March 31, 2005	Three Months Ended March 31, 2005
	Predecessor	Successor	Combined
	(In thousands)		
Net operating revenues	$ 277,736	$ 188,386	$ 466,122
Costs and expenses:			
Cost of services	244,321	140,527	384,848
General and administrative	122,509	8,664	131,173
Bad debt expense	6,588	4,558	11,146
Depreciation and amortization	5,933	4,126	10,059
Total costs and expenses	379,351	157,875	537,226
Income (loss) from operations	(101,615)	30,511	(71,104)
Other income and expense:			
Loss on early retirement of debt	(42,736)		(42,736)
Merger related charges	(12,025)		(12,025)
Other income	267	103	370
Interest income	523	77	600
Interest expense	(4,651)	(11,044)	(15,695)
Income (loss) from continuing operations before minority interests and income taxes	(160,237)	19,647	(140,590)
Minority interest in consolidated subsidiary companies	330	302	632
Income (loss) from continuing operations before income taxes	(160,567)	19,345	(141,222)
Income tax expense (benefit)	(59,794)	7,853	(51,941)
Income (loss) from continuing operations	(100,773)	11,492	(89,281)
Income from discontinued operations, net of tax	522	672	1,194
Net income (loss)	$ (100,251)	$ 12,164	$ (88,087)

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The following table outlines selected operating data as a percentage of net operating revenues, for the periods indicated:

	Fiscal Year Ended December 31,		Combined Year Ended December 31,	Combined Three Months Ended March 31,	Three Months Ended March 31,
	2003	2004	2005(1)	2005(1)	2006
Net operating revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of services(2)	79.8	77.8	80.1	82.6	80.3
General and administrative	3.3	2.9	9.8	28.1	2.6
Bad debt expense	3.8	3.0	1.3	2.4	1.0
Depreciation and amortization	2.5	2.4	2.4	2.2	2.3
Income (loss) from operations	10.6	13.9	6.4	(15.3)	13.8
Loss on early retirement of debt			(2.3)	(9.2)	
Merger related charges			(0.7)	(2.6)	
Equity in earnings from joint ventures	0.1				
Other income		0.1	0.1	0.1	
Interest expense, net	(1.9)	(1.9)	(5.7)	(3.2)	(6.8)
Income (loss) from continuing operations before minority interests and income taxes	8.8	12.1	(2.2)	(30.2)	7.0
Minority interests	0.1	0.2	0.1	0.1	0.1
Income (loss) from continuing operations before income taxes	8.7	11.9	(2.3)	(30.3)	6.9
Income tax (benefit)	3.4	4.8	(0.6)	(11.1)	3.2
Income (loss) from continuing operations	5.3	7.1	(1.7)	(19.2)	3.7
Income from discontinued operations, net of tax	0.3	0.3	0.2	0.3	2.1
Net income (loss)	5.6%	7.4%	(1.5)%	(18.9)%	5.8%

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The following table summarizes selected financial data by business segment, for the periods indicated:

	Fiscal Year Ended December 31,		Combined Year Ended December 31,	% Change 2003-2004	% Change 2004-2005	Three Months Ended March 31,		
	2003	2004	2005(1)			2005(1)	2006	% Change
	(In thousands)							
Net operating revenues:								
Specialty hospitals	$ 849,260	$ 1,089,538	$ 1,370,320	28.3%	25.8%	$ 342,044	$ 359,672	5.2%
Outpatient rehabilitation	478,553	498,830	480,711	4.2	(3.6)	121,455	119,290	(1.8)
Other(4)	13,844	13,156	7,411	(5.0)	(43.7)	2,623	781	(70.2)
Total company	$ 1,341,657	$ 1,601,524	$ 1,858,442	19.4%	16.0%	$ 466,122	$ 479,743	2.9%
Income (loss) from operations:								
Specialty hospitals	$ 129,861	$ 216,803	$ 280,206	67.0%	29.2%	$ 72,750	$ 67,889	(6.7)%
Outpatient rehabilitation	53,159	57,777	56,052	8.7	(3.0)	15,730	11,468	(27.1)
Other(4)	(40,840)	(52,075)	(217,157)	(27.5)	(317.0)	(159,584)	(12,906)	N/M
Total company	$ 142,180	$ 222,505	$ 119,101	56.5%	(46.5)%	$ (71,104)	$ 66,451	N/M
Adjusted EBITDA:(3)								
Specialty hospitals	$ 145,650	$ 236,181	$ 307,339	62.2%	30.1%	$ 79,127	$ 74,718	(5.6)%
Outpatient rehabilitation	66,378	71,562	65,957	7.8	(7.8)	18,564	14,760	(20.5)
Other(4)	(36,185)	(46,287)	(43,362)	(27.9)	6.3	(12,197)	(11,186)	8.3
Adjusted EBITDA margins:(3)								
Specialty hospitals	17.2%	21.7%	22.4%	26.2%	3.2%	23.1%	20.8%	(10.0)%
Outpatient rehabilitation	13.9	14.3	13.7	2.9	(4.2)	15.3	12.4	(19.0)
Other(4):	N/M	N/M	N/M	N/M	N/M	N/ M	N/M	N/M
Total assets:								

Specialty hospitals	$ 512,956	$ 520,572	$ 1,652,532	$ 1,553,606	$ 1,746,744
Outpatient rehabilitation	365,534	318,180	293,720	530,855	269,295
Other	200,508	274,969	222,133	76,262	119,248
Total company	$ 1,078,998	$ 1,113,721	$ 2,168,385	$ 2,160,723	$ 2,135,287
Purchases of property and equipment, net:					
Specialty hospitals	$ 22,559	$ 23,320	$ 102,321	$ 1,945	$ 36,505
Outpatient rehabilitation	8,514	5,885	3,750	682	1,641
Other	4,779	3,421	3,875	1,071	240
Total company	$ 35,852	$ 32,626	$ 109,946	$ 3,698	$ 38,386

The following tables reconcile same hospitals information, for the periods indicated:

	Twelve Months Ended December 31,	
	2003	2004
	(In thousands)	
Net operating revenue		
Specialty hospitals net operating revenue	$ 849,260	$ 1,089,538
Less: Specialty hospitals opened, acquired or closed after 1/1/03	66,014	222,049
Specialty hospitals same store net operating revenue	$ 783,246	$ 867,489
Adjusted EBITDA(3)		
Specialty hospitals Adjusted EBITDA(3)	$ 145,650	$ 236,181
Less: Specialty hospitals opened, acquired or closed after 1/1/03	2,897	46,813
Specialty hospitals same store Adjusted EBITDA(3)	$ 142,753	$ 189,368
All specialty hospitals Adjusted EBITDA margin(3)	17.2%	21.7%
Specialty hospitals same store Adjusted EBITDA margin(3)	18.2%	21.8%

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	Twelve Months Ended December 31,	
	2004	2005(1)
	(In thousands)	
Net operating revenue		
Specialty hospitals net operating revenue	$ 1,089,538	$ 1,370,320
Less: Specialty hospitals opened, acquired or closed after 1/1/04	30,754	218,837
Specialty hospitals same store net operating revenue	$ 1,058,784	$ 1,151,483
Adjusted EBITDA(3)		
Specialty hospitals Adjusted EBITDA(3)	$ 236,181	$ 307,339
Less: Specialty hospitals opened, acquired or closed after 1/1/04	(4,591)	34,095
Specialty hospitals same store Adjusted EBITDA(3)	$ 240,772	$ 273,244
All specialty hospitals Adjusted EBITDA margin(3)	21.7%	22.4%
Specialty hospitals same store Adjusted EBITDA margin(3)	22.7%	23.7%

	Three Months Ended March 31,	
	2005(1)	2006
	(In thousands)	
Net operating revenue		
Specialty hospitals net operating revenue	$ 342,044	$ 359,672
Less: Specialty hospitals in development or closed after 1/1/05	6,028	204
Specialty hospitals same store net operating revenue	$ 336,016	$ 359,468
Adjusted EBITDA(3)		
Specialty hospitals Adjusted EBITDA(3)	$ 79,127	$ 74,718
Less: Specialty hospitals in development or closed after 1/1/05	1,334	(377)
Specialty hospitals same store Adjusted EBITDA(3)	$ 77,793	$ 75,095
All specialty hospitals Adjusted EBITDA margin(3)	23.1%	20.8%
Specialty hospitals same store Adjusted EBITDA margin(3)	23.2%	20.9%

N/ M Not Meaningful

(1) To arrive at the combined year ended December 31, 2005, the financial data for the period after the Merger, February 25, 2005 through December 31, 2005 (Successor period), has been added to the financial data for the

period from January 1, 2005 through February 24, 2005 (Predecessor period).

To arrive at the combined three months ended March 31, 2005, the financial data for the period after the Merger, February 25, 2005 through March 31, 2005 (Successor period), has been added to the financial data for the period from January 1, 2005 through February 24, 2005 (Predecessor period).

(2) Cost of services includes salaries, wages and benefits, operating supplies, lease and rent expense and other operating costs.

(3) We define Adjusted EBITDA as net income before interest, income taxes, depreciation and amortization, income from discontinued operations, loss on early retirement of debt, equity in income from joint ventures, merger related charges, stock compensation expense, long-term incentive compensation, other income and minority interest. We believe that the presentation of Adjusted EBITDA is important to investors because Adjusted EBITDA is commonly used as an analytical indicator of performance by investors within the healthcare industry. Adjusted EBITDA is used by management to evaluate financial performance and determine resource allocation for each of our operating units. Adjusted EBITDA is not a measure of financial performance under generally accepted accounting principles. Items excluded from Adjusted EBITDA are significant components in understanding and assessing financial performance. Adjusted EBITDA should not be considered in isolation or as an alternative to, or substitute for, net income, cash flows generated by operations, investing or financing activities, or other financial statement

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data presented in the consolidated financial statements as indicators of financial performance or liquidity. Because Adjusted EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, Adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies. See footnote 13 to our audited consolidated financial statements for a reconciliation of net income to Adjusted EBITDA as utilized by us in reporting our segment performance in accordance with SFAS No. 131.

(4) Other includes the company s general and administrative services, as well as businesses associated with the sale of home medical equipment, orthotics, prosthetics, and infusion/intravenous services.

Three Months Ended March 31, 2006 Compared to Combined Three Months Ended March 31, 2005

Net Operating Revenues

Our net operating revenues increased by 2.9% to $479.7 million for the three months ended March 31, 2006 compared to $466.1 million for the combined three months ended March 31, 2005.

Specialty Hospitals. Our specialty hospital net operating revenues increased 5.2% to $359.7 million for the three months ended March 31, 2006 compared to $342.0 million for the combined three months ended March 31, 2005. Net operating revenues for the specialty hospitals opened before January 1, 2005 and operated by us throughout both periods increased 7.0% to $359.5 million for the three months ended March 31, 2006 from $336.0 million for the combined three months ended March 31, 2005. This increase resulted primarily from higher net revenue per patient day. We also experienced a small increase in our patient days for these hospitals of 1.9%.

Outpatient Rehabilitation. Our outpatient rehabilitation net operating revenues declined 1.8% to $119.3 million for the three months ended March 31, 2006 compared to $121.5 million for the combined three months ended March 31, 2005. The number of patient visits in our outpatient rehabilitation clinics declined 9.1% for the three months ended March 31, 2006 to 784,839 visits compared to 863,173 visits for the combined three months ended March 31, 2005. The decrease in net operating revenues and patient visits was principally related to a 6.6% decline in the number of clinics we own and operate and a 2.7% decline in the volume of visits per clinic. We are continuing to experience declines in our patient visits in a number of markets that result from physicians opening competing physical therapy practices. Net revenue per visit in these clinics was $91 in 2006 and $90 in 2005.

Other. Our other revenues were $0.8 million for the three months ended March 31, 2006 compared to $2.6 million for the combined three months ended March 31, 2005. The decline resulted from the sale of our home medical equipment and infusion/intravenous service business which we sold in May 2005.

Operating Expenses

Our operating expenses decreased by 23.7% to $402.4 million for the three months ended March 31, 2006 compared to $527.2 million for the combined three months ended March 31, 2005. Our operating expenses include our cost of services, general and administrative expense and bad debt expense. The decrease in operating expenses was principally related to the significant decline in stock compensation expense for the three months ended March 31, 2006. In connection with the Merger, we granted restricted stock awards to certain key management employees. These awards generally vest over five years. Effective at the time of the Merger, Holdings also granted stock options to certain other key employees that vest over five years. The fair value of restricted stock awards and stock options vesting during the three months ended March 31, 2006 was $0.9 million and for the period from February 25, 2005 through March 31, 2005 was $4.3 million which are included in general and administrative expenses. Additionally, during the Predecessor period of January 1, 2005 through February 25, 2005, all of our then outstanding stock options were redeemed in accordance with the Merger agreement. This resulted in a charge of $142.2 million of which $115.0 million is included in general and administrative expense and $27.2 million is included in cost of services.

As a percentage of our net operating revenues, our operating expenses were 83.9% for the three months ended March 31, 2006 compared to 113.1% for the combined three months ended March 31, 2005. Cost of services as a percentage of operating revenues was 80.3% for the three months ended March 31, 2006 compared to 82.6% for the combined three months ended March 31, 2005. These costs primarily reflect our labor expenses. This reduction resulted from a decline in our stock compensation costs offset by an increase in

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our direct labor costs in both our specialty hospitals and outpatient rehabilitation segments. This is primarily the result of continued shortage of nursing staff and higher salaries for physical and occupational therapists. Another component of cost of services is facility rent expense, which was $20.7 million for the three months ended March 31, 2006 compared to $20.4 million for the combined three months ended March 31, 2005. During the same time period, general and administrative expense declined in total, and as a percentage of net operating revenues. General and administrative expenses were 2.6% of net operating revenues for the three months ended March 31, 2006 compared to 28.1% for the combined three months ended March 31, 2005. Our general and administrative expenses for the combined three months ended March 31, 2005 included costs associated with the SemperCare Corporate office that were not eliminated until the second quarter of 2005 and stock compensation related to the merger. Our bad debt expense as a percentage of net operating revenues was 1.0% for the three months ended March 31, 2006 compared to 2.4% for the combined three months ended March 31, 2005. This decrease in bad debt expense resulted from continued improvement in our collection of non-Medicare accounts receivable.

Adjusted EBITDA

Specialty Hospitals. Adjusted EBITDA declined by 5.6% to $74.7 million for the three months ended March 31, 2006 compared to $79.1 million for the combined three months ended March 31, 2005. Our Adjusted EBITDA margins declined to 20.8% for the three months ended March 31, 2006 from 23.1% for the combined three months ended March 31, 2005. The hospitals opened or acquired as of January 1, 2005 and operated throughout both periods had Adjusted EBITDA of $75.1 million, a decrease of 3.5% over the Adjusted EBITDA of these hospitals in 2005. This decrease in same store hospital Adjusted EBITDA resulted from higher labor costs and costs of purchased services. We have been unable to recover these increased costs through higher revenues. Our Adjusted EBITDA margin in these same store hospitals decreased to 20.9% for the three months ended March 31, 2006 from 23.2% for the combined three months ended March 31, 2005.

Outpatient Rehabilitation. Adjusted EBITDA decreased by 20.5% to $14.8 million for the three months ended March 31, 2006 compared to $18.6 million for the combined three months ended March 31, 2005. Our Adjusted EBITDA margins declined to 12.4% for the three months ended March 31, 2006 from 15.3% for the combined three months ended March 31, 2005. The decline in Adjusted EBITDA was the result of the decline in clinic visit volumes described under Net Operating Revenue Outpatient Rehabilitation above. Additionally, we are experiencing increased labor costs for physical and occupational therapists.

Other. The Adjusted EBITDA loss was $11.2 million for the three months ended March 31, 2006 compared to a loss of $12.2 million for the combined three months ended March 31, 2005. This small decrease in the Adjusted EBITDA loss was primarily the result of the decline in our general and administrative expense.

Income (Loss) from Operations

For the three months ended March 31, 2006 we experienced income from operations of $66.5 million compared to a loss from operations of $71.1 million for the combined three months ended March 31, 2005. The loss from operations experienced for the combined three months ended March 31, 2005 resulted from the significant stock compensation costs recorded related to the Merger.

Loss on Early Retirement of Debt

In connection with the Merger, Select commenced tender offers to acquire all of its 9^1/2% senior subordinated notes due 2009 and all of its 7^1/2% senior subordinated notes due 2013. Upon completion of the tender offers on February 24, 2005, all of the $175.0 million of the 7^1/2% senior subordinated notes were tendered and $169.3 million of the $175.0 million of 9^1/2 % notes were tendered. The loss consists of the tender premium cost of $34.8 million and the remaining unamortized deferred financing costs of $7.9 million.

Merger Related Charges

As a result of the Merger, we incurred costs in the Predecessor period of January 1, 2005 through February 24, 2005 directly related to the Merger. This included the cost of the investment advisor hired by the Special Committee of Select s Board of Directors to evaluate the Merger, legal and accounting fees, costs

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associated with the Hart-Scott-Rodino filing related to the Merger, cost associated with purchasing a six year extended reporting period under our directors and officers liability insurance policy and other associated expenses.

Interest Expense

Interest expense increased by $17.2 million to $32.9 million for the three months ended March 31, 2006 from $15.7 million for the combined three months ended March 31, 2005. The increase in interest expense is due to the higher debt levels outstanding in the Successor periods resulting from the Merger.

Minority Interests

Minority interests in consolidated earnings was $0.4 million for the three months ended March 31, 2006 compared to $0.6 million for the combined three months ended March 31, 2005.

Income Taxes

We recorded income tax expense of $15.2 million for the three months ended March 31, 2006. The expense represented an effective tax rate of 45.6%. We recorded an income tax benefit of $59.8 million for the Predecessor period of January 1, 2005 through February 24, 2005. The tax benefit represented an effective tax benefit rate of 37.2%. This effective tax benefit rate consisted of the statutory Federal rate of 35% and a state rate of 2.2%. The Federal tax benefit was carried forward and used to offset our Federal tax throughout the remainder of 2005. Because of the differing state tax rules related to net operating losses, a portion of these state net operating losses are subject to valuation allowances. We recorded income tax expense of $7.9 million for the Successor period of February 25, 2005 through March 31, 2005. The expense represented an effective tax rate of 40.6%.

Income from Discontinued Operation, Net of Tax

On March 1, 2006, we sold our wholly-owned subsidiary CBIL. The operating results of CBIL have been reclassified and reported as discontinued operations. We have recognized a gain on sale (net of tax) of $9.1 million in our first quarter ended March 31, 2006.

Combined Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Net Operating Revenues

Our net operating revenues increased by 16.0% to $1,858.4 million for the combined year ended December 31, 2005 compared to $1,601.5 million for the year ended December 31, 2004.

Specialty Hospitals. Our specialty hospital net operating revenues increased 25.8% to $1,370.3 million for the combined year ended December 31, 2005 compared to $1,089.5 million for the year ended December 31, 2004. Net operating revenues for the specialty hospitals opened before January 1, 2004 and operated by us throughout both years increased 8.8% to $1,151.5 million for the combined year ended December 31, 2005 from $1,058.8 million for the year ended December 31, 2004. This increase resulted from both an increase in our patient days and higher net revenue per patient day. Our patient days for these hospitals increased 5.0% and our occupancy percentage increased to 72% for the combined year ended December 31, 2005 compared to 69% for the year ended December 31, 2004. The remaining increase of $188.1 million resulted primarily from the acquisition of the SemperCare facilities, which contributed $172.5 million of net revenue growth.

Outpatient Rehabilitation. Our outpatient rehabilitation net operating revenues declined 3.6% to $480.7 million for the combined year ended December 31, 2005 compared to $498.8 million for the year ended December 31, 2004. The number of patient visits in our outpatient rehabilitation clinics declined 7.7% for the combined year ended December 31, 2005 to 3,518,740 visits compared to 3,810,284 visits for the year ended December 31, 2004. The decrease in net operating revenues and patient visits was principally related to a 6.1% decline in the number of clinics we operate and a 1.6% decline in the volume of visits per clinic. Net revenue per visit in these clinics was $90 in both 2005 and 2004. Offsetting the net operating revenue decline in our outpatient rehabilitation clinics were increases in our contract services revenues.

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Other. Our other revenues were $7.4 million for the combined year ended December 31, 2005 compared to $13.2 million for the year ended December 31, 2004. These revenues are principally related to the sales of orthotics, prosthetics, home medical equipment, and infusion/intravenous services. In May 2005, we sold the assets of our home medical equipment and infusion/intravenous service business, which resulted in the reduction in our other revenues.

Operating Expenses

Our operating expenses increased by 26.5% to $1,695.5 million for the combined year ended December 31, 2005 compared to $1,340.1 million for the year ended December 31, 2004. Our operating expenses include our cost of services, general and administrative expense and bad debt expense. The increase in operating expenses was related to the significant stock compensation costs we recognized in 2005, a special long-term incentive compensation payment paid to certain members of senior management and the acquisition of SemperCare facilities on January 1, 2005. In connection with the Merger, we granted restricted stock awards to certain key management employees. These awards generally vest over five years. Effective at the time of the Merger, we also granted stock options to certain other key employees that vest over five years. The fair value of restricted stock awards and stock options vesting during the Successor period was $10.3 million. Of this amount, $10.1 million is included in general and administrative expense and $0.2 million was included in cost of services. Additionally, during the Predecessor period of January 1, 2005 through February 25, 2005 all of our then outstanding stock options were redeemed in accordance with the Merger agreement. This resulted in a charge of $142.2 million of which $115.0 million is included in general and administrative expense and $27.2 million is included in cost of services.

As a result of the special dividend of $175.0 million paid to our preferred stockholders on September 29, 2005, certain members of senior management of Select became entitled to a payment of $14.5 million under the terms of our long-term incentive compensation plan that is included in general and administrative expense.

As a percentage of our net operating revenues, our operating expenses were 91.2% for the combined year ended December 31, 2005 compared to 83.7% for the year ended December 31, 2004. Cost of services as a percentage of operating revenues was 80.1% for the combined year ended December 31, 2005 compared to 77.8% for the year ended December 31, 2004. This increase was due to higher labor and operating costs in our outpatient division combined with higher non-labor costs in our hospitals in addition to a component of stock compensation recognized as cost of services. Another component of cost of services is facility rent expense, which was $81.6 million for the combined year ended December 31, 2005 compared to $75.6 million for the year ended December 31, 2004. This increase is principally related to the SemperCare hospitals we acquired on January 1, 2005. During the same time period, general and administrative expense as a percentage of net operating revenues increased to 9.8% for the combined year ended December 31, 2005 from 2.9% for the year ended December 31, 2004. This increase in general and administrative expenses is the result of an increase in our stock compensation costs and long-term incentive compensation offset by a decline in our expense for abandoned hospital development projects in 2005. Our bad debt expense as a percentage of net operating revenues was 1.3% for the combined year ended December 31, 2005 compared to 3.0% for the year ended December 31, 2004. This decrease in bad debt expense resulted from continued improvement in our collection of non-Medicare accounts receivable.

Adjusted EBITDA

Specialty Hospitals. Adjusted EBITDA increased by 30.1% to $307.3 million for the combined year ended December 31, 2005 compared to $236.2 million for the year ended December 31, 2004. Our Adjusted EBITDA margins increased to 22.4% for the combined year ended December 31, 2005 from 21.7% for the year ended December 31, 2004. The hospitals opened before January 1, 2004 and operated throughout both years had Adjusted EBITDA of $273.2 million, an increase of 13.5% over the Adjusted EBITDA of these hospitals in 2004. The increase in same store hospitals Adjusted EBITDA resulted primarily from an increase in net revenue per patient day and patient days. Additionally, during 2005 we recorded a one-time benefit of $3.8 million due to the reversal of an accrued patient care liability as a result of the termination of this obligation. Our Adjusted EBITDA margin in these same store hospitals increased to 23.7% for the combined year ended December 31, 2005 from 22.7% for the year ended December 31, 2004.

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Outpatient Rehabilitation. Adjusted EBITDA decreased by 7.8% to $66.0 million for the combined year ended December 31, 2005 compared to $71.6 million for the year ended December 31, 2004. Our Adjusted EBITDA margins declined to 13.7% for the combined year ended December 31, 2005 from 14.3% for the year ended December 31, 2004. The decline in Adjusted EBITDA was the result of the decline in clinic visit volumes, described under Net Operating Revenue Outpatient Rehabilitation above, combined with higher labor costs.

Other. The Adjusted EBITDA loss, which primarily includes our general and administrative expenses, was $43.4 million for the combined year ended December 31, 2005 compared to a loss of $46.3 million for the year ended December 31, 2004. This reduction in the Adjusted EBITDA loss was primarily the result of the decline in our general and administrative expenses.

Income (Loss) from Operations

For the combined year ended December 31, 2005, we experienced income from operations of $119.1 million compared to income from operations of $222.5 million for the year ended December 31, 2004. The lower income from operations experienced for the combined year ended December 31, 2005 resulted from the significant stock compensation costs related to the Merger of $152.5 million and an increase in depreciation and amortization of $4.9 million, offset by the Adjusted EBITDA increases described above. The stock compensation expense was comprised of $142.2 million related to the cancellation of all vested and unvested outstanding stock options in accordance with the terms of the Merger agreement in the Predecessor period of January 1, 2005 through February 24, 2005 and an additional $10.3 million of stock compensation expense related to shares of restricted stock that were issued in the Successor period of February 25, 2005 through December 31, 2005.

Loss on Early Retirement of Debt

In connection with the Merger, Select commenced tender offers to acquire all of its 9^1/2% senior subordinated notes due 2009 and all of its 7^1/2% senior subordinated notes due 2013. Upon completion of the tender offers on February 24, 2005, all $175.0 million of the 7^1/2% senior subordinated notes were tendered and $169.3 million of the $175.0 million of 9^1/2 % notes were tendered. The loss consists of the tender premium cost of $34.8 million and the remaining unamortized deferred financing costs of $7.9 million.

Merger Related Charges

As a result of the Merger, we incurred costs of $12.0 million in the Predecessor period of January 1, 2005 through February 24, 2005 directly related to the Merger. This included the fees of the investment advisor hired by the Special Committee of Select s Board of Directors to evaluate the Merger, legal and accounting fees, costs associated with the Hart-Scott-Rodino filing related to the Merger, cost associated with purchasing a six year extended reporting period under our directors and officers liability insurance policy and other associated expenses.

Interest Expense

Interest expense increased by $73.6 million to $106.9 million for the combined year ended December 31, 2005 from $33.3 million for the year ended December 31, 2004. The increase in interest expense is due to the higher debt levels outstanding in the Successor period of February 25, 2005 through December 31, 2005. During this Successor period we had approximately $1.3 billion in additional debt compared to the same period in 2004.

Minority Interests

Minority interests in consolidated earnings was $2.1 million for the combined year ended December 31, 2005 compared to $2.6 million for the year ended December 31, 2004.

Income Taxes

We recorded income tax benefit of $59.8 million for the Predecessor period of January 1, 2005 through February 24, 2005. The tax benefit represented an effective tax benefit rate of 37.2%. This effective tax benefit

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rate consisted of the statutory federal rate of 35% and a state rate of 2.2%. The federal tax benefit was carried forward and used to offset our federal tax throughout the remainder of 2005. Because of the differing state tax rules related to net operating losses, a portion of these state net operating losses were assigned valuation allowances. We recorded income tax expense of $49.3 million for the Successor period of February 25, 2005 through December 31, 2005. The expense represented an effective tax rate of 41.6%. For the year ended December 31, 2004 we recorded income tax expense of $76.6 million. This expense represented an effective tax rate of 40.2%.

Income from Discontinued Operations, Net of Tax

On March 1, 2006, we sold our wholly-owned subsidiary Canadian Back Institute Limited (CBIL) for approximately C$89.8 million in cash (US$79.0 million). As of December 31, 2005, CBIL operated 109 outpatient rehabilitation clinics in seven Canadian provinces. We conducted all of our Canadian operations through CBIL. The purchase price is subject to a post-closing adjustment based on the amount of net working capital and long term liabilities of CBIL and its subsidiaries on the closing date. The financial results of CBIL have been reclassified as discontinued operations for all periods presented in this prospectus, and its assets and liabilities have been reclassified as held for sale on our December 31, 2005 balance sheet.

On September 27, 2004, we sold the land, building and certain other assets and liabilities associated with our only skilled nursing facility for $11.6 million, which we acquired as part of the Kessler acquisition in September 2003. The operating results of the skilled nursing facility have been reclassified and reported as discontinued operations.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Net Operating Revenues

Our net operating revenues increased by 19.4% to $1,601.5 million for the year ended December 31, 2004 compared to $1,341.7 million for the year ended December 31, 2003.

Specialty Hospitals. Our specialty hospital net operating revenues increased 28.3% to $1,089.5 million for the year ended December 31, 2004 compared to $849.3 million for the year ended December 31, 2003. Net operating revenues for the specialty hospitals opened before January 1, 2003 and operated by us throughout both periods increased 10.8% to $867.5 million for the year ended December 31, 2004 from $783.2 million for the year ended December 31, 2003. This increase resulted primarily from higher net revenue per patient day, offset by a decline in our patient days and occupancy rates. The increase in net revenue per patient day is primarily attributable to the improved reimbursement we received from Medicare under LTCH-PPS. Our patient days and occupancy rates declined primarily as a result of additional admissions criteria implemented in our long-term acute care hospitals. The remaining increase of $155.9 million resulted from the acquisition of the Kessler facilities, which contributed $96.3 million of net revenue growth, and the internal development of new specialty hospitals that commenced operations in 2003 and 2004.

Outpatient Rehabilitation. Our outpatient rehabilitation net operating revenues increased 4.2% to $498.8 million for the year ended December 31, 2004 compared to $478.6 million for the year ended December 31, 2003. The increase in net operating revenues was principally related to the acquisition of the Kessler operations. The number of patient visits in our outpatient rehabilitation clinics declined 5.4% for the year ended December 31, 2004 to 3,810,284 visits compared to 4,027,768 visits for the year ended December 31, 2003. Net revenue per visit in these clinics was $90 in 2004 compared to $87 in 2003. Excluding the effects of the Kessler operations in both periods, visits declined 11.0%. The majority of this decline is related to clinic closures. In addition, during the first and second quarters of 2004 various market factors such as elimination of unprofitable contracts and competition from referring physicians who are now developing their own rehabilitation therapy practices contributed to the decline.

Other. Our other revenues declined to $13.2 million for the year ended December 31, 2004 compared to $13.8 million for the year ended December 31, 2003. The principal reason for the decline is the conversion of our long-term acute care hospitals to LTCH-PPS and the associated changes in how Select receives reimbursement from Medicare for services provided to our subsidiaries. The decline was offset by revenues related to the Kessler other businesses that are now being reported under this category. These businesses

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generated approximately $7.9 million of incremental net operating revenues in 2004. See Critical Accounting Matters Sources of Revenue for a further discussion of this change.

Operating Expenses

Our operating expenses increased by 15.0% to $1,340.1 million for the year ended December 31, 2004 compared to $1,165.8 million for the year ended December 31, 2003. Our operating expenses include our cost of services, general and administrative expense and bad debt expense. The increase in operating expenses was principally related to the acquisition of Kessler and the internal development of new specialty hospitals that commenced operations in 2003 and 2004. As a percentage of our net operating revenues, our operating expenses were 83.7% for the year ended December 31, 2004 compared to 86.9% for the year ended December 31, 2003. Cost of services as a percentage of operating revenues decreased to 77.8% for the year ended December 31, 2004 from 79.8% for the year ended December 31, 2003. These costs primarily reflect our labor expenses. This decrease resulted because we experienced a larger rate of growth in our specialty hospital revenues compared to the growth in our specialty hospital cost of services which is primarily attributable to the improved reimbursement we received under LTCH-PPS. Another component of cost of services is facility rent expense, which was $75.6 million for the year ended December 31, 2004 compared to $68.0 million for the year ended December 31, 2003. This increase is principally related to our new hospitals that opened during 2003 and 2004 and the rent expense for the acquired Kessler clinics. During the same time period, general and administrative expense as a percentage of net operating revenues declined to 2.9% for the year ended December 31, 2004 from 3.3% for the year ended December 31, 2003. This decrease in general and administrative expenses as a percentage of net operating revenue is the result of a growth in net operating revenues that exceeded the growth in our general and administrative costs. Our bad debt expense as a percentage of net operating revenues was 3.0% for the year ended December 31, 2004 compared to 3.8% for the year ended December 31, 2003. This decrease in bad debt expense resulted from an improvement in the composition and aging of our accounts receivable.

Adjusted EBITDA

Specialty Hospitals. Adjusted EBITDA increased by 62.2% to $236.2 million for the year ended December 31, 2004 compared to $145.7 million for the year ended December 31, 2003. Our Adjusted EBITDA margins increased to 21.7% for the year ended December 31, 2004 from 17.2% for the year ended December 31, 2003. The hospitals opened before January 1, 2003 and operated throughout both periods had Adjusted EBITDA of $189.4 million, an increase of 32.7% over the Adjusted EBITDA of these hospitals in 2003. This increase in same store hospitals Adjusted EBITDA resulted from an increase in revenue per patient day that exceeded our increase in cost per patient day. Our Adjusted EBITDA margin in these same store hospitals increased to 21.8% for the year ended December 31, 2004 from 18.2% for the year ended December 31, 2003.

Outpatient Rehabilitation. Adjusted EBITDA increased by 7.8% to $71.6 million for the year ended December 31, 2004 compared to $66.4 million for the year ended December 31, 2003. Our Adjusted EBITDA margins increased to 14.3% for the year ended December 31, 2004 from 13.9% for the year ended December 31, 2003. This Adjusted EBITDA margin increase was primarily the result of three factors. First, the acquired Kessler outpatient operations experienced negative margins in 2003, which had the effect of lowering the overall margins for the segment in 2003. We consolidated or closed many of the underperforming clinics in 2004. Second, we experienced lower bad debt expense in 2004. Third, the increases previously described were offset by an increase in labor costs due to increased competition for hiring therapists.

Other. The Adjusted EBITDA loss was $46.3 million for the year ended December 31, 2004 compared to a loss of $36.2 million for the year ended December 31, 2003. This increase in the Adjusted EBITDA loss was primarily the result of the decline in hospital reimbursements for corporate support costs of $8.7 million (See Critical Accounting Matters Sources of Revenue) and an increase in our general and administrative expenses of $1.4 million.

Income from Operations

Income from operations increased 56.5% to $222.5 million for the year ended December 31, 2004 compared to $142.2 million for the year ended December 31, 2003. The increase in income from operations

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resulted from the Adjusted EBITDA increases described above, and was offset by an increase in depreciation and amortization expense of $5.3 million. The increase in depreciation and amortization expense resulted primarily from the additional depreciation associated with acquired Kessler assets, the amortization of the Kessler non-compete agreement, and increases in depreciation on fixed asset additions that are principally related to new hospital and clinic development.

Interest Expense

Interest expense increased by $7.9 million to $33.3 million for the year ended December 31, 2004 from $25.4 million for the year ended December 31, 2003. The increase in interest expense is due to the higher debt levels outstanding in 2004 compared to 2003 resulting from the issuance of $175.0 million of 7 1/2 % senior subordinated notes due 2013 on August 12, 2003, offset by a reduction in borrowings under our senior credit facility. The lower debt levels on our senior credit facility resulted from scheduled term amortization payments and principal pre-payments. All repayments have been made with cash flows generated through operations.

Minority Interests

Minority interests in consolidated earnings increased to $2.6 million for the year ended December 31, 2004 compared to $1.7 million for the year ended December 31, 2003. This increase is the result of the improved profitability of these jointly owned entities.

Income Taxes

We recorded income tax expense of $76.6 million for the year ended December 31, 2004. The expense represented an effective tax rate of 40.2%. We recorded income tax expense of $46.2 million for the year ended December 31, 2003. This expense represented an effective tax rate of 39.6%. The increase in the tax rate is the result of a larger portion of our net income in states with higher tax rates and the non-deductibility of certain expenses.

Liquidity and Capital Resources

Three Months Ended March 31, 2006 and Combined Three Months Ended March 31, 2005

Operating activities used $5.6 million of cash flow for the three months ended March 31, 2006. Operating activities used $172.9 million for the combined three months ended March 31, 2005 which includes $186.0 million in cash expenses related to the merger. Our days sales outstanding increased to 53 days at March 31, 2006, up from 52 days at December 31, 2005. The increase in days sales outstanding is primarily related to the timing of the Periodic Interim Payments we received from Medicare for the services provided at our Specialty Hospitals.

Investing activities provided $36.7 million of cash flow for the three months ended March 31, 2006. Investing activities used $114.1 million of cash flow for the combined three months ended March 31, 2005. The primary source of cash in the three months ended March 31, 2006 resulted from the sale of CBIL of $76.8 million which was offset by cash disbursements related to building improvements and equipment purchases primarily associated with properties we acquired in 2005. The primary use of cash for the combined three months ended March 31, 2005 related to the acquisition of SemperCare, which used $105.1 million in cash. The remaining use of cash was primarily related to purchases of property and equipment of $3.7 million and other acquisition related payments of $5.4 million.

Financing activities utilized $53.2 million of cash flow for the three months ended March 31, 2006. The cash usage resulted primarily from principal repayments on our credit facility of $58.5 million. Financing activities provided $58.9 million of cash for the combined three months ended March 31, 2005. The Merger financing was the primary contributor of this cash flow. These excess proceeds from the Merger financing were used to pay Merger related costs, which includes the cancellation and cash-out of outstanding stock options.

Combined Year Ended December 31, 2005 and Years Ended December 31, 2004 and 2003

Operating activities generated $57.2 million, $174.3 million, and $246.2 million in cash during the combined year ended December 31, 2005 and the years ended December 31, 2004 and 2003, respectively. For

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2005, our operating cash flow includes $186.0 million in cash expenses related to the Merger. Our days sales outstanding were 52 days at December 31, 2005. This is an increase of four days from December 31, 2004. The increase in days sales outstanding is primarily the result of a change in the way Medicare calculates our Periodic Interim Payments in our Specialty Hospitals. Medicare changed from a per day based calculation to a discharged based calculation to better align the Periodic Interim Payment methodology with the current discharge based reimbursement system. As a result, we are no longer receiving a periodic payment for those patients that have not yet been discharged. The significant cash flow experienced in 2004 and 2003 is attributable to improved operating income and significant reductions in our accounts receivable days outstanding. Our accounts receivable days outstanding were 48 days at December 31, 2004 and 52 days at December 31, 2003. This reduction has resulted from improvements we implemented in our business office operations which includes a focused effort to resolve problematic accounts in a timely manner and improved pre-admission policies to validate insurance coverage.

Investing activities used $220.8 million, $29.0 million and $261.5 million of cash flow for the combined year ended December 31, 2005 and the years ended December 31, 2004 and 2003, respectively. Of this amount, we incurred earnout and acquisition related payments of $111.6 million, $4.9 million and $228.2 million, respectively in 2005, 2004 and 2003. In 2005, the SemperCare acquisition accounted for $105.1 million of the $111.6 million acquisition payments. The Kessler acquisition costs, net of cash acquired, of $223.9 million comprise most of the 2003 expenditures. The remaining acquisition payments relate primarily to small acquisitions of outpatient businesses. The earnout payments related principally to obligations we assumed as part of our 1999 NovaCare acquisition. Investing activities also used cash for the purchases of property and equipment of $109.9 million, $32.6 million and $35.9 million in the combined twelve months of 2005, 2004 and 2003, respectively, which was related principally to new hospital development and construction. During 2005 we purchased five properties that will be used to relocate existing hospitals and one property for a new hospital. Each of these properties require additional improvements to be made before they become operational. Additionally, during 2005 we began a major improvement and expansion of our rehabilitation hospital in West Orange, New Jersey. During 2004, we sold our only skilled nursing facility and our non-controlling interest in a rehabilitation hospital for $15.6 million.

Financing activities used $48.5 million of cash for the combined year ended December 31, 2005. The principal financing activities were related to the Merger financing discussed below. The excess proceeds from the Transactions were used to pay Merger related costs, which include the cancellation and cash-out of outstanding stock options. Additionally, during 2005 Select repaid $115.0 million of debt under its revolver and $4.4 million of its term loan. During 2005, Select paid dividends of $10.0 million to Holdings which it used to fund interest payments on its debt. Cash overdrafts of $19.4 million have provided additional financing cash.

Financing activities used $64.0 million of cash for the year ended December 31, 2004. In 2004, this was principally due to the repurchase of our common stock in accordance with the stock repurchase program we announced on February 23, 2004. During 2004, we repurchased a total of 3,399,400 shares at a cost, including fees and commissions, of $48.1 million. Additionally, during 2004, we repaid all outstanding balances under our credit facility of $8.5 million and repaid $3.9 million of seller and other debt. Cash dividend payments in 2004 were $9.2 million. Additionally, during 2004 we had $18.6 million of cash flow from the issuance of common stock under our stock option plans.

Financing activities provided $124.3 million of cash for the year ended December 31, 2003. During 2003, Select sold $175.0 million of 7[1]/2 % senior subordinated notes due 2013. The net proceeds from the sale were approximately $169.4 million after deducting discounts, commissions and expenses of the offering, and were used to finance a portion of the Kessler acquisition. Deferred financing costs associated with the offering were $5.9 million. During 2003, we repaid $65.6 million of credit facility debt and $3.7 million of seller and other debt. In December 2003, we declared and paid our first ever common stock cash dividend of $0.03 per share, which resulted in an aggregate payment to our stockholders of $3.1 million. In 2003, we received $28.6 million of proceeds from the issuance of stock related to the exercise of employee stock options and stock warrants.

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Capital Resources

Net working capital was $65.8 million at March 31, 2006 compared to $77.6 million at December 31, 2005. The decrease in working capital was principally related to the increase in income tax payable that has resulted from the tax gain on the sale of CBIL.

Net working capital was $77.6 million at December 31, 2005 compared to $313.7 million at December 31, 2004. This decrease in working capital was principally related to the use of cash to fund Merger costs, offset by an increase in accounts receivable.

Net working capital increased to $313.7 million at December 31, 2004 compared to $188.4 million at December 31, 2003. This increase in working capital was principally related to an increase in cash and a reduction in amounts due to third party payors. The reduction in amounts due to third-party payors was a result of filing and settling cost reports and refinements in the bi-weekly payments we receive from our Medicare fiscal intermediary related to our Medicare patients.

In connection with the Merger, on February 24, 2005 Select borrowed $780.0 million under a new $880.0 million senior secured credit facility and issued $660.0 million 7^{5}/8 % senior subordinated notes. At March 31, 2006, Select had outstanding $602.2 million of indebtedness under its senior credit facility, excluding $22.5 million of letters of credit, with approximately $249.5 million of additional borrowing capacity. As a result, our liquidity requirements are significantly higher than they were before the Merger due to our increased debt service obligations.

Select s senior secured credit facility provides for senior secured financing of up to $880.0 million, consisting of:

a $300.0 million revolving loan facility that will terminate on February 24, 2011, including both a letter of credit sub-facility and a swingline loan sub-facility, and

a $580.0 million term loan facility that matures on February 24, 2012.

Proceeds of the term loans and $200.0 million of revolving loans, together with other sources of funds, were used to finance the Merger. Proceeds of the revolving loans borrowed after the closing date of the Merger, swingline loans and letters of credit are used for working capital and general corporate purposes.

The interest rates per annum applicable to loans, other than swingline loans, under our senior secured credit facility are, at our option, equal to either an alternate base rate or an adjusted LIBOR rate for a one, two, three or six month interest period, or a nine or twelve month period if available, in each case, plus an applicable margin percentage. The alternate base rate will be the greater of (1) JPMorgan Chase Bank, N.A. s prime rate and (2) one-half of 1% over the weighted average of rates on overnight Federal funds as published by the Federal Reserve Bank of New York. The adjusted LIBOR rate will be determined by reference to settlement rates established for deposits in dollars in the London interbank market for a period equal to the interest period of the loan and the maximum reserve percentages established by the Board of Governors of the United States Federal Reserve to which our lenders are subject. The applicable margin percentage for revolving loans is currently (1) 1.00% for alternate base rate loans and (2) 2.00% for adjusted LIBOR loans, subject to change based upon the ratio of our total indebtedness to our consolidated EBITDA (as defined in the credit agreement). The applicable margin percentages for the term loans are (1) 0.75% for alternate base rate loans and (2) 1.75% for adjusted LIBOR loans. On June 13, 2005 we entered into an interest rate swap transaction with an effective date of August 22, 2005. The swap is being designated as a cash flow hedge of forecasted LIBOR based variable rate interest payments. The underlying variable rate debt is $200.0 million and the swap is for a period of five years.

On February 24, 2005, EGL Acquisition Corp. issued and sold $660.0 million in aggregate principal amount of 7^{5}/8 % senior subordinated notes due 2015, which Select assumed in connection with the Merger. The net proceeds of the offering were used to finance a portion of the funds needed to consummate the Merger with EGL Acquisition Corp. The notes were issued under an indenture between EGL Acquisition Corp. and U.S. Bank Trust National Association, as trustee. Interest on the notes is payable semi-annually in arrears on February 1 and August 1 of each year. The notes are guaranteed by all of Select s wholly-owned subsidiaries, subject to certain exceptions. On or after February 1, 2010, the notes may be redeemed at our option, in whole or in part, at redemption prices that decline annually to 100% on and after February 1, 2013, plus accrued and unpaid interest. Prior to February 1, 2008, we may at our option on one or more occasions with the net cash

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proceeds from certain equity offerings redeem the outstanding notes in an aggregate principal amount not to exceed 35% of the aggregate principal amount originally issued at a redemption price of 107.625%, plus accrued and unpaid interest to the redemption date.

Upon a change of control of Holdings, each holder of notes may require us to repurchase all or any portion of the holder s notes at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest to the date of purchase.

On February 24, 2005, Holdings issued 10% senior subordinated notes to WCAS Capital Partners IV, L.P., an investment fund affiliated with Welsh Carson, Rocco A. Ortenzio, Robert A. Ortenzio and certain other investors who are members of or affiliated with the Ortenzio family, for an aggregate purchase price of $150.0 million. The senior subordinated notes had preferred and common shares attached which were recorded at the estimated fair market value on the date of issuance. These shares were recorded as a discount to the senior subordinate notes and are being amortized using the interest method.

Select s 9½% senior subordinated notes due 2009 were issued in June 2001 in an original aggregate principal amount of $175.0 million. Select commenced a debt tender offer and redeemed $169.3 million in aggregate principal amount of these notes in connection with the Merger. On June 15, 2005, Select redeemed the remaining $5.7 million outstanding principal amount of 9 1/2 % senior subordinated notes due 2009 for a redemption price of 104.750% of the principal amount plus accrued and unpaid interest.

On September 29, 2005, we sold $175.0 million of senior floating rate notes due 2015, which bear interest at a rate per annum, reset semi-annually, equal to the 6-month LIBOR plus 5.75%. Interest is payable semi-annually in arrears on March 15 and September 15 of each year, with the principal due in full on September 15, 2015. The floating rate notes are general unsecured obligations and are not guaranteed by any of our subsidiaries. The net proceeds of the issuance of the floating rate notes, together with cash was used to reduce the amount of preferred stock, to make a payment to participants in Select s long-term incentive plan, and to pay related fees and expenses.

In connection with this borrowing, Select entered into an amendment to its senior credit facility. This amendment, among other things, permitted us to incur this indebtedness and permits Select to service this indebtedness. The amendment also permitted us to use the net proceeds of the offering to make the $175.0 million special dividend to its preferred stockholders and to make a payment of $14.5 million to certain members of our senior management under our long-term incentive compensation plan.

We believe internally generated cash flows and borrowings of revolving loans under Select s senior secured credit facility will be sufficient to finance operations for at least the next twelve months.

As a result of the recently enacted HIH regulations, we currently anticipate that we will need to relocate approximately 50% of our long-term acute care hospitals over the next five years, including certain of the hospitals acquired in the SemperCare acquisition. Our transition plan includes managing admissions at existing HIHs, relocating certain HIHs to leased spaces in smaller host hospitals in the same markets, consolidating HIHs in certain of our markets, relocating certain of our facilities to alternative settings, building or buying free-standing facilities and closing a small number of facilities. We currently anticipate that approximately 42% of our hospitals will not require a move and 8% of our hospitals will be closed. At this time we cannot predict with any certainty the impact on revenues or operating expenses at the hospitals being moved. These relocation efforts will require us to make additional capital expenditures above historic levels. We currently expect to spend approximately $390 million on capital expenditures over the next four years, including both our ongoing maintenance capital expenditures and the capital required for hospital relocations. At March 31, 2006, we have outstanding commitments under construction contracts related to improvements and renovations at six of our long-term acute care properties and one of our inpatient rehabilitation facilities totaling $30.6 million.

We relocated two of our HIH hospitals to free-standing buildings in the first quarter of 2006 and relocated one of our HIH hospitals to a free-standing building in the fourth quarter of 2005. We also continue to evaluate opportunities to develop new long-term acute care hospitals, primarily in settings where the new HIH regulations would have little or no impact, such as in free-standing buildings. Additionally, we are evaluating opportunities to develop free-standing inpatient rehabilitation facilities similar to the four inpatient rehabilitation facilities acquired through our September 2003 Kessler acquisition. We also intend to open new outpatient rehabilitation clinics in our current

markets where we can benefit from existing referral relation-

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ships and brand awareness to produce incremental growth. From time to time, we also intend to evaluate specialty hospital acquisition opportunities that may enhance the scale of our business and expand our geographic reach.

Commitments and Contingencies

The following table summarizes our contractual obligations at December 31, 2005, and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

		Payments Due by Year			
Contractual Obligations	**Total**	**2006**	**2007-2009**	**2010-2011**	**After 2011**
			(In thousands)		
7⅝ % Senior Subordinated Notes	$ 660,000	$	$	$	$ 660,000
Senior Secured Credit Facility	660,650	5,800	17,400	637,450	
10% Senior Subordinated Notes(1)	131,609				131,609
Senior Floating Rate Notes	175,000				175,000
Seller Notes	899	355	544		
Capital Lease Obligations	359	197	162		
Other Debt Obligations	372	164	208		
Total Debt	1,628,889	6,516	18,314	637,450	966,609
Interest(2)	1,003,161	123,822	369,093	227,309	282,937
Letters of Credit Outstanding	21,981	50		21,931	
Purchase Obligations	5,469	2,400	3,069		
Construction Contracts	43,958	43,958			
Naming, Promotional and Sponsorship Agreement	61,327	2,445	7,679	5,421	45,782
Operating Leases	199,556	73,020	106,476	17,814	2,246
Related Party Operating Leases	17,118	1,963	5,836	3,587	5,732
Total Contractual Cash Obligations	$ 2,981,459	$ 254,174	$ 510,467	$ 913,512	$ 1,303,306

(1) Reflects the balance sheet liability of Holdings senior subordinated notes calculated in accordance with GAAP. The balance sheet liability so reflected is less than the $150.0 million aggregate principal amount of such notes because such notes were issued with original issue discount totaling $18.4 million. Interest on the senior subordinated notes accrues on the full principal amount thereof and Holdings will be obligated to repay the full principal amount thereof at maturity or upon any mandatory or voluntary prepayment thereof.

(2) The interest obligation was calculated using the average interest rate for the quarter ended December 31, 2005 of 6.158% for the senior credit facility, the stated interest rate for the 7⅝ % senior subordinated notes and the 10% senior subordinated notes, 10.2% for the senior floating rate notes and 6.0% for seller notes, capital lease obligations and other debt obligations.

Inflation

The healthcare industry is labor intensive. Wages and other expenses increase during periods of inflation and when labor shortages occur in the marketplace. In addition, suppliers pass along rising costs to us in the form of higher prices. We have implemented cost control measures, including our case and resource management program, to curtail increases in operating costs and expenses. We cannot predict our ability to cover or offset future cost increases.

Recent Accounting Pronouncements

In March 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 156 Accounting for Servicing of Financial Assets, an amendment of SFAS No. 140 (SFAS No. 156). This Statement requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair

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value, if practicable. The FASB concluded that fair value is the most relevant measurement attribute for the initial recognition of all servicing assets and servicing liabilities, because it represents the best measure of future cash flows. SFAS No. 156 permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. An entity that uses derivative instruments to mitigate the risks inherent in servicing assets and servicing liabilities is required to account for those derivative instruments at fair value. Under this Statement, an entity can elect subsequent fair value measurement of its servicing assets and servicing liabilities by class, thus simplifying its accounting and providing for income statement recognition of the potential offsetting changes in fair value of the servicing assets, servicing liabilities, and related derivative instruments. An entity that elects to subsequently measure servicing assets and servicing liabilities at fair value is expected to recognize declines in fair value of the servicing assets and servicing liabilities more consistently than by reporting other-than-temporary impairments. The statement is effective as of the beginning of an entity s first fiscal year that begins after September 15, 2006 though early adoption is permitted. We do not anticipate that the implementation of this standard will have a material impact on our financial position, results of operations or cash flows.

In February 2006, the Financial Accounting Standards Board issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 (SFAS No. 155). SFAS No. 155 simplifies the accounting for certain hybrid financial instruments, eliminates the FASB s interim guidance which provides that beneficial interests in securitized financial assets are not subject to the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and eliminates the restriction on the passive derivative instruments that a qualifying special-purpose entity may hold. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. We do not anticipate that the implementation of this standard will have a material impact on our financial position, results of operations or cash flows.

In May 2005, the Financial Accounting Standards Board issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS No. 154). This statement applies to all voluntary changes in accounting principle and changes required by an accounting pronouncement where no specific transition provisions are included. SFAS No. 154 requires retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. Retrospective application is limited to the direct effects of the change; the indirect effects should be recognized in the period of the change. This statement carries forward without changing the guidance contained in Opinion 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. However, SFAS No. 154 redefines restatement as the revising of previously issued financial statements to reflect the correction of an error. The provisions of SFAS No. 154 are effective for accounting changes and correction of errors made in fiscal periods that begin after December 15, 2005, although early adoption is permitted.

In March 2005, the Financial Accounting Standards Board issued interpretation (FIN) No. 47, Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143. The statement clarifies that the term conditional asset retirement obligation, as used in SFAS No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. This interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The effective date of this interpretation is no later than the end of the fiscal year ending after December 15, 2005. The adoption of FIN No. 47 did not have a material impact on our financial position and results of operations.

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123R (revised 2004), Share-Based Payment. This Statement is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS No. 123R requires that compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. The provisions of this statement are effective for us beginning at our next annual reporting period beginning

January 1, 2006, however, we have adopted SFAS No. 123R in the Successor period beginning on February 25, 2005. The adoption of SFAS No. 123R had an immaterial impact on our financial position and results of operations.

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In December 2004, the Financial Accounting Standards Board issued SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29 (SFAS No. 153). The guidance in APB Opinion No. 29, Accounting for Nonmonetary Transactions, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. This Statement amends Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS No. 153 is not expected to have a material impact on our financial position and results of operations.

Quantitative and Qualitative Disclosures About Market Risk

We are subject to interest rate risk in connection with our long-term indebtedness. Our principal interest rate exposure relates to the loans outstanding under Select s senior secured credit facility and our senior floating rate notes. As of March 31, 2006, Select had $574.2 million in term loans outstanding and $28.0 million of revolving loans outstanding under its senior secured credit facility, each bearing interest at variable rates. On June 13, 2005, we entered into an interest rate swap transaction. The effective date of the swap transaction was August 22, 2005. We entered into the swap transaction to mitigate the risks of future variable rate interest payments associated with Select s senior secured credit facility. The notional amount of the interest rate swap is $200.0 million, the underlying variable rate debt is associated with the senior secured credit facility, and the swap is for a period of five years. Each eighth point change in interest rates on the variable rate portion of Select s senior secured credit facility would result in a $0.5 million change in interest expense.

In conjunction with the issuance of the senior floating rate notes, we entered into a swap transaction to mitigate the risks of future variable rate interest payments associated with this debt. The notional amount of the interest rate swap is $175.0 million and the swap is for a period of five years.

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OUR BUSINESS

Company Overview

We are a leading operator of specialty hospitals and outpatient rehabilitation clinics in the United States. As of March 31, 2006, we operated 97 long-term acute care hospitals in 26 states, four acute medical rehabilitation hospitals, which are certified by Medicare as inpatient rehabilitation facilities in New Jersey, and 613 outpatient rehabilitation clinics in 24 states and the District of Columbia. We also provide medical rehabilitation services on a contract basis at nursing homes, hospitals, assisted living and senior care centers, schools and worksites. We began operations in 1997 under the leadership of our current management team, including our co-founders, Rocco A. Ortenzio and Robert A. Ortenzio, both of whom have significant experience in the healthcare industry. Under this leadership, we have grown our business through internal development initiatives and strategic acquisitions. For the combined twelve months ended December 31, 2005, we had net operating revenues of $1,858.4 million, income from operations of $119.1 million and a net loss of $27.9 million. For the three months ended March 31, 2006, we had net operating revenues of $479.7 million, income from operations of $66.5 million and net income of $28.2 million.

We manage our company through two business segments, our specialty hospital segment and our outpatient rehabilitation segment. For the three months ended March 31, 2006, approximately 75% of our net operating revenues were from our specialty hospitals and approximately 25% were from our outpatient rehabilitation business.

The Merger Transactions

On February 24, 2005, EGL Acquisition Corp. was merged with and into Select, with Select continuing as the surviving corporation and a wholly-owned subsidiary of Holdings. Holdings was formerly known as EGL Holding Company. Holdings and EGL Acquisition Corp. were Delaware corporations formed by Welsh Carson for purposes of engaging in the Merger and the related transactions. The Merger was completed pursuant to an agreement and plan of merger, dated as of October 17, 2004, among EGL Acquisition Corp., Holdings and Select.

As a result of the Transactions, our assets and liabilities have been adjusted to their fair value as of February 25, 2005. We have also experienced an increase in our aggregate outstanding indebtedness as a result of financing associated with the Transactions. Accordingly, our amortization expense and interest expense are higher in periods following the Transactions. The excess of the total purchase price over the fair value of our tangible and identifiable intangible assets of $1.4 billion has been allocated to goodwill, which will be the subject of an annual impairment test.

Specialty Hospitals

As of March 31, 2006, we operated 101 specialty hospitals. Of this total, 97 operated as long-term acute care hospitals, all of which were certified by the federal Medicare program as long-term acute care hospitals. The remaining four specialty hospitals are certified by the federal Medicare program as inpatient rehabilitation facilities. For the three months ended March 31, 2006, approximately 72% of the net operating revenues of our specialty hospital segment came from Medicare reimbursement. As of March 31, 2006, we operated a total of 3,852 available licensed beds and employed approximately 12,300 people in our specialty hospital segment, with the majority being registered or licensed nurses, respiratory therapists, physical therapists, occupational therapists and speech therapists.

Patients are admitted to our specialty hospitals from general acute care hospitals. These patients have specialized needs, and serious and often complex medical conditions such as respiratory failure, neuromuscular disorders, traumatic brain and spinal cord injuries, stroke, cardiac disorders, non-healing wounds, renal disorders and cancer. These patients generally require a longer length of stay than patients in a general acute care hospital and benefit from being treated in a specialty hospital that is designed to meet their unique

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medical needs. Below is a table that shows the distribution by medical condition (based on primary diagnosis) of patients in our hospitals for the year ended December 31, 2005:

Medical Condition	Distribution of Patients
Respiratory disorder	33.0%
Neuromuscular disorder	31.9
Cardiac disorder	11.1
Wound care	8.1
Other	15.9
Total	100.0%

We believe that we provide our services on a more cost-effective basis than a typical general acute care hospital because we provide a much narrower range of services. We believe that our services are therefore attractive to healthcare payors who are seeking to provide the most cost-effective level of care to their enrollees. Additionally, we continually seek to increase our admissions by expanding and improving our relationships with the physicians and general acute care hospitals that refer patients to our facilities.

When a patient is referred to one of our hospitals by a physician, case manager, discharge planner, health maintenance organization or insurance company, a clinical liaison along with a Select case manager makes an assessment to determine the care required. Based on the determinations reached in this clinical assessment, an admission decision is made by the attending physician.

Upon admission, an interdisciplinary team reviews a new patient s condition. The interdisciplinary team comprises a number of clinicians and may include any or all of the following: an attending physician; a specialty nurse; a physical, occupational or speech therapist; a respiratory therapist; a dietician; a pharmacist; and a case manager. Upon completion of an initial evaluation by each member of the treatment team, an individualized treatment plan is established and implemented. The case manager coordinates all aspects of the patient s hospital stay and serves as a liaison with the insurance carrier s case management staff when appropriate. The case manager communicates progress, resource utilization, and treatment goals between the patient, the treatment team and the payor.

Each of our specialty hospitals has an onsite management team consisting of a chief executive officer, a director of clinical services and a director of provider relations. These teams manage local strategy and day-to-day operations, including oversight of clinical care and treatment. They also assume primary responsibility for developing relationships with the general acute care providers and clinicians in our markets that refer patients to our specialty hospitals. We provide our hospitals with centralized accounting, payroll, legal, reimbursement, human resources, compliance, management information systems, billing and collecting services. The centralization of these services improves efficiency and permits hospital staff to spend more time on patient care.

We operate most of our long-term acute care hospitals using a hospital within a hospital or HIH model. A long-term acute care hospital that operates as a hospital within a hospital leases space from a general acute care host hospital and operates as a separately-licensed hospital within the host hospital in contrast to a long-term acute care hospital that owns or operates a free-standing facility. Of the 97 long-term acute care hospitals we operated as of March 31, 2006, 91 were operated as hospitals within hospitals and six were operated as free-standing facilities. As a result of the HIH regulatory changes discussed in further detail below, we have developed a plan that includes, among other things, relocating certain of our facilities to alternative settings, building or buying additional free-standing facilities and closing some of our facilities. If the Centers for Medicare & Medicaid Services, also known as CMS, implements certain additional regulatory changes that it has proposed and discussed and that would affect long-term acute care hospitals more generally, our plan would have to be further modified.

Recent Long-Term Acute Care Hospital Regulatory Developments

On August 11, 2004, CMS published final regulations applicable to long-term acute care hospitals that are operated as hospitals within hospitals or as satellites (collectively referred to as HIHs). HIHs are separate hospitals located in space leased from, and located in, general acute care hospitals, known as host hospitals. Effective for hospital cost reporting periods beginning on or after October 1, 2004, subject to certain

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exceptions, the final regulations provide lower rates of reimbursement to HIHs for those Medicare patients admitted from their hosts that are in excess of a specified percentage threshold. For HIHs opened after October 1, 2004, the Medicare admissions threshold has been established at 25%. For HIHs that meet specified criteria and were in existence as of October 1, 2004, including all of our existing HIHs, the Medicare admissions thresholds will be phased-in over a four-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 threshold was the Fiscal 2004 Percentage (as defined below) of Medicare discharges admitted from the host hospital; (ii) for discharges during the cost reporting period beginning on or after October 1, 2005 and before October 1, 2006, the Medicare admissions threshold is the lesser of the Fiscal 2004 Percentage of Medicare discharges admitted from the host hospital 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 threshold is the lesser of the Fiscal 2004 Percentage of Medicare discharges admitted from the host hospital or 50%; and (iv) for discharges during cost reporting periods beginning on or after October 1, 2007, the Medicare admissions threshold is 25%. As used above, Fiscal 2004 Percentage means, with respect to any HIH, the percentage of all Medicare patients discharged by such HIH during its cost reporting period beginning on or after October 1, 2003 and before October 1, 2004 who were admitted to such HIH from its host hospital, but in no event is the Fiscal 2004 Percentage less than 25%. The new HIH regulations also established exceptions to the Medicare admissions thresholds with respect to patients who reach outlier status at the host hospital, HIHs located in MSA-dominant hospitals or HIHs located in rural areas.

As of March 31, 2006, we operated 97 long-term acute care hospitals, 91 of which operated as HIHs. In order to minimize the more significant impact of the HIH regulations in 2006 and future years, we have developed a business plan and strategy in each of our markets to adapt to the HIH regulations and maintain our company s current business. Our transition plan includes managing admissions at existing HIHs, relocating certain HIHs to leased spaces in smaller host hospitals in the same markets, consolidating HIHs in certain of our markets, relocating certain of our facilities to alternative settings, building or buying free-standing facilities and closing some of our facilities. We currently anticipate that we will need to relocate approximately 50% of our long-term acute care hospitals over the next five years, including certain of the hospitals acquired in the SemperCare acquisition.

All Medicare payments to our long-term acute care hospitals are made in accordance with a new prospective payment system specifically applicable to long-term acute care hospitals, referred to as LTCH-PPS. Under LTCH-PPS, a long-term acute care hospital is paid a predetermined fixed amount depending upon the long-term care diagnosis-related group, or LTC-DRG, to which each patient is assigned. LTCH-PPS includes special payment policies that adjust the payments for some patients based on a variety of factors.

On May 2, 2006, CMS released its final annual payment rate updates for the 2007 LTCH-PPS rate year (affecting discharges and cost reporting periods beginning on or after July 1, 2006 and before July 1, 2007). The May 2006 final rule makes several changes to LTCH-PPS payment methodologies and amounts.

For discharges occurring on or after July 1, 2006, the rule changes the payment methodology for Medicare patients with a length of stay less than or equal to five-sixths of the geometric average length of stay for each LTC-DRG (referred to as short-stay outlier or SSO cases). Currently, payment for these patients is based on the lesser of (1) 120 percent of the cost of the case; (2) 120 percent of the LTC-DRG specific per diem amount multiplied by the patient s length of stay; or (3) the full LTC-DRG payment. The final rule modifies the limitation in clause (1) above to reduce payment for SSO cases to 100 percent (rather than 120 percent) of the cost of the case. The final rule also adds a fourth limitation, capping payment for SSO cases at a per diem rate derived from blending 120 percent of the LTC-DRG specific per diem amount with a per diem rate based on the general acute care hospital inpatient prospective payment system (IPPS). Under this methodology, as a patient s length of stay increases, the percentage of the per diem amount based upon the IPPS component will decrease and the percentage based on the LTC-DRG component will increase. The final rule reflects a moderation of the SSO payment policy that CMS had proposed in January 2006, which would have limited SSO payments solely to an amount based on the IPPS.

In addition, for discharges occurring on or after July 1, 2006, the final rule provides for (i) a zero-percent update for the 2007 LTCH-PPS rate year to the LTCH-PPS standard federal rate used as a basis for LTCH-PPS payments;

(ii) the elimination of the surgical case exception to the three-day or less interruption of stay

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policy, under which surgical exception Medicare reimburses a general acute care hospital directly for surgical services furnished to a long-term acute care hospital patient during a brief interruption of stay from the long-term acute care hospital, rather than requiring the long-term acute care hospital to bear responsibility for such surgical services; and (iii) increasing the costs that a long-term acute care hospital must bear before Medicare will make additional payments for a case under its high-cost outlier policy for the 2007 LTCH-PPS rate year.

CMS estimates that the changes in the May 2006 final rule will result in an approximately 3.7 percent decrease in LTCH Medicare payments-per-discharge as compared to the 2006 rate year, largely attributable to the revised SSO payment methodology. Based upon our historical Medicare patient volumes and revenues, we expect that the May 2006 final rule will reduce Medicare revenues associated with SSO cases and high cost outlier cases to our long-term acute care hospitals by approximately $30.0 million on an annual basis. Additionally, had CMS updated the LTCH-PPS standard federal rate by the 2007 estimated market basket index of 3.4 percent rather than applying the zero-percent update, we estimate that we would have received approximately $31.0 million in additional annual Medicare revenues, based on our historical Medicare patient volumes and revenues (such revenues would have been paid to our hospitals for discharges beginning on or after July 1, 2006).

See Business Government Regulations and Management s Discussion and Analysis of Financial Condition and Results of Operations Regulatory Changes.

Outpatient Rehabilitation

As of March 31, 2006, we operated 613 clinics throughout 24 states and the District of Columbia. Typically, each of our clinics is located in a medical complex or retail location. As of March 31, 2006, our outpatient rehabilitation segment employed approximately 7,200 people.

In our clinics and through our contractual relationships, we provide physical, occupational and speech rehabilitation programs and services. We also provide certain specialized programs such as hand therapy or sports performance enhancement that treat sports and work related injuries, musculoskeletal disorders, chronic or acute pain and orthopedic conditions. The typical patient in one of our clinics suffers from musculoskeletal impairments that restrict his or her ability to perform normal activities of daily living. These impairments are often associated with accidents, sports injuries, strokes, heart attacks and other medical conditions. Our rehabilitation programs and services are designed to help these patients minimize physical and cognitive impairments and maximize functional ability. We also design services to prevent short-term disabilities from becoming chronic conditions. Our rehabilitation services are provided by our professionals including licensed physical therapists, occupational therapists, speech-language pathologists and respiratory therapists.

Outpatient rehabilitation patients are generally referred or directed to our clinics by a physician, employer or health insurer who believes that a patient, employee or member can benefit from the level of therapy we provide in an outpatient setting. We believe that our services are attractive to healthcare payors who are seeking to provide the most cost-effective level of care to their enrollees. In addition to providing therapy in our outpatient clinics, we provide medical rehabilitation management services on a contract basis at nursing homes, hospitals, schools, assisted living and senior care centers and worksites. In our outpatient rehabilitation segment, approximately 89% of our net operating revenues come from commercial payors, including healthcare insurers, managed care organizations and workers compensation programs, and contract management services. The balance of our reimbursement is derived from Medicare and other government sponsored programs.

Other Services

Other services (which accounted for less than 1% of our net operating revenues in the three months ended March 31, 2006) includes certain non-healthcare services.

Specialty Hospital Strategy

Provide high quality care and service. We believe that our patients benefit from our experience in addressing complex medical and rehabilitation needs. To effectively address the nature of our patients medical conditions, we have developed specialized treatment programs focused solely on their needs. We have also implemented specific staffing models that are designed to ensure that patients have access to the

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necessary level of clinical attention. We believe that by focusing on quality care and service we develop brand loyalty in our markets allowing us to retain patients and strengthen our relationships with physicians, employers, and health insurers.

Our treatment and staffing programs benefit patients because they give our clinicians access to the regimens that we have found to be most effective in treating various conditions such as respiratory failure, non-healing wounds, brain and spinal cord injuries, strokes and neuromuscular disorders. In addition, we combine or modify these programs to provide a treatment plan tailored to meet a patient s unique needs.

The quality of the patient care we provide is continually monitored using several measures, including patient, payor and physician satisfaction, as well as clinical outcomes. Quality measures are collected monthly and reported quarterly and annually. In order to benchmark ourselves against other healthcare organizations, we have contracted with outside vendors to collect our clinical and patient satisfaction information and compare it to other healthcare organizations. The information collected is reported back to each hospital, to the corporate office, and directly to the Joint Commission on Accreditation of Healthcare Organizations, commonly known as JCAHO. As of March 31, 2006, JCAHO had accredited all but one of our hospitals. This hospital has not yet undergone a JCAHO survey. Each of our four inpatient rehabilitation facilities has also received accreditation from the Commission on Accreditation of Rehabilitation Facilities. See Government Regulations Licensure Accreditation.

Maintain operational and financial results under revised Medicare regulations. As a result of the regulatory changes published by CMS on August 11, 2004, much of our effort in the near-term will be focused on implementing strategic initiatives at our existing hospitals. These initiatives will include managing admissions at existing HIHs, relocating certain HIHs to leased spaces in smaller host hospitals in the same markets, relocating certain of our facilities to alternative settings and building or buying free-standing facilities. We believe that there is sufficient time during the phase-in period to meet the requirements of the new HIH regulations while maintaining our existing business.

Reduce operating costs. We continually seek to improve operating efficiency and reduce costs at our hospitals by standardizing operations and centralizing key administrative functions. These initiatives include:

- optimizing staffing based on our occupancy and the clinical needs of our patients;
- centralizing administrative functions such as accounting, finance, payroll, legal, reimbursement, compliance, human resources and billing and collection;
- standardizing management information systems to aid in financial reporting as well as billing and collecting; and
- participating in group purchasing arrangements to receive discounted prices for pharmaceuticals and medical supplies.

Increase higher margin commercial volume. We typically receive higher reimbursement rates from commercial insurers than we do from the federal Medicare program. As a result, we work to expand relationships with insurers to increase commercial patient volume. We believe that commercial payors seek to contract with our hospitals because we offer patients high quality and cost-effective care. Although the level of care we provide is complex and staff intensive, we typically have lower relative operating expenses than a general acute care hospital because we provide a much narrower range of patient services at our hospitals. As a result of our lower relative costs, we offer more attractive rates to commercial payors. We also offer commercial enrollees customized treatment programs not typically offered in general acute care hospitals.

Develop new specialty hospitals. We expect to continue evaluating opportunities to develop new long-term acute care hospitals, primarily in settings where the new HIH regulations would have little or no impact, for example, in free-standing buildings. Additionally, we are evaluating opportunities to develop free-standing inpatient rehabilitation facilities similar to the four inpatient rehabilitation facilities acquired through our September 2003 Kessler acquisition.

We have a dedicated development team with significant market experience. When we target a new market, the development team conducts an extensive review of local market referral patterns and commercial insurance to

determine the general reimbursement trends and payor mix. Ultimately, when we determine a location or sign a lease for our planned space, the project is transitioned to our start-up team, which is

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experienced in preparing a specialty hospital for opening. The start-up team oversees facility improvements, equipment purchases, licensure procedures, and the recruitment of a full-time management team. After the facility is opened, responsibility for its management is transitioned to this new management team and our corporate operations group.

Pursue opportunistic acquisitions. In addition to our development initiatives, we may grow our network of specialty hospitals through opportunistic acquisitions, such as our SemperCare acquisition, which we completed on January 1, 2005. We adhere to selective criteria in our acquisition analysis and have historically been able to obtain assets for what we believe are attractive valuations. When we acquire a hospital or a group of hospitals, a team of our professionals is responsible for formulating and executing an integration plan. We have generally been able to increase margins at acquired facilities by adding clinical programs that attract commercial payors, centralizing administrative functions and implementing our standardized staffing models and resource management programs. From our inception in 1997 through March 31, 2006, we have acquired and integrated 58 hospitals. All of these hospitals now share our centralized billing and standardized management information systems. All of our acquired hospitals participate in our centralized purchasing program.

Outpatient Rehabilitation Strategy

Provide high quality care and service. We are focused on providing a high level of service to our patients throughout their entire course of treatment. To measure satisfaction with our service we have developed surveys for both patients and physicians. Our clinics utilize the feedback from these surveys to continuously refine and improve service levels. We believe that by focusing on quality care and offering a high level of customer service we develop brand loyalty in our markets. This loyalty allows us to retain patients and strengthen our relationships with the physicians, employers, and health insurers in our markets who refer or direct additional patients to us.

Increase market share. Our goal is to be a leading provider of outpatient rehabilitation services in our local markets. Having a strong market share in our local markets allows us to benefit from heightened brand awareness, economies of scale and increased leverage when negotiating payor contracts. To increase our market share, we seek to expand our services and programs and to continue to provide high quality care and strong customer service in order to generate loyalty with patients and referral sources.

Expand rehabilitation programs and services. We assess the healthcare needs of our markets and implement programs and services targeted to meet the demands of the local community. In designing these programs we benefit from the knowledge we gain through our national network of clinics. This knowledge is used to design programs that optimize treatment methods and measure changes in health status, clinical outcomes and patient satisfaction.

Optimize the profitability of our payor contracts. Before we enter into a new contract with a commercial payor, we evaluate it with the aid of our contract management system. We assess potential profitability by evaluating past and projected patient volume, clinic capacity, and expense trends. Each contract we enter into is continually re-evaluated to determine how it is affecting our profitability. We create a retention strategy for each of the top performing contracts and a renegotiation strategy for contracts that do not meet our defined criteria.

Maintain strong employee relations. We believe that the relationships between our employees and the referral sources in their communities are critical to our success. Our referral sources, such as physicians and healthcare case managers, send their patients to our clinics based on three factors: the quality of our care, the service we provide and their familiarity with our therapists. We seek to retain and motivate our therapists by implementing a performance-based bonus program, a defined career path with the ability to be promoted from within, timely communication on company developments, and internal training programs. We also focus on empowering our employees by giving them a high degree of autonomy in determining local market strategy. This management approach reflects the unique nature of each market in which we operate and the importance of encouraging our employees to assume responsibility for their clinic s performance.

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Sources of Net Operating Revenues

The following table presents the approximate percentages by source of net operating revenue received for healthcare services we provided for the periods indicated:

	Fiscal Year Ended December 31,			Three Months Ended March 31,	
Net Operating Revenues by Payor Source(1)	**2003**	**2004**	**2005(2)**	**2005(2)**	**2006**
Medicare	47.8%	49.8%	56.4%	56.7%	55.8%
Commercial insurance(3)	44.9	42.3	37.2	36.5%	37.9
Private and other(4)	5.7	5.7	4.3	4.8	4.6
Medicaid	1.6	2.2	2.1	2.0	1.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(1) This table excludes the net operating revenues of our Canadian operations which have been reclassified and reported as a discontinued operation.

(2) To arrive at the combined fiscal year ended December 31, 2005, the net operating revenues for the period after the Merger, February 25, 2005 through December 31, 2005 (Successor period), have been added to the net operating revenues for the period from January 1, 2005 through February 24, 2005 (Predecessor period). To arrive at the combined three months ended March 31, 2005, the net operating revenues for the period after the Merger, February 25, 2005 through March 31, 2005 (Successor period), have been added to the net operating revenues for the period from January 1, 2005 through February 24, 2005 (Predecessor period).

(3) Includes commercial healthcare insurance carriers, health maintenance organizations, preferred provider organizations, workers compensation and managed care programs.

(4) Includes self payors, contract management services and non-patient related payments. Self pay revenues represent less than 1% of total net operating revenues.

Government Sources

Medicare is a federal program that provides medical insurance benefits to persons age 65 and over, some disabled persons, and persons with end-stage renal disease. Medicaid is a federal-state funded program, administered by the states, which provides medical benefits to individuals who are unable to afford healthcare. All of our hospitals are currently certified as Medicare providers. Our outpatient rehabilitation clinics regularly receive Medicare payments for their services. Additionally, our specialty hospitals participate in fifteen state Medicaid programs. Amounts received under the Medicare and Medicaid programs are generally less than the customary charges for the services provided. In recent years, there have been significant changes made to the Medicare and Medicaid programs. Since more than half of our revenues come from patients under the Medicare program, our ability to operate our business successfully in the future will depend in large measure on our ability to adapt to changes in the Medicare program. See Business Government Regulations Overview of U.S. and State Government Reimbursements.

Non-Government Sources

Although in recent years an increasing percentage of our net operating revenues were generated from the Medicare program, a significant amount of our net operating revenues continue to come from private payor sources. These sources include insurance companies, workers compensation programs, health maintenance organizations, preferred

provider organizations, other managed care companies, and employers, as well as by patients directly. Patients are generally not responsible for any difference between customary charges for our services and amounts paid by Medicare and Medicaid programs, insurance companies, workers compensation companies, health maintenance organizations, preferred provider organizations, and other managed care companies, but are responsible for services not covered by these programs or plans, as well as for deductibles and co-insurance obligations of their coverage. The amount of these deductibles and co-insurance obligations has increased in recent years. Collection of amounts due from individuals is typically more difficult than collection of amounts due from government or business payors. To further reduce their healthcare costs, most insurance companies, health maintenance organizations, preferred provider organizations, and other managed

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care companies have negotiated discounted fee structures or fixed amounts for hospital services performed, rather than paying healthcare providers the amounts billed. Our results of operations may be negatively affected if these organizations are successful in negotiating further discounts.

Employees

As of March 31, 2006, we employed approximately 20,100 people throughout the United States. A total of approximately 13,300 of our employees are full time and the remaining approximately 6,800 are part time employees. Outpatient, contract therapy and physical rehabilitation and occupational health employees totaled approximately 7,200 and inpatient employees totaled approximately 12,300. The remaining approximately 600 employees were in corporate management, administration and other services.

Competition

We compete on the basis of pricing, the quality of the patient services we provide and the results that we achieve for our patients. The primary competitive factors in the long-term acute care and inpatient rehabilitation businesses include quality of services, charges for services and responsiveness to the needs of patients, families, payors and physicians. Other companies operate long-term acute care hospitals and inpatient rehabilitation facilities that compete with our hospitals, including large operators of similar facilities, such as Kindred Healthcare Inc. and HealthSouth Corporation. The competitive position of any hospital is also affected by the ability of its management to negotiate contracts with purchasers of group healthcare services, including private employers, managed care companies, preferred provider organizations and health maintenance organizations. Such organizations attempt to obtain discounts from established hospital charges. The importance of obtaining contracts with preferred provider organizations, health maintenance organizations and other organizations which finance healthcare, and its effect on a hospital s competitive position, vary from market to market, depending on the number and market strength of such organizations.

Our outpatient rehabilitation clinics face competition principally from locally owned and managed outpatient rehabilitation clinics in the communities they serve. Many of these clinics have longer operating histories and greater name recognition in these communities than our clinics, and they may have stronger relations with physicians in these communities on whom we rely for patient referrals. In addition, HealthSouth Corporation, which operates more outpatient rehabilitation clinics in the United States than we do, competes with us in a number of our markets.

Government Regulations

General

The healthcare industry is required to comply with many laws and regulations at the federal, state and local government levels. These laws and regulations require that hospitals and outpatient rehabilitation clinics meet various requirements, including those relating to the adequacy of medical care, equipment, personnel, operating policies and procedures, maintenance of adequate records, compliance with building codes and environmental protection and healthcare fraud and abuse. These laws and regulations are extremely complex and, in many instances, the industry does not have the benefit of significant regulatory or judicial interpretation. If we fail to comply with applicable laws and regulations, we could suffer civil or criminal penalties, including the loss of our licenses to operate and our ability to participate in the Medicare, Medicaid and other federal and state healthcare programs.

Licensure

Facility licensure. Our healthcare facilities are subject to state and local licensing regulations ranging from the adequacy of medical care to compliance with building codes and environmental protection laws. In order to assure continued compliance with these various regulations, governmental and other authorities periodically inspect our facilities. Some states still require us to get approval under certificate of need regulations when we create, acquire or expand our facilities or services.

Professional licensure and corporate practice. Healthcare professionals at our hospitals and outpatient rehabilitation clinics are required to be individually licensed or certified under applicable state law. We take steps to ensure that our employees and agents possess all necessary licenses and certifications. In some states,

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business corporations such as ours are restricted from practicing therapy through the direct employment of therapists. In those states, in order to comply with the restrictions imposed, we either contract to obtain therapy services from an entity permitted to employ therapists, or we manage the physical therapy practice owned by licensed therapists through which the therapy services are provided.

Certification. In order to participate in the Medicare program and receive Medicare reimbursement, each facility must comply with the applicable regulations of the United States Department of Health and Human Services relating to, among other things, the type of facility, its equipment, its personnel and its standards of medical care, as well as compliance with all applicable state and local laws and regulations. All of our specialty hospitals participate in the Medicare program. In addition, we provide the majority of our outpatient rehabilitation services through clinics certified by Medicare as rehabilitation agencies or rehab agencies.

Accreditation. Our hospitals receive accreditation from the Joint Commission on Accreditation of Healthcare Organizations, a nationwide commission which establishes standards relating to the physical plant, administration, quality of patient care and operation of medical staffs of hospitals. As of March 31, 2006, JCAHO had accredited all but one of our hospitals. This hospital has not yet undergone a JCAHO survey. Each of our four inpatient rehabilitation facilities has also received accreditation from the Commission on Accreditation of Rehabilitation Facilities, an independent, not-for-profit organization which reviews and grants accreditation for rehabilitation facilities that meet established standards for service and quality.

Overview of U.S. and State Government Reimbursements

Medicare. The Medicare program reimburses healthcare providers for services furnished to Medicare beneficiaries, which are generally persons age 65 and older, those who are chronically disabled, and those suffering from end stage renal disease. The program is governed by the Social Security Act of 1965 and is administered primarily by the Department of Health and Human Services and the Centers for Medicare & Medicaid Services. For the fiscal years ended December 31, 2004 and December 31, 2005 and three months ended March 31, 2006, we received approximately 50%, 56% and 56%, respectively, of our revenue from Medicare.

The Medicare program reimburses various types of providers, including long-term acute care hospitals, inpatient rehabilitation facilities and outpatient rehabilitation providers, using different payment methodologies. The Medicare reimbursement systems for long-term acute care hospitals, inpatient rehabilitation facilities and outpatient rehabilitation providers, as described below, are different than the system applicable to general acute care hospitals. For general acute care hospitals, Medicare inpatient costs are reimbursed under a prospective payment system under which a hospital receives a fixed payment amount per discharge (adjusted for area wage differences) using diagnosis related groups, commonly referred to as DRGs. The general acute care hospital DRG payment rate is based upon the national average cost of treating a Medicare patient s condition in that type of facility. Although the average length of stay varies for each DRG, the average stay of all Medicare patients in a general acute care hospital is approximately six days. Thus, the prospective payment system for general acute care hospitals creates an economic incentive for those hospitals to discharge medically complex Medicare patients as soon as clinically possible. Effective October 1, 2005, CMS expanded its post-acute care transfer policy under which general acute care hospitals are paid on a per diem basis rather than the full DRG rate if a patient is discharged early to certain post-acute care settings, including long-term acute care hospitals. The expansion of this policy to patients in a greater number of DRGs could cause general acute care hospitals to delay discharging those patients to our long-term acute care hospitals.

Long-term acute care hospital Medicare reimbursement. The Medicare payment system for long-term acute care hospitals has been changed to a new prospective payment system specifically applicable to long-term acute care hospitals, which is referred to as LTCH-PPS. LTCH-PPS was established by final regulations published on August 30, 2002 by CMS, and applies to long-term care hospitals for their cost reporting periods beginning on or after October 1, 2002. Ultimately, when LTCH-PPS is fully implemented, each patient discharged from a long-term acute care hospital will be assigned to a distinct long-term care diagnosis-related group, which is referred to as an LTC-DRG, and a long-term acute care hospital will generally be paid a predetermined fixed amount applicable to the assigned LTC-DRG (adjusted for area wage differences). The payment amount for each LTC-DRG is intended to reflect the average cost of treating a Medicare patient assigned to that LTC-DRG in a long-term acute care hospital. LTCH-PPS

also includes special payment

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policies that adjust the payments for some patients based on the patient s length of stay, the facility s costs, whether the patient was discharged and readmitted and other factors. As required by Congress, LTC-DRG payment rates have been set to maintain budget neutrality with total expenditures that would have been made under the previous reasonable cost-based payment system.

The LTCH-PPS regulations also refined the criteria that must be met in order for a hospital to be certified as a long-term acute care hospital. For cost reporting periods beginning on or after October 1, 2002, a long-term acute care hospital must have an average inpatient length of stay for Medicare patients (including both Medicare covered and non-covered days) of greater than 25 days. Previously, average lengths of stay were measured with respect to all patients.

Prior to becoming subject to LTCH-PPS, a long-term acute care hospital is paid on the basis of Medicare reasonable costs per case, subject to limits. Under this cost-based reimbursement system, costs accepted for reimbursement depend on a number of factors, including necessity, reasonableness, related party principles and relatedness to patient care. Qualifying costs under Medicare s cost reimbursement system typically include all operating costs and also capital costs that include interest expense, depreciation, amortization, and rental expense.

Prior to qualifying under the payment system applicable to long-term acute care hospitals, a new long-term acute care hospital initially receives payments under the general acute care hospital DRG-based reimbursement system. The long-term acute care hospital must continue to be paid under this system for a minimum of six months while meeting certain Medicare long-term acute care hospital requirements, the most significant requirement being an average Medicare length of stay of more than 25 days.

LTCH-PPS is being phased-in over a five-year transition period, during which a long-term care hospital s payment for each Medicare patient will be a blended amount consisting of set percentages of the LTC-DRG payment rate and the hospital s reasonable cost-based reimbursement. The LTC-DRG payment rate is 20% for a hospital s cost reporting period beginning on or after October 1, 2002, and will increase by 20% for each cost reporting period thereafter until the hospital s cost reporting period beginning on or after October 1, 2006, when the hospital will be paid solely on the basis of LTC-DRG payment rates. A long-term acute care hospital may elect to be paid solely on the basis of LTC-DRG payment rates (and not be subject to the transition period) at the start of any of its cost reporting periods during the transition period.

As of March 31, 2006, all 97 of our eligible long-term acute care hospitals have implemented LTCH-PPS. We have elected to be paid solely on the basis of LTC-DRG payments for all 97 of these hospitals.

Recent Regulatory Developments. On August 11, 2004, CMS published final regulations applicable to long-term acute care hospitals that are operated as hospitals within hospitals or as satellites (collectively referred to as HIHs). HIHs are separate hospitals located in space leased from, and located in, general acute care hospitals, known as host hospitals. Effective for hospital cost reporting periods beginning on or after October 1, 2004, subject to certain exceptions, the final regulations provide lower rates of reimbursement to HIHs for those Medicare patients admitted from their hosts that are in excess of a specified percentage threshold. For HIHs opened after October 1, 2004, the Medicare admissions threshold has been established at 25%. For HIHs that meet specified criteria and were in existence as of October 1, 2004, including all of our existing HIHs, the Medicare admissions thresholds will be phased in over a four-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 threshold was the Fiscal 2004 Percentage (as defined below) of Medicare discharges admitted from the host hospital; (ii) for discharges during the cost reporting period beginning on or after October 1, 2005 and before October 1, 2006, the Medicare admissions threshold is the lesser of the Fiscal 2004 Percentage of Medicare discharges admitted from the host hospital 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 threshold is the lesser of the Fiscal 2004 Percentage of Medicare discharges admitted from the host hospital or 50%; and (iv) for discharges during cost reporting periods beginning on or after October 1, 2007, the Medicare admissions threshold is 25%. As used above, Fiscal 2004 Percentage means, with respect to any HIH, the percentage of all Medicare patients discharged by such HIH during its cost reporting period beginning on or after October 1, 2003 and before October 1, 2004 who were admitted to such HIH from its host hospital, but in no event is the Fiscal 2004 Percentage less than

25%. The new HIH regulations also established exceptions

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to the Medicare admissions thresholds with respect to patients who reach outlier status at the host hospital, HIHs located in MSA-dominant hospitals or HIHs located in rural areas.

As of March 31, 2006, we operated 97 long-term acute care hospitals, 91 of which operated as HIHs. In order to minimize the more significant impact of the HIH regulations in 2006 and future years, we have developed a business plan and strategy in each of our markets to adapt to the HIH regulations and maintain our company s current business. Our transition plan includes managing admissions at existing HIHs, relocating certain HIHs to leased spaces in smaller host hospitals in the same markets, consolidating HIHs in certain of our markets, relocating certain of our facilities to alternative settings, building or buying free-standing facilities and closing some of our facilities. We currently anticipate that we will need to relocate approximately 50% of our long-term acute care hospitals over the next five years, including certain of the hospitals acquired in the SemperCare acquisition.

On May 2, 2006, CMS released its final annual payment rate updates for the 2007 LTCH-PPS rate year (affecting discharges cost reporting periods beginning on or after July 1, 2006 and before July 1, 2007). The May 2006 final rule makes several changes to LTCH-PPS payment methodologies and amounts.

For discharges occurring on or after July 1, 2006, the rule changes the payment methodology for Medicare patients with a length of stay less than or equal to five-sixths of the geometric average length of stay for each LTC-DRG (referred to as short-stay outlier or SSO cases). Currently, payment for these patients is based on the lesser of (1) 120 percent of the cost of the case; (2) 120 percent of the LTC-DRG specific per diem amount multiplied by the patient s length of stay; or (3) the full LTC-DRG payment. The final rule modifies the limitation in clause (1) above to reduce payment for SSO cases to 100 percent (rather than 120 percent) of the cost of the case. The final rule also adds a fourth limitation, capping payment for SSO cases at a per diem rate derived from blending 120 percent of the LTC-DRG specific per diem amount with a per diem rate based on the general acute care hospital inpatient prospective payment system (IPPS). Under this methodology, as a patient s length of stay increases, the percentage of the per diem amount based upon the IPPS component will decrease and the percentage based on the LTC-DRG component will increase. The final rule reflects a moderation of the SSO payment policy that CMS had proposed in January 2006, which would have limited SSO payments solely to an amount based on the IPPS.

In addition, for discharges occurring on or after July 1, 2006, the final rule provides for (i) a zero-percent update for the 2007 LTCH-PPS rate year to the LTCH-PPS standard federal rate used as a basis for LTCH-PPS payments; (ii) the elimination of the surgical case exception to the three-day or less interruption of stay policy, under which surgical exception Medicare reimburses a general acute care hospital directly for surgical services furnished to a long-term acute care hospital patient during a brief interruption of stay from the long-term acute care hospital, rather than requiring the long-term acute care hospital to bear responsibility for such surgical services; and (iii) increasing the costs that a long-term acute care hospital must bear before Medicare will make additional payments for a case under its high-cost outlier policy for the 2007 LTCH-PPS rate year.

CMS estimates that the changes in the May 2006 final rule will result in an approximately 3.7 percent decrease in LTCH Medicare payments-per-discharge as compared to the 2006 rate year, largely attributable to the revised SSO payment methodology. Based upon our historical Medicare patient volumes and revenues, we expect that the May 2006 final rule will reduce Medicare revenues associated with SSO cases and high cost outlier cases to our long-term acute care hospitals by approximately $30.0 million on an annual basis. Additionally, had CMS updated the LTCH-PPS standard federal rate by the 2007 estimated market basket index of 3.4 percent rather than applying the zero-percent update, we estimate that we would have received approximately $31.0 million in additional annual Medicare revenues, based on our historical Medicare patient volumes and revenues (such revenues would have been paid to our hospitals for discharges beginning on or after July 1, 2006).

In the May 2006 final rule updating the LTCH-PPS, CMS noted that it is studying whether payment adjustments similar to those adopted with respect to HIHs in 2004 should also be adopted with respect to free-standing long-term acute care hospitals. Such adjustments could include limiting payments to free-standing long-term acute care hospitals to the extent that greater than 25% of a facility s admissions come from a single general acute care hospital.

In the May 2006 final rule, CMS also discussed the contract it has awarded to Research Triangle Institute, International, or RTI, to examine recommendations made by the Medicare Payment Advisory

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Commission, or MedPAC, concerning how long-term acute care hospitals are defined and differentiated from other types of Medicare providers. MedPAC is an independent federal body that advises Congress on issues affecting the Medicare program. In its June 2004 Report to Congress, MedPAC recommended the adoption by CMS of new facility staffing and services criteria and patient clinical characteristics and treatment requirements for long-term acute care hospitals in order to ensure that only appropriate patients are admitted to these facilities. CMS indicated that it expects RTI s final report to be submitted to the agency in late Spring 2006. While acknowledging that RTI s findings are expected to have a substantial impact on future Medicare policy for long-term acute care hospitals, CMS stated its belief that many of the specific payment adjustment features of LTCH-PPS presently in place may still be necessary and appropriate even with the development of patient- and facility-level criteria for long-term acute care hospitals.

Inpatient rehabilitation facility Medicare reimbursement. Our acute medical rehabilitation hospitals are certified as inpatient rehabilitation facilities by the Medicare program, and are subject to a prospective payment system for services provided to each discharged Medicare beneficiary. Prior to January 1, 2002, inpatient rehabilitation facilities were paid on the basis of Medicare reasonable costs per case, subject to limits under TEFRA. For cost reporting periods beginning on or after January 1, 2002, inpatient rehabilitation facilities are paid under a new prospective payment system specifically applicable to this provider type, which is referred to as IRF-PPS. Under the IRF-PPS, each patient discharged from an inpatient rehabilitation facility is assigned to a case-mix group or IRF-CMG containing patients with similar clinical problems that are expected to require similar amounts of resources. An inpatient rehabilitation facility is generally paid a predetermined fixed amount applicable to the assigned IRF-CMG (subject to applicable case adjustments related to length of stay and facility level adjustments for location and low income patients). The payment amount for each IRF-CMG is intended to reflect the average cost of treating a Medicare patient s condition in an inpatient rehabilitation facility relative to patients with conditions described by other IRF-CMGs. The IRF-PPS also includes special payment policies that adjust the payments for some patients based on the patient s length of stay, the facility s costs, whether the patient was discharged and readmitted and other factors. As required by Congress, IRF-CMG payments rates have been set to maintain budget neutrality with total expenditures that would have been made under the previous reasonable cost based system. The IRF-PPS was phased-in over a transition period in 2002. For cost reporting periods beginning on or after January 1, 2002 and before October 1, 2002, an inpatient rehabilitation facility s payment for each Medicare patient was a blended amount consisting of 66 2/3% of the IRF-PPS payment rate and 33 1/3 % of the hospital s reasonable cost based reimbursement. For cost reporting periods beginning on or after October 1, 2002, inpatient rehabilitation facilities are paid solely on the basis of the IRF-PPS payment rate.

Although the IRF-PPS regulations did not change the criteria that must be met in order for a hospital to be certified as an inpatient rehabilitation facility, CMS adopted a separate final rule on May 7, 2004 that made significant changes to those criteria. The new inpatient rehabilitation facility certification criteria became effective for cost reporting periods beginning on or after July 1, 2004.

Under the historic IRF certification criteria that had been in effect since 1983, in order to qualify as an IRF, a hospital was required to satisfy certain operational criteria as well as demonstrate that, during its most recent 12-month cost reporting period, it served an inpatient population of whom at least 75% required intensive rehabilitation services for one or more of ten conditions specified in regulation (referred to as the 75% test). In 2002, CMS became aware that its various contractors were using inconsistent methods to assess compliance with the 75% test and that the percentage of inpatient rehabilitation facilities in compliance with the 75% test might be low. In response, in June 2002, CMS suspended enforcement of the 75% test and, on September 9, 2003, proposed modifications to the regulatory standards for certification as an inpatient rehabilitation facility. In addition, during 2003, several CMS contractors, including the contractor overseeing our inpatient rehabilitation facilities, promulgated draft local medical review policies that would change the guidelines used to determine the medical necessity for inpatient rehabilitation care.

Notwithstanding concerns stated by the industry and Congress in late 2003 and early 2004 about the adverse impact that CMS s proposed changes and renewed enforcement efforts might have on access to inpatient rehabilitation facility services, and notwithstanding Congressional requests that CMS delay implementation of or changes to the 75% test for additional study of clinically appropriate certification criteria, CMS adopted four major changes to the

75% test in its May 7, 2004 final rule. First, CMS temporarily lowered the 75% compliance threshold, as follows: (i) 50% for cost reporting periods beginning on or after July 1, 2004 and before July 1, 2005; (ii) 60% for cost reporting periods beginning on or after July 1, 2005 and

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before July 1, 2006; (iii) 65% for cost reporting periods beginning on or after July 1, 2006 and before July 1, 2007; and (iv) 75% for cost reporting periods beginning on or after July 1, 2007. Second, CMS modified and expanded from 10 to 13 the medical conditions used to determine whether a hospital qualifies as an inpatient rehabilitation facility. Third, the agency finalized the conditions under which comorbidities can be used to verify compliance with the 75% test. Fourth, CMS changed the timeframe used to determine compliance with the 75% test from the most recent 12-month cost reporting period to the most recent, consecutive, and appropriate 12-month period, with the result that a determination of non-compliance with the applicable compliance threshold will affect the facility s certification for its cost reporting period that begins immediately after the 12-month review period.

Congress temporarily suspended CMS enforcement of the 75% test under the Consolidated Appropriations Act, 2005, enacted on December 8, 2004. The Act requires the Secretary of Health and Human Services to respond within 60 days to a study by the Government Accountability Office, or GAO, on the standards for defining inpatient rehabilitation services before the Secretary may use funds appropriated under the Act to redesignate as a general acute care hospital any hospital that was certified as an inpatient rehabilitation facility on or before June 30, 2004 as a result of the hospital s failure to meet the 75% test. The GAO issued its study on April 22, 2005, and recommended that CMS, based on further research, refine the 75% test to describe more thoroughly the subgroups of patients within the qualifying conditions that are appropriate for care in an inpatient rehabilitation facility. The Secretary issued a formal response to the GAO study on June 24, 2005, in which it concluded that the revised inpatient rehabilitation facility certification standards, including the 75% test, were not inconsistent with the recommendations in the GAO report. In light of this determination, the Secretary announced that CMS would immediately begin enforcement of the revised certification standards.

Subsequently, under the Deficit Reduction Act of 2005, enacted on February 8, 2006, Congress extended the phase-in period for the 75% test by maintaining the compliance threshold at 60% (rather than increasing it to 65%) during the 12-month period beginning on July 1, 2006. The compliance threshold then increases to 65% for cost reporting periods beginning on or after July 1, 2007 and again to 75% for cost reporting periods beginning on or after July 1, 2008. During the years while the new standard is being phased-in, it will be necessary for us to reassess and change our inpatient admissions standards. Such changes may include more restrictive admissions policies. Stricter admissions standards may result in reduced patient volumes at our inpatient rehabilitation facilities, which, in turn, may result in lower net operating revenue and net income for these operations.

Outpatient rehabilitation services Medicare reimbursement. We provide the majority of our outpatient rehabilitation services in our rehabilitation clinics. Through our contract services agreements, we also provide outpatient rehabilitation services in schools, physician directed clinics, worksites, assisted living centers, hospitals and skilled nursing facilities.

Most of our outpatient rehabilitation services are provided in rehabilitation agencies and through our inpatient rehabilitation facilities.

Prior to January 1, 1999, outpatient therapy services, including physical therapy, occupational therapy, and speech-language pathology, were reimbursed on the basis of the lower of 90% of reasonable costs or actual charges. Beginning on January 1, 1999, the Balanced Budget Act of 1997 (the BBA) required that outpatient therapy services be reimbursed on a fee schedule, subject to annual limits. Outpatient therapy providers receive a fixed fee for each procedure performed, which is adjusted by the geographical area in which the facility is located.

The BBA also imposed annual per Medicare beneficiary caps beginning January 1, 1999 that limited Medicare coverage to $1,500 for outpatient rehabilitation services (including both physical therapy and speech-language pathology services) and $1,500 for outpatient occupational health services, including deductible and coinsurance amounts. The caps were to be increased beginning in 2002 by application of an inflation index. Subsequent legislation imposed a moratorium on the application of these limits for the years 2000, 2001 and 2002. With the expiration of the moratorium, CMS implemented the caps beginning on September 1, 2003. The Medicare Prescription Drug, Improvement and Modernization Act re-imposed the moratorium on the application of the therapy caps from the date of enactment (December 8, 2003) through December 31, 2005. Congress allowed the therapy caps to go back into effect on January 1, 2006. The inflation adjusted caps are $1,740 in 2006. As directed by Congress in the Deficit Reduction Act of 2005, CMS is implementing an exceptions process for therapy expenses incurred in 2006. Under this

process, a Medicare

enrollee may request an exception from the therapy caps if the provision of therapy services is deemed to be medically necessary. Therapy cap exceptions will be available automatically for certain conditions and on a case-by-case basis upon submission of documentation of medical necessity.

Historically, outpatient rehabilitation services have been subject to scrutiny by the Medicare program for, among other things, medical necessity for services, appropriate documentation for services, supervision of therapy aides and students and billing for group therapy. CMS has issued guidance to clarify that services performed by a student are not reimbursed even if provided under line of sight supervision of the therapist. Likewise, CMS has reiterated that Medicare does not pay for services provided by aides regardless of the level of supervision. CMS also has issued instructions that outpatient physical and occupational therapy services provided simultaneously to two or more individuals by a practitioner should be billed as group therapy services.

Payment for rehabilitation services furnished to patients of skilled nursing facilities has been affected by the establishment of a Medicare prospective payment system and consolidated billing requirement for skilled nursing facilities. The resulting pressure on skilled nursing facilities to reduce their costs by negotiating lower payments to therapy providers, such as our contract therapy services, and the inability of the therapy providers to bill the Medicare program directly for their services have tended to reduce the amounts that rehabilitation providers can receive for services furnished to many skilled nursing facility residents.

Specialty hospital Medicaid reimbursement. The Medicaid program is designed to provide medical assistance to individuals unable to afford care. The program is governed by the Social Security Act of 1965 and administered and funded jointly by each individual state government and CMS. Medicaid payments are made under a number of different systems, which include cost based reimbursement, prospective payment systems or programs that negotiate payment levels with individual hospitals. In addition, Medicaid programs are subject to statutory and regulatory changes, administrative rulings, interpretations of policy by the state agencies and certain government funding limitations, all of which may increase or decrease the level of program payments to our hospitals. Medicaid payments accounted for approximately 2% of our specialty hospital net operating revenues for the three months ended March 31, 2006.

Workers compensation. Workers compensation programs accounted for approximately 22% of our revenue from outpatient rehabilitation services for the three months ended March 31, 2006. Workers compensation is a state mandated, comprehensive insurance program that requires employers to fund or insure medical expenses, lost wages and other costs resulting from work related injuries and illnesses. Workers compensation benefits and arrangements vary on a state-by-state basis and are often highly complex. In some states, payment for services covered by workers compensation programs are subject to cost containment features, such as requirements that all workers compensation injuries be treated through a managed care program, or the imposition of payment caps. In addition, these workers compensation programs may impose requirements that affect the operations of our outpatient rehabilitation services.

Other Healthcare Regulations

Fraud and abuse enforcement. Various federal laws prohibit the submission of false or fraudulent claims, including claims to obtain payment under Medicare, Medicaid and other government healthcare programs. Penalties for violation of these laws include civil and criminal fines, imprisonment and exclusion from participation in federal and state healthcare programs. In recent years, federal and state government agencies have increased the level of enforcement resources and activities targeted at the healthcare industry. In addition, the federal False Claims Act allows an individual to bring lawsuits on behalf of the government, in what are known as qui tam or whistleblower actions, alleging false or fraudulent Medicare or Medicaid claims or other violations of the statute. The use of these private enforcement actions against healthcare providers has increased dramatically in the recent past, in part because the individual filing the initial complaint is entitled to share in a portion of any settlement or judgment. See Legal Proceedings Other Legal Proceedings.

From time to time, various federal and state agencies, such as the Office of the Inspector General of the Department of Health and Human Services, issue a variety of pronouncements, including fraud alerts, the Office of Inspector General s Annual Work Plan and other reports, identifying practices that may be subject to heightened scrutiny. These pronouncements can identify issues relating to long-term acute care hospitals, inpatient rehabilitation

facilities or outpatient rehabilitation services or providers. For example, the Office of Inspector General s 2004 Work Plan describes the government s intention to study providers use of the

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hospital within a hospital model for furnishing long-term acute care hospital services and whether they comply with the 5% limitation on discharges to the host hospital that are subsequently readmitted to the hospital within a hospital. The 2005 Work Plan describes plans to study whether patients in long-term acute care hospitals are receiving acute-level services or could be cared for in skilled nursing facilities. The 2006 Work Plan describes plans to study the accuracy of Medicare payment for inpatient rehabilitation stays when patient assessments are entered later than the required deadlines, to study both inpatient rehabilitation facility and long-term acute care hospital payments in order to determine whether they were made in accordance with applicable regulations, including policies on outlier payments and interrupted stays, and to study physical and occupational therapy claims in order to determine whether the services were medically necessary and adequately documented. We monitor government publications applicable to us and focus a portion of our compliance efforts towards these areas targeted for enforcement.

We endeavor to conduct our operations in compliance with applicable laws, including healthcare fraud and abuse laws. If we identify any practices as being potentially contrary to applicable law, we will take appropriate action to address the matter, including, where appropriate, disclosure to the proper authorities.

Remuneration and fraud measures. The federal anti-kickback statute prohibits some business practices and relationships under Medicare, Medicaid and other federal healthcare programs. These practices include the payment, receipt, offer or solicitation of remuneration in connection with, to induce, or to arrange for, the referral of patients covered by a federal or state healthcare program. Violations of the anti-kickback law may be punished by a criminal fine of up to $50,000 or imprisonment for each violation, or both, civil monetary penalties of $50,000 and damages of up to three times the total amount of remuneration, and exclusion from participation in federal or state healthcare programs.

Section 1877 of the Social Security Act, commonly known as the Stark Law, prohibits referrals for designated health services by physicians under the Medicare and Medicaid programs to other healthcare providers in which the physicians have an ownership or compensation arrangement unless an exception applies. Sanctions for violating the Stark Law include civil monetary penalties of up to $15,000 per prohibited service provided, assessments equal to three times the dollar value of each such service provided and exclusion from the Medicare and Medicaid programs and other federal and state healthcare programs. The statute also provides a penalty of up to $100,000 for a circumvention scheme. In addition, many states have adopted or may adopt similar anti-kickback or anti-self-referral statutes. Some of these statutes prohibit the payment or receipt of remuneration for the referral of patients, regardless of the source of the payment for the care.

Provider-based status. The designation provider-based refers to circumstances in which a subordinate facility (e.g., a separately certified Medicare provider, a department of a provider or a satellite facility) is treated as part of a provider for Medicare payment purposes. In these cases, the services of the subordinate facility are included on the main provider s cost report and overhead costs of the main provider can be allocated to the subordinate facility, to the extent that they are shared. We operate 17 specialty hospitals that are treated as provider-based satellites of certain of our other facilities, certain of our outpatient rehabilitation services are operated as departments of our inpatient rehabilitation facilities, and we provide rehabilitation management and staffing services to hospital rehabilitation departments that may be treated as provider-based. These facilities are required to satisfy certain operational standards in order to retain their provider-based status.

Health information practices. In addition to broadening the scope of the fraud and abuse laws, the Health Insurance Portability and Accountability Act of 1996, commonly known as HIPAA, also mandates, among other things, the adoption of standards for the exchange of electronic health information in an effort to encourage overall administrative simplification and enhance the effectiveness and efficiency of the healthcare industry. If we fail to comply with the standards, we could be subject to criminal penalties and civil sanctions. Among the standards that the Department of Health and Human Services has adopted or will adopt pursuant to HIPAA are standards for electronic transactions and code sets, unique identifiers for providers (referred to as National Provider Identifier or NPI), employers, health plans and individuals, security and electronic signatures, privacy and enforcement.

The Department of Health and Human Services has adopted standards in three areas that most affect our operations.

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Standards relating to electronic transactions and code sets require the use of uniform standards for common healthcare transactions, including healthcare claims information, plan eligibility, referral certification and authorization, claims status, plan enrollment and disenrollment, payment and remittance advice, plan premium payments and coordination of benefits. We were required to comply with these requirements by October 16, 2003.

Standards relating to the privacy of individually identifiably health information govern our use and disclosure of protected health information, and require us to impose those rules, by contract, on any business associate to whom such information is disclosed. We were required to comply with these standards by April 14, 2003.

Standards for the security of electronic health information require us to implement various administrative, physical and technical safeguards to ensure the integrity and confidentiality of electronic protected health information. We were required to comply with the security standards by April 20, 2005.

The NPI will replace health care provider identifiers that are in use today in standard transactions. Implementation of the NPI will eliminate the need for health care providers to use different identification numbers to identify themselves when conducting standard transactions with multiple health plans. We are required to comply with the use of NPIs in standard transactions by May 23, 2007.

We maintain a HIPAA Committee that is charged with evaluating and monitoring our compliance with HIPAA. The Committee monitors HIPAA s regulations as they have been adopted to date and as additional standards and modifications are adopted. Although health information standards have had a significant effect on the manner in which we handle health data and communicate with payors, the cost of our compliance has not had a material adverse effect on our business, financial condition or results of operations. We cannot estimate the cost of compliance with standards that have not been issued or finalized by the Department of Health and Human Services.

Compliance Program

Our Compliance Program

In late 1998, we voluntarily adopted our code of conduct. The code is reviewed and amended as necessary and is the basis for our company-wide compliance program. Our written code of conduct provides guidelines for principles and regulatory rules that are applicable to our patient care and business activities. These guidelines are implemented by a compliance officer, a compliance committee and subcommittees, and employee education and training. We also have established a reporting system, auditing and monitoring programs, and a disciplinary system as a means for enforcing the code s policies.

Operating Our Compliance Program

We focus on integrating compliance responsibilities with operational functions. We recognize that our compliance with applicable laws and regulations depends upon individual employee actions as well as company operations. As a result, we have adopted an operations team approach to compliance. Our corporate executives, with the assistance of corporate experts, designed the programs of the compliance committee. We utilize facility leaders for employee-level implementation of our code of conduct. This approach is intended to reinforce our company-wide commitment to operate in accordance with the laws and regulations that govern our business.

Compliance Committee

Our compliance committee is made up of members of our senior management and in-house counsel. The compliance committee meets on a quarterly basis and reviews the activities, reports and operation of our compliance program. In addition, the HIPAA committee meets on a regular basis to review compliance with HIPAA regulations and provides reports to the compliance committee.

Compliance Issue Reporting

In order to facilitate our employees ability to report known, suspected or potential violations of our code of conduct, we have developed a system of anonymous reporting. This anonymous reporting may be

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accomplished through our toll free compliance hotline, compliance e-mail address or our compliance post office box. The compliance officer and the compliance committee are responsible for reviewing and investigating each compliance incident in accordance with the compliance department s investigation policy.

Compliance Monitoring and Auditing/ Comprehensive Training and Education

Monitoring reports and the results of compliance for each of our business segments are reported to the compliance committee on a quarterly basis. We train and educate our employees regarding the code of conduct, as well as the legal and regulatory requirements relevant to each employee s work environment. New and current employees are required to sign a compliance certification form certifying that the employee has read, understood, and has agreed to abide by the code of conduct. Additionally all employees are required to re-certify compliance with the code on an annual basis.

Policies and Procedures Reflecting Compliance Focus Areas

We review our policies and procedures for our compliance program from time to time in order to improve operations and to ensure compliance with requirements of standards, laws and regulations and to reflect the on-going compliance focus areas which have been identified by the compliance committee.

Internal Audit

In addition to and in support of the efforts of our compliance department, during 2001 we established an internal audit function. The compliance officer manages the combined Compliance and Audit Department and meets with the audit committee of the board of directors on a quarterly basis to discuss audit results.

Our Investors

Welsh Carson is an investment partnership that was 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 14 private investment partnerships with total capital of more than $13.0 billion and has completed over 200 management buyouts and initial investments.

Thoma Cressey is a leading private equity firm whose founders and partners have a long record of successfully investing in buyouts, recapitalizations, growth equity and going-private transactions. With offices in Chicago, San Francisco and Boston, Thoma Cressey currently manages over $1.0 billion in capital in a series of private equity funds. The firm focuses on investments in healthcare, business software and services and consumer-related businesses. Investors in the Thoma Cressey funds include some of the leading governmental and corporate pension plans, financial institutions, university endowments and national foundations.

Partnerships affiliated with Welsh Carson and Thoma Cressey were among our initial investors in 1997 and a Welsh Carson-affiliated partnership was once Select s largest shareholder. Russell L. Carson, a founding partner of Welsh, Carson, Anderson & Stowe, and Bryan C. Cressey, a founding partner of Thoma Cressey, have been members of Select s board of directors since its inception in 1997.

Corporate Information

Holdings is a corporation organized under the laws of the State of Delaware. Our principal executive offices are located at 4716 Old Gettysburg Road, P.O. Box 2034, Mechanicsburg, Pennsylvania 17055. Our telephone number at our principal executive offices is (717) 972-1100. Our company s website can be located at *www.selectmedicalcorp.com.* The information on our company s website is not part of this prospectus.

Facilities

We currently lease most of our facilities, including clinics, offices, specialty hospitals and our corporate headquarters. We own each of our four inpatient rehabilitation facilities and four of our long-term acute care hospitals. We also own three facilities currently undergoing renovations that will house future specialty hospitals.

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We lease all of our outpatient rehabilitation clinics and related offices, which, as of March 31, 2006, included 613 outpatient rehabilitation clinics throughout the United States. The outpatient rehabilitation clinics generally have a five-year lease term and include options to renew. We also lease the majority of our long-term acute care hospital facilities except for the facilities described above. As of March 31, 2006, we had 91 hospital within a hospital leases and two free-standing building leases.

We generally seek a five-year lease for our long-term acute care hospitals operated as HIHs, with an additional five-year renewal at our option. We lease our corporate headquarters from companies owned by a related party affiliated with us through common ownership or management. Our corporate headquarters is approximately 92,145 square feet and is located in Mechanicsburg, Pennsylvania. We lease several other administrative spaces related to administrative and operational support functions. As of March 31, 2006, this comprised 14 locations throughout the United States with approximately 87,035 square feet in total.

The following is a list of our hospitals and the number of beds at each hospital as of March 31, 2006.

Hospital Name	City		State	Beds
Select Specialty Hospital	Birmingham	Birmingham	AL	38
Select Specialty Hospital	Fort Smith	Fort Smith	AR	34
Select Specialty Hospital	Little Rock	Little Rock	AR	43
Select Specialty Hospital	Little Rock/ BMC	Little Rock	AR	37
Select Specialty Hospital	Pine Bluff	Pine Bluff	AR	27
Select Specialty Hospital	Arizona (Mesa Campus)	Mesa	AZ	37
Select Specialty Hospital	Arizona (Phoenix Downtown Campus)	Phoenix	AZ	33
Select Specialty Hospital	Phoenix	Phoenix	AZ	48
Select Specialty Hospital	Arizona (Scottsdale Campus)	Scottsdale	AZ	29
Select Specialty Hospital	Colorado Springs	Colorado Springs	CO	30
Select Specialty Hospital	Denver	Denver	CO	37
Select Specialty Hospital	Denver (South Campus)	Denver	CO	28
Select Specialty Hospital	Wilmington	Wilmington	DE	35
Select Specialty Hospital	Miami	Miami	FL	40
Select Specialty Hospital	Orlando	Orlando	FL	35
Select Specialty Hospital	Panama City	Panama City	FL	30
Select Specialty Hospital	Atlanta	Atlanta	GA	30
Select Specialty Hospital	Augusta	Augusta	GA	35
Select Specialty Hospital	Augusta/ UH	Augusta	GA	30
Select Specialty Hospital	Savannah	Savannah	GA	30
Select Specialty Hospital	Honolulu	Honolulu	HI	30
Select Specialty Hospital	Beech Grove	Beech Grove	IN	40
Select Specialty Hospital	Bloomington	Bloomington	IN	30
Select Specialty Hospital	Evansville	Evansville	IN	35
Select Specialty Hospital	Fort Wayne	Fort Wayne	IN	32
Select Specialty Hospital	Northwest Indiana	Hammond	IN	70
Select Specialty Hospital	Indianapolis	Indianapolis	IN	54
Select Specialty Hospital	Kansas City	Kansas City	KS	34
Select Specialty Hospital	Topeka	Topeka	KS	34
Select Specialty Hospital	Wichita	Wichita	KS	35

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Hospital Name	City	State	Beds
Select Specialty Hospital	Wichita (Central Campus)	Wichita	KS	30
Select Specialty Hospital	Lexington	Lexington	KY	41
Select Specialty Hospital	Baton Rouge	Baton Rouge	LA	32
Select Specialty Hospital	New Orleans	Metairie	LA	31
Select Specialty Hospital	Battle Creek	Battle Creek	MI	32
Select Specialty Hospital	Northwest Detroit	Detroit	MI	36
Select Specialty Hospital	Flint	Flint	MI	32
Select Specialty Hospital	Kalamazoo	Kalamazoo	MI	25
Select Specialty Hospital	Macomb County	Mount Clemens	MI	36
Select Specialty Hospital	Western Michigam	Muskegon	MI	31
Select Specialty Hospital	Pontiac	Pontiac	MI	30
Select Specialty Hospital	Saginaw	Saginaw	MI	32
Select Specialty Hospital	Wyandotte	Wyandotte	MI	35
Select Specialty Hospital	Ann Arbor	Ypsilanti	MI	36
Select Specialty Hospital	Western Missouri	Kansas City	MO	34
Select Specialty Hospital	St. Louis	St. Louis	MO	33
Select Specialty Hospital	Gulf Coast	Gulfport	MS	20
Select Specialty Hospital	Jackson	Jackson	MS	53
Select Specialty Hospital	Durham	Durham	NC	30
Select Specialty Hospital	Winston-Salem	Winston-Salem	NC	42
Select Specialty Hospital	Omaha (North Campus)	Omaha	NE	36
Select Specialty Hospital	Omaha (South Campus)	Papillion	NE	40
Select Specialty Hospital	Northeast New Jersey	Belleville	NJ	25
Kessler Institute for Rehabilitation (Welkind Campus)		Chester	NJ	72
Kessler Institute for Rehabilitation (East Campus)		East Orange	NJ	78
Kessler Institute for Rehabilitation (North Campus)		Saddle Brook	NJ	92
Kessler Institute for Rehabilitation (West Campus)		West Orange	NJ	80
Select Specialty Hospital	Akron/ SHS	Akron	OH	34
Select Specialty Hospital	Northeast Ohio (Akron Campus)	Akron	OH	31
Select Specialty Hospital	Northeast Ohio (Canton Campus)	Canton	OH	30
Select Specialty Hospital	Cincinnati	Cincinnati	OH	36
Select Specialty Hospital	Columbus (Grant Campus)	Columbus	OH	30
Select Specialty Hospital	Columbus (Mt. Carmel Campus)	Columbus	OH	24
Select Specialty Hospital	Columbus/ East	Columbus	OH	36
Select Specialty Hospital	Columbus/ University (OSU Campus)	Columbus	OH	26
Select Specialty Hospital	Columbus/ University (Riverside Campus)	Columbus	OH	25
Select Specialty Hospital	Youngstown	Youngstown	OH	31
Select Specialty Hospital	Zanesville	Zanesville	OH	35
Select Specialty Hospital	Oklahoma City	Oklahoma City	OK	32
Select Specialty Hospital	Oklahoma City/ East Campus	Oklahoma City	OK	44
Select Specialty Hospital	Tulsa	Tulsa	OK	30

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Hospital Name		City	State	Beds
Select Specialty Hospital	Central Pennsylvania (Camp Hill Campus)	Camp Hill	PA	31
Select Specialty Hospital	Danville	Danville	PA	30
Select Specialty Hospital	Erie	Erie	PA	50
Select Specialty Hospital	Greensburg	Greensburg	PA	31
Select Specialty Hospital	Johnstown	Johnstown	PA	39
Select Specialty Hospital	Lancaster	Lancaster	PA	30
Select Specialty Hospital	McKeesport	McKeesport	PA	30
Select Specialty Hospital	Pittsburgh	Pittsburgh	PA	41
Select Specialty Hospital	Pittsburgh/ UPMC	Pittsburgh	PA	32
Select Specialty Hospital	Central Pennsylvania (York Campus)	York	PA	23
Select Specialty Hospital	Sioux Falls	Sioux Falls	SD	24
Select Specialty Hospital	TriCities	Bristol	TN	33
Select Specialty Hospital	Knoxville	Knoxville	TN	35
Select Specialty Hospital	Knoxville (U.T. Campus)	Knoxville	TN	25
Select Specialty Hospital	North Knoxville	Knoxville	TN	33
Select Specialty Hospital	Memphis	Memphis	TN	37
Select Specialty Hospital	Nashville	Nashville	TN	37
Select Specialty Hospital	North Dallas	Carrollton	TX	30
Select Specialty Hospital	Conroe	Conroe	TX	46
Select Specialty Hospital	Dallas	Dallas	TX	25
Select Specialty Hospital	South Dallas	DeSoto	TX	100
Select Specialty Hospital	Houston (Houston Heights)	Houston	TX	130
Select Specialty Hospital	Houston (Houston Medical Center)	Houston	TX	86
Select Specialty Hospital	Houston (Houston West)	Houston	TX	56
Select Specialty Hospital	Longview	Longview	TX	32
Select Specialty Hospital	Midland	Midland	TX	29
Select Specialty Hospital	San Antonio	San Antonio	TX	44
Select Specialty Hospital	Milwaukee (St. Luke s Campus)	Milwaukee	WI	29
Select Specialty Hospital	Milwaukee	West Allis	WI	34
Select Specialty Hospital	Charleston	Charleston	WV	32
Total beds				**3,852**

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Legal Proceedings

On August 24, 2004, Clifford C. Marsden and Ming Xu filed a purported class action complaint in the United States District Court for the Eastern District of Pennsylvania on behalf of the public stockholders of Select against Martin F. Jackson, Robert A. Ortenzio, Rocco A. Ortenzio, Patricia A. Rice and Select. In February 2005, the Court appointed James Shaver, Frank C. Bagatta and Capital Invest, die Kapitalanlagegesellschaft der Bank Austria Creditanstalt Gruppe GmbH as lead plaintiffs (Lead Plaintiffs).

On April 19, 2005, Lead Plaintiffs filed an amended complaint, purportedly on behalf of a class of shareholders of Select, against Martin F. Jackson, Robert A. Ortenzio, Rocco A. Ortenzio, Patricia A. Rice, and Select as defendants. The amended complaint continues to allege, among other things, failure to disclose adverse information regarding a potential regulatory change affecting reimbursement for Select s services applicable to long-term acute care hospitals operated as hospitals within hospitals, and the issuance of false and misleading statements about the financial outlook of Select. The amended complaint seeks, among other things, damages in an unspecified amount, interest and attorneys fees. We believe that the allegations in the amended complaint are without merit and intend to vigorously defend against this action. In April 2006, the Court granted in part and denied in part Select and the individual officers preliminary motion to dismiss the amended complaint. Select and the individual officers have answered the amended complaint and the case has moved to the discovery and class certification phase. We do not believe this claim will have a material adverse effect on our financial position or results of operations. However, due to the uncertain nature of such litigation, we cannot predict the outcome of this matter.

We are subject to legal proceedings and claims that arise in the ordinary course of our business, which include malpractice claims covered under insurance policies. In our opinion, the outcome of these actions will not have a material adverse effect on our financial position or results of operations.

To cover claims arising out of the operations of our hospitals and outpatient rehabilitation facilities, we maintain professional malpractice liability insurance and general liability insurance. We also maintain umbrella liability insurance covering claims which, due to their nature or amount, are not covered by or not fully covered by our other insurance policies. These insurance policies also do not generally cover punitive damages and are subject to various deductibles and policy limits. Significant legal actions as well as the cost and possible lack of available insurance could subject us to substantial uninsured liabilities.

Health care providers are often subject to lawsuits under the qui tam provisions of the federal False Claims Act. Qui tam lawsuits typically remain under seal (hence, usually unknown to the defendant) for some time while the government decides whether or not to intervene on behalf of a private qui tam plaintiff (known as a relator) and take the lead in the litigation. These lawsuits can involve significant monetary damages and penalties and award bounties to private plaintiffs who successfully bring the suits. A qui tam lawsuit against Select has been filed in the United States District Court for the District of Nevada, but because the action is still under seal, we do not know the details of the allegations or the relief sought. As is required by law, the federal government is conducting an investigation of matters alleged by this complaint. We have received subpoenas for patient records and other documents apparently related to the federal government s investigation. We believe that this investigation involves the billing practices of certain of its subsidiaries that provide outpatient services to beneficiaries of Medicare and other federal health care programs. The three relators in this qui tam lawsuit are two former employees of our Las Vegas, Nevada subsidiary who were terminated by Select in 2001 and a former employee of our Florida subsidiary who we asked to resign. Select sued the former Las Vegas employees in state court in Nevada in 2001 for, among other things, return of misappropriated funds, and our lawsuit has recently been transferred to the federal court in Las Vegas. While the government has investigated but chosen not to intervene in two previous qui tam lawsuits filed against Select, we cannot provide assurance that the government will not intervene in the Nevada qui tam case or any other existing or future qui tam lawsuit against us. While litigation is inherently uncertain, we believe, based on our prior experiences with qui tam cases and the limited information currently available to us, that this qui tam action will not have a material adverse effect on us.

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MANAGEMENT

Executive Officers and Directors

Holdings and Select have identical boards of directors. The following table sets forth information about our directors and executive officers as of the date of this prospectus:

Name	Age	Position(s)
Rocco A. Ortenzio	73	Director and Executive Chairman
Robert A. Ortenzio	49	Director and Chief Executive Officer
Russell L. Carson	62	Director
David S. Chernow	49	Director
Bryan C. Cressey	56	Director
James E. Dalton, Jr.	63	Director
Thomas A. Scully	48	Director
Leopold Swergold	66	Director
Sean M. Traynor	37	Director
Patricia A. Rice	59	President and Chief Operating Officer
David W. Cross	59	Senior Vice President and Chief Development Officer
S. Frank Fritsch	54	Senior Vice President, Human Resources
Martin F. Jackson	52	Senior Vice President and Chief Financial Officer
James J. Talalai	44	Senior Vice President and Information Officer
Michael E. Tarvin	46	Senior Vice President, General Counsel and Secretary
Scott A. Romberger	46	Vice President, Controller and Chief Accounting Officer

Set forth below is a brief description of the business experience of each of our directors and executive officers:

Rocco A. Ortenzio co-founded our company and has served as Executive Chairman since September 2001. He became a director of Holdings upon consummation of the Transactions. He served as Chairman and Chief Executive Officer from February 1997 until September 2001. In 1986, he co-founded Continental Medical Systems, Inc., and served as its Chairman and Chief Executive Officer until July 1995. In 1979, Mr. Ortenzio founded Rehab Hospital Services Corporation, and served as its Chairman and Chief Executive Officer until June 1986. In 1969, Mr. Ortenzio founded Rehab Corporation and served as its Chairman and Chief Executive Officer until 1974. Mr. Ortenzio is the father of Robert A. Ortenzio, our Chief Executive Officer.

Robert A. Ortenzio co-founded our company and has served as a director since February 1997. He became a director of Holdings upon consummation of the Transactions. Mr. Ortenzio has served as our Chief Executive Officer since January 1, 2005 and as our President and Chief Executive Officer from September 2001 to January 1, 2005. Mr. Ortenzio also served as our President and Chief Operating Officer from February 1997 to September 2001. He was an Executive Vice President and a director of Horizon/CMS Healthcare Corporation from July 1995 until July 1996. In 1986, Mr. Ortenzio co-founded Continental Medical Systems, Inc., and served in a number of different capacities, including as a Senior Vice President from February 1986 until April 1988, as Chief Operating Officer from April 1988 until July 1995, as President from May 1989 until August 1996 and as Chief Executive Officer from July 1995 until August 1996. Before co-founding Continental Medical Systems, Inc., he was a Vice President of Rehab Hospital Services Corporation. Mr. Ortenzio is the son of Rocco A. Ortenzio, our Executive Chairman.

Russell L. Carson has served as a director since February 1997 and became a director of Holdings upon consummation of the Transactions. He co-founded Welsh, Carson, Anderson & Stowe in 1978 and has focused on healthcare investments. Mr. Carson has been a general partner of Welsh, Carson, Anderson & Stowe since 1979. Welsh, Carson, Anderson & Stowe has created 14 institutionally funded limited

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partnerships with total capital of more than $13 billion and has invested in more than 200 companies. Before co-founding Welsh, Carson, Anderson & Stowe, Mr. Carson was employed by Citicorp Venture Capital Ltd., a subsidiary of Citigroup, Inc., and served as its Chairman and Chief Executive Officer from 1974 to 1978.

David S. Chernow served as a director from January 2002 until the consummation of the Transactions on February 24, 2005, and became a director of Select and Holdings on August 10, 2005. Since July 2001, Mr. Chernow has served as the President and Chief Executive Officer of Junior Achievement, Inc., a nonprofit organization dedicated to the education of young people. From 1999 to 2001, he was the President of the Physician Services Group at US Oncology, Inc. Mr. Chernow co-founded America Oncology Resources (AOR) in 1992 and served as its Chief Development Officer until the time of the merger which created US Oncology in 1999.

Bryan C. Cressey has served as a director since February 1997 and became a director of Holdings upon consummation of the Transactions. He has been a partner at Thoma Cressey Equity Partners since its founding in June 1998 and prior to that time was a principal, partner and co-founder of Golder, Thoma, Cressey and Rauner, the predecessor of GTCR Golder Rauner, LLC, since 1980. He also serves as a director and chairman of Belden CDT Inc. and several private companies.

James E. Dalton, Jr. served as a director since December 2000 until the consummation of the Transactions on February 24, 2005, and became a director of Select and Holdings on August 10, 2005. Since January 1, 2006, Mr. Dalton has been Chairman of Signature Hospital Corporation. Since 2001, Mr. Dalton has served as President of Edinburgh Associates, Inc. Mr. Dalton served as President, Chief Executive Officer and as a director of Quorum Health Group, Inc. from May 1, 1990 until it was acquired by Triad Hospitals, Inc. in April 2001. Prior to joining Quorum, he served as Regional Vice President, Southwest Region for HealthTrust, Inc., as division Vice President of HCA, and as Regional Vice President of HCA Management Company. He also serves on the board of directors of U.S. Oncology, Inc. He serves as a Trustee for the Universal Health Services Realty Income Trust. Mr. Dalton is a Fellow of the American College of Healthcare Executives.

Thomas A. Scully has been a director of our company since February 2004 and became a director of Holdings upon consummation of the Transactions. Since January 1, 2004, he has served as Senior Counsel to the law firm of Alston & Bird and as a General Partner with Welsh, Carson Anderson & Stowe. From May 2001 to December 2003, Mr. Scully served as Administrator of the Centers for Medicare & Medicaid Services, or CMS. CMS is responsible for the management of Medicare, Medicaid, SCHIP and other national healthcare initiatives. Before joining CMS, Mr. Scully served as President and Chief Executive Officer of the Federation of American Hospitals from January 1995 to May 2001.

Leopold Swergold served as a director from May 2001 until the consummation of the Transactions on February 24, 2005, and became a director of Select and Holdings on August 10, 2005. In 1983, Mr. Swergold formed Swergold, Chefitz & Company, a healthcare investment banking firm. In 1989, Swergold, Chefitz & Company merged into Furman Selz, an investment banking firm, where Mr. Swergold served as Head of Healthcare Investment Banking and as a member of the board of directors. In 1997, Furman Selz was acquired by ING Groep N.V. of the Netherlands. From 1997 until 2004, Mr. Swergold was a Managing Director of ING Furman Selz Asset Management LLC, where he managed several healthcare investment funds. Mr. Swergold also serves on the Board of Trustees of Continuum Health Partners Inc., the holding company for the Beth Israel Medical Center, St. Luke s Roosevelt Medical Center and Long Island College Hospital. Mr. Swergold serves as a director of Financial Federal Corp., a New York Stock Exchange listed company.

Sean M. Traynor joined our board of directors following the consummation of the Transactions and has been a director of Holdings since October 2004. Mr. Traynor is a general partner of Welsh, Carson, Anderson & Stowe where he focuses on investments in healthcare as well as the information and business services industries. Prior to joining Welsh Carson in April 1999, Mr. Traynor worked in the healthcare and insurance investment banking groups at BT Alex.Brown after spending three years with Coopers & Lybrand. Mr. Traynor earned his bachelor s degree from Villanova University in 1991 and his MBA from the Wharton School of Business in 1996. He also serves as a director of Renal Advantage Inc. and AGA Medical Corporation.

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Patricia A. Rice has served as our President and Chief Operating Officer since January 1, 2005. Prior thereto, she served as our Executive Vice President and Chief Operating Officer since January 2002 and as our Executive Vice President of Operations from November 1999 to January 2002. She served as Senior Vice President of Hospital Operations from December 1997 to November 1999. She was Executive Vice President of the Hospital Operations Division for Continental Medical Systems, Inc. from August 1996 until December 1997. Prior to that time, she served in various management positions at Continental Medical Systems, Inc. from 1987 to 1996.

David W. Cross has served as our Senior Vice President and Chief Development Officer since December 1998. Before joining us, he was President and Chief Executive Officer of Intensiva Healthcare Corporation from 1994 until we acquired it. Mr. Cross was a founder, the President and Chief Executive Officer, and a director of Advanced Rehabilitation Resources, Inc., and served in each of these capacities from 1990 to 1993. From 1987 to 1990, he was Senior Vice President of Business Development for RehabCare Group, Inc., a publicly traded rehabilitation care company, and in 1993 and 1994 served as Executive Vice President and Chief Development Officer of RehabCare Group, Inc. Mr. Cross currently serves on the board of directors of Odyssey Healthcare, Inc., a hospice health care company.

S. Frank Fritsch has served as our Senior Vice President of Human Resources since November 1999. He served as our Vice President of Human Resources from June 1997 to November 1999. Prior to June 1997, he was Senior Vice President Human Resources for Integrated Health Services from May 1996 until June 1997. Prior to that time, Mr. Fritsch was Senior Vice President Human Resources for Continental Medical Systems, Inc. from August 1992 to April 1996. From 1980 to 1992, Mr. Fritsch held senior human resources positions with Mercy Health Systems, Rorer Pharmaceuticals, ARA Mark and American Hospital Supply Corporation.

Martin F. Jackson has served as our Senior Vice President and Chief Financial Officer since May 1999. Mr. Jackson previously served as a Managing Director in the Health Care Investment Banking Group for CIBC Oppenheimer from January 1997 to May 1999. Prior to that time, he served as Senior Vice President, Health Care Finance with McDonald & Company Securities, Inc. from January 1994 to January 1997. Prior to 1994, Mr. Jackson held senior financial positions with Van Kampen Merritt, Touche Ross, Honeywell and L Nard Associates. He also serves as a director of several private companies.

James J. Talalai has served as our Senior Vice President and Chief Information Officer since August 2001. He joined our company in May 1997 and served in various leadership capacities within Information Services. Prior to his tenure with Select, Mr. Talalai was Director of Information Technology for Horizon/ CMS Healthcare Corporation from 1995 to 1997. He also served as Data Center Manager at Continental Medical Systems, Inc. in the mid-1990s. During his career, Mr. Talalai has held development positions with PHICO Insurance Company and with Harrisburg HealthCare. Mr. Talalai currently serves as Chairman of Information Technology Board of Advisors at the Penn State Harrisburg campus.

Michael E. Tarvin has served as our Senior Vice President, General Counsel and Secretary since November 1999. He served as our Vice President, General Counsel and Secretary from February 1997 to November 1999. He was Vice President Senior Counsel of Continental Medical Systems from February 1993 until February 1997. Prior to that time, he was Associate Counsel of Continental Medical Systems from March 1992. Mr. Tarvin was an associate at the Philadelphia law firm of Drinker Biddle & Reath, LLP from September 1985 until March 1992.

Scott A. Romberger has served as our Vice President and Controller since February 1997. In addition, he became Chief Accounting Officer in December, 2000. Prior to February 1997, he was Vice President Controller of Continental Medical Systems from January 1991 until January 1997. Prior to that time, he served as Acting Corporate Controller and Assistant Controller of Continental Medical Systems from June 1990 and December 1988, respectively. Mr. Romberger is a certified public accountant and was employed by a national accounting firm from April 1985 until December 1988.

Board Committees

Our board directs the management of our business and affairs as provided by Delaware law and conducts its business through meetings of the full board of directors and two standing committees: the audit committee

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and the compensation committee. In addition, from time to time, other committees may be established under the direction of the board of directors when necessary to address specific issues.

The compensation committee reviews and makes recommendations to the board regarding the compensation to be provided to our Executive Chairman, Chief Executive Officer and our directors. In addition, the compensation committee reviews compensation arrangements for our other executive officers. The compensation committee also administers our equity compensation plans.

The audit committee reviews and monitors our corporate financial reporting, external audits, internal control functions and compliance with laws and regulations that could have a significant effect on our financial condition or results of operations. In addition, the audit committee has the responsibility to consider and appoint, and to review fee arrangements with, our independent registered public accountants.

Director Compensation

We do not pay cash compensation to our employee directors; however they are reimbursed for the expenses they incur in attending meetings of the board or board committees. Non-employee directors other than non-employee directors appointed by Welsh Carson and Thoma Cressey, receive cash compensation in the amount of $6,000 per quarter, and the following for all meetings attended other than audit committee meetings: $1,500 per board meeting, $300 per telephonic board meeting, $500 per committee meeting held in conjunction with a board meeting and $1,000 per committee meeting held independent of a board meeting. For audit committee meetings attended, all members receive the following: $2,000 per audit committee meeting and $1,000 per telephonic audit committee meeting. All non-employee directors are also reimbursed for the expenses they incur in attending meetings of the board or board committees.

Code of Ethics

We have adopted a written code of business conduct and ethics, known as our code of conduct, which applies to all of our directors, officers, and employees, including our chief executive officer, our chief financial officer and our chief accounting officer. Our code of conduct is available on our Internet website, www.selectmedicalcorp.com. Our code of conduct may also be obtained by contacting investor relations at (717) 972-1100. Any amendments to our code of conduct or waivers from the provisions of the code for our chief executive officer, our chief financial officer and our chief accounting officer will be disclosed on our Internet website promptly following the date of such amendment or waiver.

Executive Compensation

The following table sets forth the remuneration paid by us for the three fiscal years ended December 31, 2005 to the Chief Executive Officer and our four most highly compensated executive officers other than our Chief Executive Officer *(Named Executive Officers)*:

		Annual Compensation			**Long-Term Compensation Awards**			
					Awards		**Payouts**	
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Other Annual Compensation(1)**	**Restricted Stock Awards**	**Securities Underlying Options**	**LTIP Payouts**	**All Other Compensation(2)**
Rocco A. Ortenzio(3)	2005	$ 824,000	$ 1,648,000	$ 115,763	19,006,179		3,561,721	$
Executive Chairman	2004	824,000	1,711,385			1,550,000		
	2003	824,000	1,648,000			3,550,000		
	2005	824,000	1,648,000	56,792	20,506,176		4,986,409	6,300

Robert A. Ortenzio(3)								
Chief Executive Officer	2004	824,000	1,711,385			1,250,000		5,948
	2003	824,000	1,648,000			2,060,000		4,531
Patricia A. Rice(3)	2005	592,250	740,000	94,452	6,538,361		2,137,032	6,800
President and Chief	2004	592,250	768,786			215,000		5,948
Operating Officer	2003	592,250	740,000			440,000		4,531
Martin F. Jackson	2005	371,315	464,000		3,269,181		997,282	6,300
Senior Vice President	2004	371,315	481,476			30,000		5,948
and Chief Financial Officer	2003	360,500	451,300			340,000		4,531
S. Frank Fritsch	2005	275,834	276,000		1,133,316		712,344	5,250
Senior Vice President,	2004	275,834	286,134			59,000		5,948
Human Resources	2003	267,800	268,000			123,500		4,531

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(1) The value of certain perquisites and other personal benefits is not included because it did not exceed for any officer in the table above the lesser of either $50,000 or 10% of the total annual salary and bonus reported for such officer.

(2) All other compensation represents employer matching contributions to the 401(k) plan.

(3) Other annual compensation represents the value of the personal flights on the Company s corporate aircraft based on the aggregate incremental costs of such flights to the Company.

Option Grants In Last Fiscal Year

Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in 2005	Exercise Price per Share	Expiration Date	Grant Date Present Value
Rocco A. Ortenzio					
Robert A. Ortenzio					
Patricia A. Rice					
Martin F. Jackson					
S. Frank Fritsch					

Options Exercised in Last Year and Year-End Option Value Table(1)

Name	Number of Options Exercised	Amount Realized	Number of Securities Underlying Unexercised Options Held at 2005 Year End		Value of Unexercised In-the-Money Options at 2005 Year End	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Rocco A. Ortenzio						
Robert A. Ortenzio	17,020	$ 204,580				
Patricia A. Rice	30,720	449,740				
Martin F. Jackson	62,976	927,037				
S. Frank Fritsch						

(1) All stock options outstanding under our Second Annual and Related 1997 Stock Option Plan were cancelled in connection with the Merger. Stock option holders received as consideration for such cancellation a cash payment equal to (i) $18.00 minus the exercise price of the option multiplied by (ii) the number of unexercised vested and unvested shares subject to the option.

Employment Agreements

Set forth below is a brief description of the employment agreements and other compensation arrangements that we have with our Named Executive Officers.

In March 2000, we entered into three-year employment agreements with three of our executive officers, Rocco A. Ortenzio, Robert A. Ortenzio and Patricia A. Rice. These agreements were amended on August 8, 2000, February 23, 2001, and, with respect to Rocco Ortenzio, April 24, 2001, and, with respect to Messrs. Rocco and Robert Ortenzio, September 17, 2001. Additionally, we further amended the employment agreements for Patricia A. Rice and Robert A. Ortenzio effective as of January 1, 2005 to change Ms. Rice s title to President and Chief Operating Officer and change Mr. Ortenzio s title to Chief Executive Officer. Under these agreements, Messrs. Rocco and Robert Ortenzio are to be paid an annual salary of $800,000 and Ms. Rice is to be paid a salary of $500,000, subject to adjustment by our board of directors. In addition, these executives are eligible for bonus compensation. The compensation committee has increased each of such executive s salary on several occasions subsequent to entering their employment agreements. The employment agreements also provide that the executive officers will receive long-term disability insurance. In the event Rocco A. Ortenzio s employment is terminated due to his disability, we must make salary continuation payments to him equal to 100% of his annual base salary for ten years after his date of termination or until he is physically able to become gainfully employed in an occupation consistent with his education, training and

experience. We are also obligated to make disability payments to Robert A. Ortenzio and Patricia A. Rice for the same period; however, payments to them must equal 50% of their annual base salary. In addition, Rocco A. Ortenzio and Robert A. Ortenzio are each entitled to six weeks paid vacation. Patricia A. Rice is entitled to four weeks paid vacation.

Under the terms of each of these executive officers employment agreements, their employment term began on March 1, 2000 and expired on March 1, 2003. At the end of each 12-month period beginning March 1, 2000, however, the term of each employment agreement automatically extends for an additional year unless one of the executives or we give written notice to the other not less than three months prior to the end of that 12-month period that we or they do not want the term of the employment agreement to continue. Each of these agreements was extended for an additional year on March 1 of 2001, 2002, 2003, 2004 and 2005. Thus, in the absence of written notice given by one of the executives or us, the remaining term of each employment agreement will be three years from each anniversary of March 1, 2000. In each employment agreement, for the term of the agreement and for two years after the termination of employment, the executive may not participate in any business that competes with us within a twenty-five mile radius of any of our hospitals or outpatient rehabilitation clinics. The executive also may not solicit any of our employees for one year after the termination of the executive s employment.

Each of these three employment agreements also contains a change of control provision. If, within the one-year period immediately following a change of control of Select, we terminate Rocco A. Ortenzio or Robert A. Ortenzio without cause or Rocco A. Ortenzio or Robert A. Ortenzio terminates his employment agreement for any reason, we are obligated to pay them a lump sum cash payment equal to their base salary plus bonus for the previous three completed calendar years. If, within the one-year period immediately following a change of control of Select, Patricia A. Rice terminates her employment for certain specified reasons or, within the five-year period immediately following a change of control, is terminated without cause, has her compensation reduced from that in effect prior to the change of control or is relocated to a location more than 25 miles from Mechanicsburg, Pennsylvania, we are obligated to pay her a lump sum cash payment equal to her base salary plus bonus for the previous three completed calendar years. In addition, if any of these executives are terminated within one year of a change of control, all of their unvested and unexercised stock options will vest as of the date of termination. A change in control is generally defined to include: (i) the acquisition by a person or group, other than our current stockholders who own 12% or more of the common stock, of more than 50% of our total voting shares; (ii) a business combination following which there is an increase in share ownership by any person or group, other than the executive or any group of which the executive is a part, by an amount equal to or greater than 33% of our total voting shares; (iii) our current directors, or any director elected after the date of the respective employment agreement whose election was approved by a majority of the then current directors, cease to constitute at least a majority of our board; (iv) a business combination following which our stockholders cease to own shares representing more than 50% of the voting power of the surviving corporation; or (v) a sale of substantially all of our assets other than to an entity controlled by our shareholders prior to the sale. Notwithstanding the foregoing, no change in control will be deemed to have occurred unless the transaction provides our stockholders with a specified level of consideration. Otherwise, if any of the executives services are terminated by us other than for cause or they terminate their employment for good reason, we are obligated to pay them a pro-rated bonus for the year of termination equal to the product of the target bonus established for that year, or if no target bonus is established the bonus paid or payable to them for the year prior to their termination, in either case multiplied by the fraction of the year of termination they were employed. In addition, we would also be obligated to pay these executives their base salary as of the date of termination for the balance of the term of the agreement and all vested and unexercised stock options will vest immediately. Upon completion of the Transactions, these executive officers entered into amendments to their employment agreements which contained acknowledgements that the Merger would not trigger any change of control payments under their employments agreements.

In June 1997, we entered into a senior management agreement with S. Frank Fritsch, which remains in effect until terminated by either us or Mr. Fritsch. Under this agreement, Mr. Fritsch is entitled to an annual salary of $130,000, subject to adjustment from time to time by the compensation committee of our board of directors. The compensation committee has increased Mr. Fritsch s salary on several occasions subsequent to entering that agreement. The compensation committee may also in its discretion award incentive compensation to Mr. Fritsch. Further, Mr. Fritsch

is entitled to any employment and fringe benefits under our policies

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as they exist from time to time and which are made available to our senior executive employees. During the employment term and for two years after the termination of his employment, Mr. Fritsch may not solicit any of our customers or employees or participate in any business that competes with us in the United States.

In March 2000, we entered into change of control agreements with Mr. Fritsch and Martin F. Jackson, which were each amended on February 23, 2001. These agreements provide that if within a five-year period immediately following a change of control of our company, we terminate Mr. Fritsch or Mr. Jackson without cause, reduce either of their compensation from that in effect prior to the change of control or relocate Mr. Fritsch or Mr. Jackson to a location more than 25 miles from Mechanicsburg, Pennsylvania, we are obligated to pay the affected individual a lump sum cash payment equal to his base salary plus bonus for the previous three completed calendar years. If at the time we terminate Mr. Fritsch or Mr. Jackson without cause or Mr. Fritsch or Mr. Jackson terminates his employment for good reason in connection with a change in control, Mr. Fritsch or Mr. Jackson has been employed by us for less than three years, we must pay the terminated individual three times his average total annual cash compensation (base salary and bonus) for his years of service. In addition, the agreements provide that all unvested stock options will vest upon termination. A change in control has the same definition as in the employment agreements of Rocco A. Ortenzio, Robert A. Ortenzio and Patricia A. Rice, as described above. Upon completion of the Transactions, Mr. Fritsch and Mr. Jackson entered into amendments to their change of control agreements which contained acknowledgements that the Merger would not trigger any change of control payments under their change of control agreements.

Restricted Stock and Option Plan

Holdings adopted a 2005 Equity Incentive Plan which became effective contemporaneously with the consummation of the Transactions, which we refer to as the equity plan. On November 8, 2005, Holdings amended and restated the equity plan. The total number of shares of common stock available under the amended and restated equity plan for the grant of stock options is 22,724,598 shares in the aggregate, plus an additional amount calculated from time to time equal to 10% of Holdings total issued and outstanding shares of common stock in excess of 227,245,979; *provided* that not more than 25,000,000 shares are available for grant of incentive stock options under the amended and restated equity plan. The number of shares of stock available under the amended and restated equity plan for grants of restricted stock has been increased to 52,589,075 shares in the aggregate.

Shares of common stock relating to expired or terminated options may again be subject to an option or award under the amended and restated equity plan, subject to limited restrictions, including any limitation required by the United States Internal Revenue Code of 1986, as amended (referred to below as the Code). In addition, upon the exercise of a stock option, the number of shares underlying the option will be added to the total number of shares with respect to which stock options may be granted; *provided* that all the applicable securities law requirements and listing requirements, if any, have been satisfied. The amended and restated equity plan provides for the grants of incentive stock options, within the meaning of Section 422 of the Code, to selected employees, and for grants of non-qualified stock options and awards and restricted stock awards to selected employees, directors or consultants. The purposes of the amended and restated equity plan are to attract and retain the best available personnel, provide additional incentives to our employees, directors and consultants and to promote the success of our business.

The compensation committee of the board of directors of Holdings administers the amended and restated equity plan which, from and after the date Holdings registers any class of its equity securities under the Securities Exchange Act of 1934, as amended, will be comprised of at least two members of the board of directors who are non-employee directors and outside directors within the meaning of the Code. If there is no compensation committee, the board of directors, within the meaning of applicable securities laws, will administer the amended and restated equity plan. The administrator of the amended and restated equity plan has the authority to select participants to receive awards of stock options or restricted stock pursuant to the amended and restated equity plan. The administrator also has the authority to determine the time of receipt, the types of awards and number of shares covered by awards, and to establish the terms, conditions and other provisions of the awards under the amended and restated equity plan.

In general, the exercise price of any stock option granted is set by the administrator, but in no event will be less than 100% of the fair market value of the underlying shares at the time of grant. Stock options may be

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subject to terms and conditions, including vesting provisions, set forth by the administrator. The exercise price of any incentive stock option granted to an employee who possesses more than 10% of the total combined voting power of all classes of our shares within the meaning of Section 422(b)(6) of the Code must be at least 110% of the fair market value of the underlying share at the time the option is granted. Furthermore, the aggregate fair market value of shares of common stock that may be exercisable for the first time under an incentive stock option by an employee during any calendar year may not exceed $100,000. The term of any incentive stock option cannot exceed ten years from the date of grant.

Shares of restricted stock granted under the amended and restated equity plan may not be sold, assigned, transferred, pledged or otherwise encumbered by the participant until the satisfaction of conditions set by the administrator and may be subject to forfeiture or repurchase by our company prior to the satisfaction of conditions set by the administrator.

The amended and restated equity plan will terminate ten years following its effective date but the board of directors of Holdings may terminate the amended and restated equity plan at any time in its sole discretion. The board of directors of Holdings may amend the amended and restated equity plan subject to restrictions requiring the approval of Welsh Carson.

Pursuant to the amended and restated equity plan, on November 8, 2005 Holdings awarded to Rocco A. Ortenzio and Robert A. Ortenzio restricted stock awards in the amount of 3,750,000 and 5,250,000 shares of Holdings common stock, respectively. The restricted stock award granted to Rocco A. Ortenzio is not subject to vesting, and the restricted stock award granted to Robert A. Ortenzio is subject to ratable monthly vesting over a three-year period from the date of grant.

Non-Employee Director Plan

On August 10, 2005 the board of directors of Holdings authorized a director stock option plan (the Director Plan) for non-employee directors, which was formally approved on November 8, 2005. 250,000 shares of Holdings common stock are reserved for awards under the Director Plan.

Long-Term Cash Incentive Plan

On June 2, 2005, Holdings adopted a Long-Term Cash Incentive Plan, which we refer to as the cash plan. The total number of units available under the cash plan for awards may not exceed 100,000. If any awards are terminated, forfeited or cancelled, units granted under such awards are available for award again under the cash plan. The purposes of the cash plan are to attract and retain key employees, motivate participating key employees to achieve the long-range goals of our company, provide competitive incentive compensation opportunities and further align the interests of participating key employees with Holdings stockholders.

The compensation committee of the board of directors of Holdings administers the cash plan. If there is no compensation committee, the board of directors will administer the cash plan. The administrator of the cash plan has the authority, in its sole discretion, to select participants to receive awards of units. The administrator also has the authority to determine the time of receipt, the types of awards and number of units conveyed by awards, and to establish the terms, conditions and other provisions of the awards under the cash plan. Except as otherwise provided in a participant s unit award agreement, a participant will forfeit all such units granted upon termination of employment for any reason other than for death or disability.

Payment of cash benefits is based upon (i) the value of our company upon a change of control of Holdings or upon qualified initial public offering of Holdings or (ii) a redemption of Holdings preferred stock or special dividends paid on Holdings preferred stock. Until the occurrence of an event that would trigger the payment of cash on any outstanding units is deemed probable by us, no expense for any award is reflected in our financial statements.

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On August 10, 2005, the compensation committee of the board of directors of Holdings allocated the available units in the cash plan among the members of senior management of Holdings and the Company as follows:

Name of Executive	% Allocation of Cash Plan Units
Robert A. Ortenzio	35%
Rocco A. Ortenzio	25%
Patricia A. Rice	15%
Martin F. Jackson	7%
James J. Talalai	5%
Michael E. Tarvin	5%
S. Frank Fritsch	5%
David W. Cross	3%

On September 29, 2005, Select paid $14.5 million to management under the cash plan as a result of a special dividend paid to holders of Holdings preferred stock with the proceeds of the $175.0 million senior floating rate notes issued by Holdings.

Employee Stock Purchase Plan

On April 1, 2005, Holdings adopted an Employee Stock Purchase Plan, which we refer to as the stock plan, pursuant to which specified employees of our company (other than members of our senior management team) have been given the opportunity to purchase shares of Holdings preferred stock and common stock. The maximum number of shares of participating preferred stock available under the stock plan is 89,216 and the maximum number of shares of common stock available under the plan is 599,975. As of December 31, 2005, 120,208.18 shares of Holdings participating preferred stock and 808,400 shares of Holdings common stock were issued to employees under the stock plan. The purposes of the stock plan are to attract and retain the best available personnel, provide additional incentives to our employees and to promote the success of our business.

The board of directors of Holdings administers the stock plan. The administrator of the stock plan has the authority to sell to any employee shares of stock in such quantity, at such price and on such terms, subject to the terms and conditions set forth in the stock plan, as the administrator may determine in its sole discretion.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of June 30, 2006, with respect to the beneficial ownership of the capital stock of Holdings by (i) our chief executive officer and each of the other executive officers set forth below, (ii) each of our directors, (iii) all of our directors and executive officers as a group and (iv) each holder of five percent (5%) or more of any class of Holdings outstanding capital stock. The determinations of beneficial ownership set forth in the table below do not give effect to any voting or other agreements set forth in the Stockholders Agreement dated as of February 24, 2005 which is attached as Exhibit 10.76 to the Registration Statement of which this prospectus is a part.

Name of Beneficial Owner(1)	Common Shares Beneficially Owned	Percent of Outstanding Common Shares	Participating Preferred Shares Beneficially Owned	Percent of Outstanding Participating Preferred Shares
Welsh, Carson, Anderson & Stowe(2)	114,938,082	55.9%	16,877,179.59	76.1%
Thoma Cressey Equity Partners(3)	17,554,946	8.5%	2,610,400.84	11.8%
Rocco A. Ortenzio(4)	22,453,271	10.9%	921,500.59	4.2%
Robert A. Ortenzio(5)	21,651,873	10.5%	913,858.31	4.1%
Russell L. Carson	2,910,387	1.4%	432,771.36	2.0%
Bryan C. Cressey(6)	17,962,732	8.7%	2,671,038.22	12.1%
David S. Chernow(7)	20,000	*	2,973.98	*
James E. Dalton, Jr.	50,000	*	7,434.94	*
Thomas A. Scully(8)	130,255	*	4,460.97	*
Leopold Swergold	200,000	*	29,739.78	*
Sean M. Traynor	5,000	*	743.49	*
Patricia A. Rice(9)	6,898,361	3.4%	53,531.60	*
S. Frank Fritsch(10)	1,448,482	*	46,864.77	*
Martin F. Jackson(11)	3,632,781	1.8%	54,066.93	*
All directors and executive officers as a group(12) (sixteen persons)	80,816,657	39.3%	5,167,691.68	23.3%

* Less than one percent

(1) Unless otherwise indicated, the address of each of the beneficial owners identified is 4716 Old Gettysburg Road, P.O. Box 2034, Mechanicsburg, Pennsylvania 17055.

(2) Represents (A) 80,857,183 common shares and 12,023,373.01 participating preferred shares held by WCAS IX over which WCAS IX has sole voting and investment power, (B) 15,000 common shares and 2,230.48 participating preferred shares held by WCAS Management Corporation, over which WCAS Management Corporation has sole voting and investment power, (C) 3,623,302 common shares and 538,780.97 participating preferred shares held by WCAS Capital Partners IV, L.P., over which WCAS Capital Partners IV, L.P. has sole voting and investment power, (D) an aggregate 8,246,203 common shares and 1,226,213.10 participating preferred shares held by individuals who are general partners of WCAS IX Associates LLC, the sole general

partner of WCAS IX and/or otherwise employed by an affiliate of Welsh, Carson, Anderson & Stowe, and (E) an aggregate 22,196,394 common shares and 3,086,582.03 participating preferred shares held by other co-investors, over which WCAS IX has sole voting power. Each of the following individuals are managing members of WCAS IX Associates, LLC, the sole general partner of WCAS IX, and WCAS CP IV Associates, LLC, the sole general partner of WCAS Capital Partners IV, L.P.: Patrick J. Welsh, Russell L. Carson, Bruce K. Anderson, Thomas E. Mclnerney, Robert A. Minicucci, Anthony J. de Nicola, Paul B.

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Queally, D. Scott Mackesy, Sanjay Swani, John D. Clark, James R. Matthews, Sean M. Traynor, John Almeida and Jonathan M. Rather. In addition, Thomas A. Scully is also a managing member of WCAS CP IV Associates, LLC. Each of the following individuals are shareholders of WCAS Management Corporation: Patrick J. Welsh, Russell L. Carson, Bruce K. Anderson, Thomas E. Mclnerney and Robert A. Minicucci. The principal executive offices of Welsh, Carson, Anderson & Stowe are located at 320 Park Avenue, Suite 2500, New York, New York 10022.

(3) Represents (A) 7,480,145 common shares and 1,112,289.19 participating preferred shares held by Thoma Cressey Fund VI, L.P. over which Thoma Cressey Fund VI, L.P. has shared voting and investment power, (B) 74,801 common shares and 11,122.80 participating preferred shares held by Thoma Cressey Friends Fund VI, L.P., over which Thoma Cressey Friends Fund VI, L.P. has shared voting and investment power, (C) 9,846,200 common shares and 1,464,118.96 participating preferred shares held by Thoma Cressey Fund VII, L.P., over which Thoma Cressey Fund VII, L.P. has shared voting and investment power, and (D) 153,800 common shares and 22,869.89 participating preferred shares held by Thoma Cressey Friends Fund VII, L.P., over which Thoma Cressey Friends Fund VII, L.P. has shared voting and investment power. The sole general partner of each of Thoma Cressey Fund VII, L.P. and Thoma Cressey Friends Fund VII, L.P. (collectively, Thoma Cressey Fund VII) is TC Partners VII, L.P. (the Fund VII GP). The sole general partner of Fund VII GP is Thoma Cressey Equity Partners Inc. (the Ultimate GP). The sole general partner of each of Thoma Cressey Fund VI, L.P. and Thoma Cressey Friends Fund VI, L.P. (collectively, Thoma Cressey Fund VI) is TC Partners VI, L.P. (the Fund VI GP). The sole general partner of Fund VI GP is the Ultimate GP. The sole shareholder of the Ultimate GP is Carl D. Thoma. The officers of the Ultimate GP are Carl D. Thoma, Bryan C. Cressey and Lee M. Mitchell. The principal executive offices of the Ultimate GP are located at 233 South Wacher, Chicago, IL 60606.

(4) In addition to shares held by Rocco A. Ortenzio in his individual capacity, includes 5,000,000 common shares held by the Robert A. Ortenzio Descendants Trust, of which Mr. Rocco Ortenzio is a trustee. Mr. Rocco Ortenzio disclaims beneficial ownership of shares held by the Robert A. Ortenzio Descendants Trust except in his capacity as a fiduciary of such trust.

(5) In addition to shares held by Robert A. Ortenzio in his individual capacity, includes 10,256,176 common shares which are subject to restrictions on transfer set forth in a restricted stock award agreement entered into at the time of the consummation of the Transactions.

(6) In addition to shares owned by Bryan C. Cressey in his individual capacity, includes (A) 7,480,145 common shares and 1,112,289.19 participating preferred shares held by Thoma Cressey Fund VI, L.P., (B) 74,801 common shares and 11,122.80 participating preferred shares held by Thoma Cressey Friends Fund VI, L.P., (C) 9,846,200 common shares and 1,464,118.96 participating preferred shares held by Thoma Cressey Fund VII, L.P., and (D) 153,800 common shares and 22,869.89 participating preferred shares held by Thoma Cressey Friends Fund VII, L.P. Mr. Cressey is a principal of Thoma Cressey Equity Partners Inc. Mr. Cressey may be deemed to beneficially own the shares beneficially owned by Thoma Cressey Fund VI, L.P., Thoma Cressey Friends Fund VI, L.P., Thoma Cressey Fund VII, L.P. and Thoma Cressey Friends Fund VII, L.P. Mr. Cressey disclaims beneficial ownership of such shares. The principal address of Mr. Cressey is 9200 Sears Tower, 233 South Wacker Drive, Chicago, IL 60606.

(7) Represents 20,000 common shares held by David S. Chernow and Elizabeth A. Chernow as tenants in common.

(8) Includes 100,255 common shares which are subject to restrictions on transfer set forth in a restricted stock award agreement entered into at the time of the consummation of the Transactions.

(9) Includes 3,923,361 common shares which are subject to restrictions on transfer set forth in a restricted stock award agreement entered into at the time of the consummation of the Transactions. In addition to shares held by Patricia A. Rice in her individual capacity, includes 360,000 common shares and 53,531.60 participating preferred shares owned by The Patricia Ann Rice Living Trust for which Ms. Rice acts as a trustee, and 2,615,000 common shares owned by the 2005 Rice Family Trust for which Ms. Rice acts as investment trustee.

(10) Includes 1,133,316 common shares which are subject to restrictions on transfer set forth in a restricted stock award agreement entered into at the time of the consummation of the Transactions.

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(11) Includes 3,269,181 common shares which are subject to restrictions on transfer set forth in a restricted stock award agreement entered into at the time of the consummation of the Transactions. In addition to shares held by Martin F. Jackson in his individual capacity, includes an aggregate 14,400 common shares and 2,141.28 participating preferred shares owned by Mr. Jackson s children who live in his household and over which Mr. Jackson acts as custodian.

(12) Includes an aggregate 18,722,290 common shares which are subject to restrictions on transfer set forth in restricted stock award agreements entered into at the time of the consummation of the Transactions.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Arrangements with Our Investors

In connection with the consummation of the Transactions, Welsh Carson, Thoma Cressey and their co-investors and our continuing investors, including Rocco A. Ortenzio, Robert A. Ortenzio, Russell L. Carson and other individuals affiliated with Welsh Carson, Bryan C. Cressey, Patricia A. Rice, Martin F. Jackson, S. Frank Fritsch, Michael E. Tarvin, James J. Talalai and Scott A. Romberger, entered into agreements with Holdings as described below.

Stock Subscription and Exchange Agreement

Pursuant to a stock subscription and exchange agreement, in connection with the Transactions the investors purchased shares of Holdings preferred stock and common stock for an aggregate purchase price of $570.0 million in cash plus rollover shares of Select common stock (with such rollover shares being valued at $152.0 million in the aggregate, or $18.00 per share, for such purposes). Our continuing investors purchased shares of Holdings stock at the same price and on the same terms as Welsh Carson, Thoma Cressey and their co-investors. Upon consummation of the Merger, all rollover shares were cancelled without payment of any merger consideration.

In July 2005, Mr. Chernow purchased 2,973.98 shares of preferred stock and 20,000 shares of common stock of Holdings for an aggregate of $100,000; Mr. Dalton purchased 7,434.94 shares of preferred stock and 50,000 shares of common stock of Holdings for an aggregate of $250,000; and Mr. Swergold purchased 29,739.78 shares of preferred stock and 200,000 shares of common stock for an aggregate of $1,000,000.

On September 29, 2005, we paid $14.5 million to certain members of senior management of Select under the cash plan as a result of a special dividend paid to holders of Holdings preferred stock with the proceeds of the $175 senior floating rate notes issued by Holdings.

Stockholders Agreement and Equity Registration Rights Agreement

The stockholders agreement entered into by Holdings investors in connection with the Transactions contains certain restrictions on the transfer of equity securities of Holdings and provides certain stockholders with certain preemptive and information rights. Pursuant to the registration rights agreement, Holdings granted certain of our investors rights to require Holdings to register shares of common stock under the Securities Act.

Securities Purchase Agreement and Debt Registration Rights Agreement

In connection with the Transactions, Holdings, WCAS Capital Partners IV, L.P., Rocco A. Ortenzio, Robert A. Ortenzio and certain other investors who are members of or affiliated with the Ortenzio family entered into a securities purchase agreement pursuant to which they purchased senior subordinated notes and shares of preferred and common stock from Holdings for an aggregate $150.0 million purchase price. In connection with such investment, these investors entered into the stockholders and registration rights agreements referred to under Stockholders Agreement and Equity Registration Rights Agreement with respect to the Holdings equity securities acquired by them and a separate registration rights agreement with Holdings that granted these investors rights to require Holdings to register the senior subordinated notes acquired by them under the Securities Act under certain circumstances.

Transaction Fee

In connection with the Transactions, an aggregate $24.6 million in financing fees was paid to Welsh Carson, Thoma Cressey (or affiliates thereof) and to certain of our other continuing investors in connection with the Transactions and we reimbursed Welsh Carson and its affiliates for their out-of-pocket expenses in connection with the Transactions.

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Restricted Stock Award Agreement

On June 2, 2005, Holdings and Rocco A. Ortenzio entered into a Restricted Stock Award Agreement, pursuant to which a warrant previously granted to Mr. Ortenzio was cancelled and Mr. Ortenzio was awarded shares of Holdings common stock.

Other Arrangements with Directors and Executive Officers

Lease of Office Space

We lease our corporate office space at 4716, 4718 and 4720 Old Gettysburg Road, Mechanicsburg, Pennsylvania, from Old Gettysburg Associates, Old Gettysburg Associates II and Old Gettysburg Associates III. Old Gettysburg Associates and Old Gettysburg Associates III are general partnerships that are owned by Rocco A. Ortenzio, Robert A. Ortenzio and John M. Ortenzio. Old Gettysburg Associates II is a general partnership owned by Rocco A. Ortenzio, Robert A. Ortenzio, John M. Ortenzio and Select Capital Corporation, a Pennsylvania corporation whose principal offices are located in Mechanicsburg, Pennsylvania. Rocco A. Ortenzio, Robert A. Ortenzio, Martin J. Ortenzio and John M. Ortenzio each own 25% of Select Capital Corporation. We obtained independent appraisals at the time we executed leases with these partnerships which support the amount of rent we pay for this space. In the year ended December 31, 2005, we paid to these partnerships an aggregate amount of $1,965,521, for office rent, for various improvements to our office space and miscellaneous expenses. Our current lease for 43,919 square feet of office space at 4716 Old Gettysburg Road and our lease for 12,225 square feet of office space at 4718 Old Gettysburg Road expire on December 31, 2014.

On May 15, 2001 we entered into a lease for 7,214 square feet of additional office space at 4720 Old Gettysburg Road in Mechanicsburg, Pennsylvania which expires on December 31, 2014. We amended this lease on February 26, 2002 to add a net of 4,200 square feet of office space. On October 29, 2003, we entered into leases for an additional 3,008 square feet of office space at 4718 Old Gettysburg Road for a five year initial term at $17.40 per square foot, and an additional 8,644 square feet of office space at 4720 Old Gettysburg Road for a five year initial term at $18.01 per square foot.

We currently pay approximately $1,963,017 per year in rent for the office space leased from these three partnerships. We amended our lease for office space at 4718 Old Gettysburg Road on February 19, 2004 to relinquish a net of 695 square feet of office space. On March 19, 2004, we entered into leases for an additional 2,436 square feet of office space at 4718 Old Gettysburg Road from Old Gettysburg Associates for a three year initial term at $19.31 per square foot, and an additional 2,579 square feet of office space at 4720 Old Gettysburg Road from Old Gettysburg Associates II for a five year initial term at $18.85 per square foot.

On August 10, 2005, we entered into a lease for approximately 8,615 square feet of additional office space at 4720 Old Gettysburg Road in Mechanicsburg, Pennsylvania (the Additional Lease) with Old Gettysburg Associates II, a general partnership owned by Rocco A. Ortenzio, Robert A. Ortenzio, John M. Ortenzio and Select Capital Corporation, a Pennsylvania corporation whose principal office is located in Mechanicsburg, Pennsylvania.

Equity Incentive Plan

Holdings has adopted a restricted stock and option plan, which we refer to as the equity plan. Members of our management, including some of those who participated in the Transactions as continuing investors, received awards under the equity plan. The equity plan was amended and restated in November 2005. Pursuant to the amended and restated equity plan, on November 8, 2005 Holdings awarded to Rocco A. Ortenzio and Robert A. Ortenzio restricted stock awards in the amount of 3,750,000 and 5,250,000 shares of Holdings common stock, respectively. The restricted stock award granted to Rocco A. Ortenzio is not subject to vesting, and the restricted stock award granted to Robert A. Ortenzio is subject to ratable monthly vesting over a three-year period from the date of grant. See Executive Compensation Restricted Stock and Option Plan.

Non-Employee Director Plan

On August 10, 2005, the board of directors of Holdings authorized a director stock option plan (the Director Plan) for non-employee directors. 250,000 shares of Holdings common stock were reserved for

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awards under the Director Plan. On November 8, 2005, the board of directors of Holdings formally approved the previously authorized stock option plan for non-employee directors, under which Holdings can issue options to purchase up to 250,000 shares of Holdings common stock. See Executive Compensation Non-Employee Director Plan.

Long-Term Cash Incentive Plan

Holdings has adopted a long-term cash incentive plan, referred to as the cash plan. Participants under the cash plan will receive cash payments in respect of awards issued under the plan to the extent Holdings exceeds targeted returns on invested equity as of a liquidity event, such as a sale of our company or an initial public offering by Holdings, within a specified number of years or upon the redemption of Holdings preferred stock or special dividends on Holdings preferred stock. On September 29, 2005, Select paid $14.5 million to management under the cash plan as a result of a special dividend paid to holders of Holdings preferred stock with the proceeds of the $175.0 million senior floating rate notes issued by Holdings. See Executive Compensation Long-Term Cash Incentive Plan.

Employee Stock Purchase Plan

Holdings has also adopted an employee stock purchase plan pursuant to which specified employees of Select (other than members of its senior management team) were given the opportunity to purchase shares of Holdings preferred stock and common stock. See Executive Compensation Employee Stock Purchase Plan.

Consulting Agreement with Director

On January 1, 2004, Select entered into a consulting agreement with Thomas A. Scully, a member of Select s board of directors, the term of which expired on December 31, 2005 and was not renewed. Pursuant to the terms of the consulting agreement, Mr. Scully provided regulatory advice and government relations services to Select as directed by Select s Chief Executive Officer. In exchange for his services, Mr. Scully received annual compensation of $75,000.

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DESCRIPTION OF CERTAIN OTHER INDEBTEDNESS

We summarize below the principal terms of the agreements that govern Select s senior secured credit facility, Select s senior subordinated notes and Holdings senior subordinated notes. This summary is not a complete description of all the terms of such agreements.

Select s Senior Secured Credit Facility

General

On February 24, 2005, Select entered into a senior secured credit facility with a syndicate of financial institutions and institutional lenders. Set forth below is a summary of the terms of Select s senior secured credit facility.

Select s senior secured credit facility provides for senior secured financing of up to $880.0 million, consisting of:

- a $300.0 million revolving credit facility with a maturity of six years, including both a letter of credit sub-facility and a swingline loan sub-facility, and
- a $580.0 million term loan facility with a maturity of seven years.

In addition, Select may request additional tranches of term loans or increases to the revolving credit facility in an aggregate amount not exceeding $100.0 million, subject to certain conditions and receipt of commitments by existing or additional financial institutions or institutional lenders.

All borrowings under Select s senior secured credit facility are subject to the satisfaction of required conditions, including the absence of a default at the time of and after giving effect to such borrowing and the accuracy of the representations and warranties of the borrowers.

Interest and Fees

The interest rate applicable to loans, other than swingline loans, under Select s senior secured credit facility are, at its option, equal to either an alternate base rate or an adjusted LIBOR rate for a one, two, three or six month interest period, or a nine or twelve month period if available, in each case, plus an applicable margin. The alternate base rate is the greater of (1) JPMorgan Chase Bank, N.A. s prime rate and (2) one-half of 1% over the weighted average of rates on overnight federal funds as published by the Federal Reserve Bank of New York. The adjusted LIBOR rate is determined by reference to settlement rates established for deposits in dollars in the London interbank market for a period equal to the interest period of the loan and the maximum reserve percentages established by the Board of Governors of the United States Federal Reserve to which the lenders are subject.

The applicable margin percentage was initially (1) 1.50% for alternate base rate revolving loans and (2) 2.50% for adjusted LIBOR revolving loans, subject to reduction based upon the ratio of Select s total indebtedness to its consolidated EBITDA (such term being used herein as defined in the credit agreement). The applicable margin percentage is currently (1) 1.00% for alternate base rate revolving loans and (2) 2.00% for adjusted LIBOR revolving loans. The applicable margin percentages for the term loans are (1) 0.75% for alternative base rate loans and (2) 1.75% for adjusted LIBOR loans.

Swingline loans will bear interest at the interest rate applicable to alternate base rate revolving loans.

On the last day of each calendar quarter Select is required to pay each lender a commitment fee in respect of any unused commitments under the revolving credit facility, which is currently 0.375% per annum subject to adjustment based upon the ratio of Select s total indebtedness to its consolidated EBITDA.

Prepayments

Subject to exceptions, Select s senior secured credit facility requires mandatory prepayments of term loans in amounts equal to:

- 50% (as may be reduced based on Select s ratio of total indebtedness to its consolidated EBITDA) of Select s annual excess cash flow (as defined in the credit agreement);

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100% of the net cash proceeds from asset sales and casualty and condemnation events, subject to reinvestment rights and certain other exceptions;

50% (as may be reduced based on Select s ratio of total indebtedness to its consolidated EBITDA) of the net cash proceeds from specified issuances of equity securities; and

100% of the net cash proceeds from certain incurrences of debt.

As of March 31, 2006, we had not been required to make any mandatory prepayments under the senior secured credit facility.

Voluntary prepayments and commitment reductions are permitted, in whole or in part, in minimum amounts without premium or penalty, other than breakage costs with respect to adjusted LIBOR rate loans in an amount equal to the difference between the amount of interest that would have accrued on such principal amount through the last day of the applicable interest period had the prepayment or commitment reduction not occurred over the amount of interest that would accrue on such principal amount for such period at the interest rate the lender would bid, were the lender to bid, at the beginning of such period for dollar deposits of a comparable amount from other banks in the eurodollar market.

Amortization of Principal

Select s senior secured credit facility requires scheduled quarterly payments on the term loans each equal to 0.25%, or $1.45 million, of the original principal amount of the term loans for the first six years, with the balance paid in four equal quarterly installments of $136.7 million thereafter.

Collateral and Guarantors

Select s senior secured credit facility is guaranteed by us and substantially all of Select s current subsidiaries, and will be guaranteed by substantially all of Select s future subsidiaries and secured by substantially all of its existing and future property and assets and by a pledge of its capital stock and the capital stock of its subsidiaries.

Restrictive Covenants and Other Matters

Select s senior secured credit facility requires that it comply on a quarterly basis with certain financial covenants, including a minimum interest coverage ratio test and a maximum leverage ratio test, which financial covenants become more restrictive over time. For the four consecutive fiscal quarters ended March 31, 2006, Select was required to maintain an interest expense coverage ratio (its ratio of consolidated EBITDA to cash interest expense) for the prior four consecutive quarters of at least 2.00 to 1.00. Select s interest expense coverage ratio was 2.96 to 1.00 for such period. As of March 31, 2006, Select was required to maintain its leverage ratio (its ratio of total indebtedness to consolidated EBITDA for the prior four consecutive fiscal quarters) at less than 4.75 to 1.00. Select s leverage ratio was 3.79 to 1.00 as of such date. In addition, Select s senior secured credit facility includes negative covenants, subject to significant exceptions, restricting or limiting its ability and the ability of Holdings and its restricted subsidiaries, to, among other things:

incur, assume, permit to exist or guarantee additional debt and issue or sell or permit any subsidiary to issue or sell preferred stock;

pay dividends or other distributions on, redeem, repurchase, retire or cancel capital stock;

purchase or acquire any debt or equity securities of, make any loans or advances to, guarantee any obligation of, or make any other investment in, any other company;

incur or permit to exist certain liens on property or assets owned or accrued or assign or sell any income or revenues with respect to such property or assets;

sell or otherwise transfer property or assets to, purchase or otherwise receive property or assets from, or otherwise enter into transactions with affiliates;

merge, consolidate or amalgamate with another company or permit any subsidiary to merge, consolidate or amalgamate with another company;

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sell, transfer or otherwise dispose of assets, including any equity interests;

repay, redeem, repurchase, retire or cancel any subordinated debt;

incur capital expenditures;

engage to any material extent in any business other than business of the type currently conducted by Select or reasonably related businesses; and

incur obligations that restrict the ability of its subsidiaries to incur or permit to exist any liens on its property or assets or to make dividends or other payments to us.

Select s senior secured credit facility also contains certain representations and warranties, affirmative covenants and events of default. The events of default payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to certain indebtedness, certain events of bankruptcy, certain events under ERISA, material judgments, actual or asserted failure of any guaranty or security document supporting Select s senior secured credit facility to be in full force and effect and any change of control. If such an event of default occurs, the lenders under Select s senior secured credit facility will be entitled to take various actions, including the acceleration of amounts due under Select s senior secured credit facility and all actions permitted to be taken by a secured creditor.

Select s Senior Subordinated Notes

On February 24, 2005, Select issued $660.0 million of senior subordinated notes due 2015. Select s 7⅝% senior subordinated notes bear interest at a stated rate of 7⅝%. Select s 7⅝% senior subordinated notes are unsecured senior subordinated obligations and are subordinated in right of payment to all of its senior indebtedness, including obligations under Select s senior secured credit facility. All of Select s subsidiaries that guarantee its senior secured credit facility and, as required by the indenture governing Select s 7⅝% senior subordinated notes, specified future subsidiaries will guarantee Select s 7⅝% senior subordinated notes on an unsecured senior subordinated basis. Select may redeem some or all of Select s 7⅝% senior subordinated notes prior to February 1, 2010 at a price equal to 100% of the principal amount plus accrued and unpaid interest and a make-whole premium. Thereafter, Select may redeem some or all of Select s 7⅝% senior subordinated notes at 103.813% of the principal amount plus accrued and unpaid interest beginning on February 1, 2010, 102.542% of the principal amount plus accrued and unpaid interest beginning on February 1, 2011, 101.271% of the principal amount plus accrued and unpaid interest beginning February 1, 2012 and 100.0% of the principal amount plus accrued and unpaid interest beginning on February 1, 2013. In addition, prior to February 1, 2008, Select may redeem up to 35% of Select s 7⅝% senior subordinated notes from the proceeds of certain equity offerings. If a change in control as defined in the indenture occurs, Select must offer to repurchase Select s 7⅝% senior subordinated notes at 101% of the principal amount of the notes, plus accrued and unpaid interest. Select s 7⅝ % senior subordinated notes are subject to customary negative covenants and restrictions on actions by Select and its subsidiaries including, without limitation, restrictions on additional indebtedness, investments, asset dispositions outside the ordinary course of business, liens, the declaration or payment of dividends and transactions with affiliates, among other restrictions.

Holdings Senior Subordinated Notes

Concurrently with the consummation of the Transactions, Holdings issued to WCAS Capital Partners IV, L.P., an investment fund affiliated with Welsh Carson, which we refer to as WCAS CP IV, Rocco A. Ortenzio, Robert A. Ortenzio and certain other investors who are members of or affiliated with the Ortenzio family, $150.0 million in aggregate principal amount of our senior subordinated notes due 2015, which we refer to as Holdings senior subordinated notes, and an agreed-upon number of shares of our preferred stock and common stock, for an aggregate purchase price of $150.0 million. The proceeds from the issuance of Holdings senior subordinated notes were contributed by Holdings to Select as equity.

In connection with the issuance of the outstanding notes, Holdings senior subordinated notes were amended and restated to, among other things, subordinate them to the notes and extend their maturity date to December 31, 2015, which is after the scheduled maturity of each of Select s senior secured credit facility, Select s 7⅝ % senior

subordinated notes and the notes.

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Select s senior secured credit facility and the indenture governing Select 7 5/8 % senior subordinated notes contain restrictions on its ability to pay dividends or other distributions to Holdings for the purpose of paying cash interest on the Holdings senior subordinated notes. See Select s senior secured credit facility and Description of the Exchange Notes Certain covenants Restricted payments. Holdings senior subordinated notes bear interest at a rate of 10% per annum, except that if any interest payment is not paid in cash, such unpaid amount will be multiplied by 1.2 and added to the outstanding principal amount of Holdings senior subordinated notes (with the result that such unpaid interest will have accrued at an effective rate of 12% instead of 10%). Interest on Holdings senior subordinated notes will be payable semi-annually in arrears.

Holdings senior subordinated notes may be prepaid, in whole or in part, without premium or penalty. In addition, Holdings senior subordinated notes are subject to mandatory prepayment in the event of any change of control, initial public offering or sale of all or substantially all of Holdings assets. Select s senior secured credit facility and the indenture governing Select s 7 5/8 % senior subordinated notes contain restrictions on its ability to pay dividends or other distributions to Holdings for the purpose of making principal payments on Holdings senior subordinated notes. See Select s Senior Secured Credit Facility and Description of the Exchange Notes Certain Covenants Restricted Payments. Holdings senior subordinated notes are subordinate in right of payment to the notes offered hereby and our guaranty of Select s senior secured credit facility on the terms set forth in Holdings senior subordinated notes.

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DESCRIPTION OF THE EXCHANGE NOTES

You can find the definitions of certain terms used in this description under the subheading Certain definitions. In this description, (1) the terms Issuer, we and our refer only to Select Medical Holdings Corporation and not to any of our subsidiaries and (2) the term notes refers to the $175.0 million in aggregate principal amount of our senior floating rate notes due 2015 and the exchange notes.

We will issue the exchange notes under an indenture between U.S. Bank National Association, as trustee, and us. The terms of the notes will include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended (the *Trust Indenture Act*).

The terms of the exchange notes are identical in all material respects to the outstanding notes except that upon completion of the exchange offer, the exchange notes will be registered under the Securities Act and free of any covenants regarding exchange registration rights.

The following description is a summary of the material provisions of the indenture. It does not restate the indenture in its entirety. We urge you to read the indenture because the indenture, and not this description, defines your rights as holders of the notes. Copies of the indenture are available as set forth below under Additional information. Certain defined terms used in this description but not defined below under Certain definitions have the meanings assigned to them in the indenture.

The registered holder of a note will be treated as the owner of it for all purposes. Only registered holders will have rights under the indenture.

Brief Description of the Notes

The notes:

- are our general unsecured obligations;
- are pari passu in right of payment to any of our senior Indebtedness; and
- are senior in right of payment to all of our existing and future subordinated Indebtedness, including the Existing Subordinated Issuer Notes.

As of March 31, 2006, our total outstanding indebtedness (excluding our guarantee of Select s obligations under the Credit Agreement) on an unconsolidated basis was $325.0 million, consisting of the notes and the Existing Subordinated Issuer Notes. We have also guaranteed Select s obligations under the Credit Agreement and have pledged 100% of the capital stock of Select to secure such guarantee. We only have a stockholder s claim in the assets of its subsidiaries. This stockholder s claim is junior to the claims that creditors of our subsidiaries have against those subsidiaries. Holders of the notes are only creditors of ours, and not of our subsidiaries. As a result, all the existing and future liabilities of our subsidiaries, including any claims of trade creditors, will be effectively senior to the notes. The total balance sheet liabilities of our subsidiaries, including Select, as of March 31, 2006, excluding unused commitments under the Credit Agreement, was $1,902.2 million, including $1,570.3 million of outstanding indebtedness. Additionally, our subsidiaries have other liabilities, including contingent liabilities, that may be significant.

All of our operations are conducted through our subsidiaries. Therefore, our ability to service our debt, including the notes, is dependent upon the earnings of our subsidiaries and their ability to distribute those earnings as dividends, loans or other payments to us. The terms of Select s existing debt significantly restrict Select s ability to pay dividends or make distributions or advances to us and any agreements entered into in the future governing debt incurred by Select or its subsidiaries is likely to contain similar restrictions. In addition, certain laws restrict the ability of our subsidiaries to pay dividends or make loans and advances to us.

Principal, Maturity and Interest

We may issue additional notes other than the notes under the indenture from time to time. Any issuance of additional notes other than the notes is subject to all of the covenants in the indenture, including the covenant described below under the caption Certain covenants Incurrence of indebtedness and

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issuance of disqualified stock and preferred stock. The notes and any additional notes subsequently issued under the indenture will be treated as a single class for all purposes under the indenture, including waivers, amendments, redemptions and offers to purchase. We issued notes in denominations of $1,000 and integral multiples of $1,000. The notes will mature on September 15, 2015.

The notes bear interest at a rate per annum, reset semi-annually, equal to LIBOR plus 5.75%, as determined by the calculation agent appointed by us (the *Calculation Agent*), the initial trustee. Interest on the notes is payable semi-annually in arrears on March 15 and September 15. According to this formula, the current interest rate on the notes is 10.82%. Interest on overdue principal accrues at a rate that is 1% higher than the then applicable interest rate on the notes. We will make each interest payment to the holders of record on the immediately preceding March 1 or September 1.

Interest on the notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid.

Set forth below is a summary of certain of the defined terms used in the indenture relating to the notes.

Determination Date, with respect to an Interest Period, is the second London Banking Day preceding the first day of such Interest Period.

Interest Period means the period commencing on and including an interest payment date and ending on and including the day immediately preceding the next succeeding interest payment date, with the exception that the first Interest Period commenced on and included the Issue Date and ended on and included March 14, 2006.

LIBOR, with respect to an Interest Period, is the rate (expressed as a percentage per annum) for deposits in U.S. dollars for a six-month period beginning on the second London Banking Day after the Determination Date that appears on Telerate Page 3750 as of 11:00 a.m., London time, on the Determination Date. If Telerate Page 3750 does not include such a rate or is unavailable on a Determination Date, the Calculation Agent will request the principal London office of each of four major banks in the London interbank market, as selected by the Calculation Agent, to provide such bank s offered quotation (expressed as a percentage per annum), as of approximately 11:00 a.m., London time, on such Determination Date, to prime banks in the London interbank market for deposits in a Representative Amount in U.S. dollars for a six-month period beginning on the second London Banking Day after the Determination Date. If at least two such offered quotations are so provided, the rate for the Interest Period will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, the Calculation Agent will request each of three major banks in New York City, as selected by the Calculation Agent, to provide such bank s rate (expressed as a percentage per annum), as of approximately 11:00 a.m., New York City time, on such Determination Date, for loans in a Representative Amount in U.S. dollars to leading European banks for a six-month period beginning on the second London Banking Day after the Determination Date. If at least two such rates are so provided, the rate for the Interest Period will be the arithmetic mean of such rates. If fewer than two such rates are so provided, then the rate for the Interest Period will be the rate in effect with respect to the immediately preceding Interest Period.

London Banking Day is any day on which dealings in U.S. dollars are transacted or, with respect to any future date, are expected to be transacted in the London interbank market.

Representative Amount means a principal amount of not less than $1,000,000 for a single transaction in the relevant market at the relevant time.

Telerate Page 3750 means the display designated as Page 3750 on the Moneyline Telerate service or any successor service (or such other page as may replace Page 3750 on that service or any successor service).

The amount of interest for each day that the notes are outstanding (the Daily Interest Amount) will be calculated by dividing the interest rate in effect for such day by 360 and multiplying the result by the principal amount of the notes. The amount of interest to be paid on the notes for each Interest Period will be calculated by adding the Daily Interest Amounts for each day in the Interest Period.

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All percentages resulting from any of the above calculations will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point, with five one-millionths of a percentage point being rounded upwards (e.g., 9.876545% (or ..09876545) being rounded to 9.87655% (or .0987655)) and all dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one-half cent being rounded upwards). The interest rate on the notes will in no event be higher than the maximum rate permitted by New York law as the same may be modified by United States law of general application.

The Calculation Agent will, upon the request of the holder of any note, provide the interest rate then in effect with respect to the notes. All calculations made by the Calculation Agent in the absence of manifest error will be conclusive for all purposes and binding on the Issuer and the holders of the notes.

Additional interest may accrue on the notes in certain circumstances pursuant to the registration rights agreement.

Methods of Receiving Payments on the Notes

Principal of, premium, if any, and interest on the notes will be payable, and the notes may be exchanged or transferred, at our office or agency in the Borough of Manhattan, The City of New York (which initially will be an office of an affiliate of the trustee in New York, New York). At our option, however, payment of interest may be made by check mailed to the address of the holders as such address appears in the register of holders, and in addition, if a holder of at least $1.0 million in aggregate principal amount of notes has given wire transfer instructions to us prior to the record date for a payment, we will make such payment of principal of, premium, if any, and interest on such holder s notes in accordance with those instructions. Payment of principal of, premium, if any, and interest on notes in global form registered in the name of or held by DTC or any successor depositary or its nominee will be made by wire transfer of immediately available funds to such depositary or its nominee, as the case may be, as the registered holder of such global note.

Paying Agent and Registrar for the Notes

The trustee currently acts as paying agent and registrar. We may change the paying agent or registrar without prior notice to the holders of the notes, and we or any of our subsidiaries may act as paying agent or registrar.

Transfer and Exchange

A holder may transfer or exchange notes in accordance with the provisions of the indenture. The registrar and the trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents in connection with a transfer of notes. No service charge will be made for any registration of transfer or exchange of notes, but we may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith. We will not be required to transfer or exchange any note selected for redemption. Also, we will not be required to transfer or exchange any note for a period of 15 days before a selection of notes to be redeemed.

Optional Redemption

At any time prior to September 15, 2008, we may, on any one or more occasions, redeem either all remaining outstanding notes or up to 35% of the aggregate principal amount of notes issued under the indenture at a redemption price of 100% of the aggregate principal amount so redeemed plus a premium equal to the interest rate per annum of the notes applicable on the date on which the notice of redemption is given, plus accrued and unpaid interest to the redemption date. The net cash proceeds for any such redemption must be from one or more Equity Offerings by us or a contribution to our equity capital (other than Disqualified

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Stock) from the net proceeds of one or more Equity Offerings by any direct or indirect parent of us (in each case, other than Excluded Contributions); *provided* that:

(1) either no notes remain outstanding immediately following such redemption or at least 65% of the aggregate principal amount of notes originally issued under the indenture (excluding notes held by us and our subsidiaries) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 90 days of the date of the closing of such Equity Offering or equity contribution.

Except pursuant to the preceding paragraph and the second succeeding paragraph, the notes will not be redeemable at our option prior to September 15, 2009.

On or after September 15, 2009, we may redeem all or a part of the notes upon not less than 30 nor more than 60 days notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest on the notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on September 15 of the years indicated below, subject to the rights of holders of notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Percentage
2009	102.00%
2010	101.00%
2011 and thereafter	100.00%

Before September 15, 2009, we may also redeem all or any portion of the notes upon not less than 30 nor more than 60 days prior notice, at a redemption price equal to 100% of the principal amount thereof plus the Applicable Premium as of, and accrued and unpaid interest thereon, if any, to, the date of redemption (a *Make-Whole Redemption Date*).

Applicable Premium means, with respect to any note on any Make-Whole Redemption Date, the greater of (i) 1.0% of the principal amount of such note and (ii) the excess of (A) the present value at such Make-Whole Redemption Date of (1) the redemption price of such note at September 15, 2009 (exclusive of accrued interest), plus (2) all scheduled interest payments due on such note from the Make-Whole Redemption Date through September 15, 2009, such interest payments to be determined in accordance with the indenture assuming that LIBOR in effect on the date of such redemption notice would be the applicable LIBOR in effect through September 15, 2009, computed using a discount rate equal to the Treasury Rate at such Make-Whole Redemption Date, plus 50 basis points over (B) the principal amount of such note.

Treasury Rate means, with respect to any Make-Whole Redemption Date, the yield to maturity at the time of computation of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15(519) that has become publicly available at least two business days prior to such Make-Whole Redemption Date (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from such Make-Whole Redemption Date to September 15, 2009; *provided, however*, that if the period from such Make-Whole Redemption Date to September 15, 2009 is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from such Make-Whole Redemption Date to September 15, 2009 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

Mandatory redemption

We are not required to make mandatory redemption or sinking fund payments with respect to the notes.

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Repurchase at the Option of Holders

Change of Control

If a Change of Control occurs, each holder of notes will have the right to require us to repurchase all or any part (equal to $1,000 or an integral multiple of $1,000) of that holder s notes pursuant to a Change of Control Offer on the terms set forth in the indenture. In the Change of Control Offer, we will offer a Change of Control Payment in cash equal to 101% of the aggregate principal amount of notes repurchased plus accrued and unpaid interest and Additional Interest, if any, on the notes repurchased to the date of purchase, subject to the rights of holders of notes on the relevant record date to receive interest due on the relevant interest payment date. Within 30 days following any Change of Control, we will mail a notice to each holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase notes on the Change of Control Payment Date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the indenture and described in such notice. We will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the indenture, we will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the indenture by virtue of such compliance.

On the Change of Control Payment Date, we will, to the extent lawful:

(1) accept for payment all notes or portions of notes properly tendered pursuant to the Change of Control Offer;

(2) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all notes or portions of notes properly tendered; and

(3) deliver or cause to be delivered to the trustee the notes properly accepted together with an officers certificate stating the aggregate principal amount of notes or portions of notes being purchased by us.

The paying agent will promptly mail to each holder of notes properly tendered the Change of Control Payment for such notes. The trustee will also promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new note equal in principal amount to any unpurchased portion of the notes surrendered, if any. We will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

If at the time of any Change of Control the terms of any Indebtedness (other than the Existing Issuer Subordinated Notes and any Permitted Refinancing Indebtedness in respect thereof) of ours or of Select restrict or prohibit the purchase of notes following such Change of Control, then prior to complying with this covenant, but in any event within 90 days following any Change of Control, we will either (1) repay in full all such Indebtedness or (2) obtain the requisite consents under the agreements governing such Indebtedness to permit the repurchase of the notes. If we do not repay such Indebtedness or obtain such consents, the Issuer will remain prohibited from purchasing notes. In such case, our failure to comply with the foregoing undertaking, after appropriate notice and lapse of time, would result in an Event of Default under the indenture, which would, in turn, constitute a default under such other Indebtedness of ours or of Select.

The provisions described above that require us to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the indenture are applicable. Except as described above with respect to a Change of Control, the indenture does not contain provisions that permit the holders of the notes to require that we repurchase or redeem the notes in the event of a takeover, recapitalization or similar transaction.

We will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the

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requirements set forth in the indenture applicable to a Change of Control Offer made by us and purchases all notes properly tendered and not withdrawn under the Change of Control Offer or (2) notice of redemption has been given pursuant to the indenture as described above under the caption Optional redemption, unless and until there is a default in payment of the applicable redemption price.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of all or substantially all of the properties or assets of us and our subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of notes to require us to repurchase its notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of us and our Subsidiaries taken as a whole to another Person or group may be uncertain.

Asset Sales

We will not, and will not permit any of our Restricted Subsidiaries to, consummate an Asset Sale unless:

(1) we (or the Restricted Subsidiary, as the case may be) receive consideration at the time of the Asset Sale at least equal to the Fair Market Value of the assets or Equity Interests issued or sold or otherwise disposed of; and

(2) at least 75% of the consideration we or such Restricted Subsidiary receive in the Asset Sale is in the form of cash. For purposes of this paragraph (2), each of the following will be deemed to be cash:

(a) Cash Equivalents;

(b) any liabilities, as shown on our most recent consolidated balance sheet, of us or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the notes) that are assumed by the transferee of any such assets pursuant to a customary novation agreement that releases us or such Restricted Subsidiary from further liability;

(c) any securities, notes or other obligations received by us or any such Restricted Subsidiary from such transferee that are converted by us or such Restricted Subsidiary into cash within 180 days of receipt, to the extent of the cash received in that conversion;

(d) any Designated Noncash Consideration the Fair Market Value of which, when taken together with all other Designated Noncash Consideration received pursuant to this clause (d) (and not subsequently converted into Cash Equivalents that are treated as Net Proceeds of an Asset Sale), does not exceed $30.0 million since the Issue Date, with the Fair Market Value of each item of Designated Noncash Consideration being measured at the time received and without giving effect to subsequent changes in value; and

(e) any stock or assets of the kind referred to in clauses (2) or (4) of the second succeeding paragraph.

Notwithstanding the foregoing, the 75% limitation referred to in clause (2) above shall not apply to any Asset Sale in which the cash or Cash Equivalents portion of the consideration received therefrom, determined in accordance with the foregoing provision, is equal to or greater than what the after-tax proceeds would have been had such Asset Sale complied with the aforementioned 75% limitation.

Within 365 days after the receipt of any Net Proceeds from an Asset Sale, we (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Proceeds at our option:

(1) to repay Indebtedness (other than (x) Indebtedness that is contractually subordinated to the notes and (y) any intercompany Indebtedness between or among us and any of our Restricted Subsidiaries) and, if the Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto; *provided* that, if an offer to purchase any such Indebtedness of Select or any Restricted Subsidiary is made in accordance with the terms of such Indebtedness, the obligation to repay such Indebtedness will be deemed satisfied to the extent of the amount of the offer, whether or not

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accepted by the holders thereof, and the amount of Net Proceeds will be reduced to the extent of the amount of the offer;

(2) to acquire all or substantially all of the assets of, or any Capital Stock of, another Permitted Business, if, after giving effect to any such acquisition of Capital Stock, the Permitted Business is or becomes a Restricted Subsidiary of ours;

(3) to make a capital expenditure with respect to a Permitted Business; or

(4) to acquire Additional Assets;

provided that the requirements of clauses (2) through (4) above shall be deemed to be satisfied if an agreement (including a lease, whether a capital lease or an operating lease) committing to make the acquisitions or expenditures referred to in any of clauses (2) through (4) above is entered into by us or our Restricted Subsidiary within 365 days after the receipt of such Net Proceeds and such Net Proceeds are applied in accordance with such agreement.

Pending the final application of any Net Proceeds, we may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the indenture.

Any Net Proceeds from Asset Sales that are not applied or invested as provided in the third paragraph of this covenant will constitute Excess Proceeds. When the aggregate amount of Excess Proceeds exceeds $20.0 million, within ten business days thereof, we will make an Asset Sale Offer to all holders of notes and if we elect (or are required by the terms of such other *pari passu* Indebtedness), all holders of other Indebtedness that is *pari passu* with the notes. The offer price in any Asset Sale Offer will be equal to 100% of the principal amount plus accrued and unpaid interest and Additional Interest, if any, to the date of purchase, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, we may use those Excess Proceeds for any purpose not otherwise prohibited by the indenture. If the aggregate principal amount of notes and other *pari passu* Indebtedness tendered into such Asset Sale Offer exceeds the amount of Excess Proceeds, the trustee will select the notes and such other *pari passu* Indebtedness to be purchased on a *pro rata* basis. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

Notwithstanding the foregoing provisions of this covenant, if at the time we would be required to make an Asset Sale Offer, we do not have access to the applicable Net Proceeds as a result of a restriction permitted by the covenant described under Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries, then we shall have no obligation to make such Asset Sale Offer until such time as and to the extent such restriction no longer applies and, as a result of such lapse of such restriction, there is at least $20.0 million in Net Proceeds from all Asset Sales that has not been applied in accordance with this covenant as a result of the application of this paragraph.

We will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with each repurchase of notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the Asset Sale provisions of the indenture, we will comply with the applicable securities laws and regulations and will not be deemed to have breached our obligations under the Asset Sale provisions of the indenture by virtue of such compliance.

Selection and notice

If less than all of the notes are to be redeemed at any time, the trustee will select notes for redemption on a pro rata basis unless otherwise required by law or applicable stock exchange requirements.

No notes of $1,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each holder of notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the notes or a satisfaction and discharge of the indenture. Notices of redemption may not be conditional.

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If any note is to be redeemed in part only, the notice of redemption that relates to that note will state the portion of the principal amount of that note that is to be redeemed. A new note in principal amount equal to the unredeemed portion of the original note will be issued in the name of the holder of notes upon cancellation of the original note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest and Additional Interest will cease to accrue on notes or portions of notes called for redemption.

Certain Covenants

Restricted Payments

We will not, and will not permit any of our Restricted Subsidiaries to, directly or indirectly:

(A) declare or pay any dividend or make any other payment or distribution on account of our or any of our Restricted Subsidiaries Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving our or any of our Restricted Subsidiaries or any payment under our Deferred Compensation Plan to the extent such payment is funded with a dividend or distribution that would have constituted a Restricted Payment under the terms of the indenture governing the Existing Select Notes) or to the direct or indirect holders of our or any of our Restricted Subsidiaries Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of ours); *provided* that the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of a Restricted Subsidiary of ours shall not constitute a Restricted Payment;

(B) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving us) any Equity Interests of ours or any other direct or indirect parent of ours;

(C) make any payment on or with respect to, or purchase, repurchase, redeem, defease or otherwise acquire or retire for value any Indebtedness that is contractually subordinated to the notes (excluding any intercompany Indebtedness between or among us and any of our Restricted Subsidiaries), except (i) a payment of interest or principal at the Stated Maturity thereof or (ii) the purchase, repurchase, redemption, defeasance or other acquisition or retirement of any such subordinated Indebtedness (other than the Existing Issuer Subordinated Notes or any Permitted Refinancing Indebtedness in respect thereof) purchased in anticipation of satisfying a sinking fund obligation, principal installment or payment at final maturity, in each case within one year of the date of such purchase, repurchase, redemption, defeasance or other acquisition or retirement; or

(D) make any Restricted Investment;

(all such payments and other actions set forth in these clauses (A) through (D) above being collectively referred to as *Restricted Payments*), unless, at the time of and after giving effect to such Restricted Payment:

(1) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;

(2) we or such Restricted Subsidiary, as the case may be, would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least $1.00 of additional Indebtedness pursuant to the applicable Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption Incurrence of indebtedness and issuance of disqualified stock and preferred stock ; *provided* that for purposes of this clause (2) only, any of our non-cash interest expense and amortization of original issue discount and deferred financing fees shall be excluded from the determination of the Fixed Charge Coverage Ratio to the extent not already excluded therefrom; and

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(3) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by us and our Restricted Subsidiaries since February 24, 2005 (excluding Restricted Payments permitted by clauses (2), (3), (4), (5), (6), (7), (8), (9), (11), (12), (13), (14), (15), (16), (17), (18) and (19) of the next succeeding paragraph), is less than the sum, without duplication, of:

(a) 50% of our Consolidated Net Income (excluding, for purposes of calculating our Consolidated Net Income for purposes of this clause (3)(a) only, any of our non-cash interest expense and amortization of original issue discount and deferred financing fees to the extent not already excluded from the definition of Consolidated Net Income) for the period (taken as one accounting period) from the beginning of the first full fiscal quarter commencing after February 24, 2005 to the end of our most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income (as determined as set forth above) for such period is a deficit, less 100% of such deficit); *plus*

(b) 100% of the aggregate Qualified Proceeds we received since February 24, 2005 as a contribution to our equity capital (other than Disqualified Stock) or from the issue or sale of our Equity Interests (other than Disqualified Stock and Excluded Contributions) or from the issue or sale of convertible or exchangeable Disqualified Stock or convertible or exchangeable debt securities of ours that have been converted into or exchanged for such Equity Interests (other than Equity Interests (or Disqualified Stock or debt securities) sold to a Subsidiary of ours); *plus*

(c) an amount equal to the net reduction in Investments by us and our Restricted Subsidiaries resulting from (A) the sale or other disposition (other than to us or a Restricted Subsidiary) of any Restricted Investment that was made after February 24, 2005 and (B) repurchases, redemptions and repayments of such Restricted Investments and the receipt of any dividends or distributions from such Restricted Investments; *plus*

(d) to the extent that any Unrestricted Subsidiary of ours designated as such after the Issue Date is redesignated as a Restricted Subsidiary after the Issue Date, an amount equal to the lesser of (A) the Fair Market Value of our interest in such Subsidiary immediately prior to such redesignation and (B) the aggregate amount of our Investments in such Subsidiary that was previously treated as a Restricted Payment; *plus*

(e) in the event we and/or any Restricted Subsidiary of ours makes any Investment in a Person that, as a result of or in connection with such Investment, becomes a Restricted Subsidiary of ours, an amount equal to our existing Investment of and/or the investment of any of our Restricted Subsidiaries in such Person that was previously treated as a Restricted Payment.

The preceding provisions will not prohibit:

(1) the payment of any dividend or other distribution or the consummation of any irrevocable redemption within 60 days after the date of declaration of the dividend or giving of the redemption notice, as the case may be, if at the date of declaration or notice, the dividend or redemption payment would have complied with the provisions of the indenture;

(2) the making of any Restricted Payment in exchange for, or out of the net cash proceeds of the substantially concurrent sale (other than to a Restricted Subsidiary of ours) of, Equity Interests of ours (other than Disqualified Stock) or from the substantially concurrent contribution of equity capital to us (other than Disqualified Stock); *provided* that the amount of any such net cash proceeds that are utilized for any such Restricted Payment will be excluded from clause (3)(b) of the preceding paragraph;

(3) the repurchase, redemption, defeasance or other acquisition or retirement for value of Indebtedness of ours that is contractually subordinated to the notes with the net cash proceeds from a substantially concurrent incurrence of Permitted Refinancing Indebtedness, or from the substantially concurrent sale (other than to a

Restricted Subsidiary of ours) of, Equity Interests of ours (other than Disqualified Stock) or from the substantially concurrent contribution of equity capital to us (other than

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Disqualified Stock); *provided* that the amount of any such net cash proceeds that are utilized for any such Restricted Payment will be excluded from clause (3)(b) of the preceding paragraph;

(4) the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Disqualified Stock of ours or any Restricted Subsidiary of ours which Disqualified Stock was issued after the Issue Date in accordance with the provisions of the covenant described below under the caption Incurrence of indebtedness and issuance of disqualified stock and preferred stock ;

(5) the repurchase, redemption or other acquisition or retirement for value of Disqualified Stock of ours or of any Restricted Subsidiary of ours made by exchange for, or out of the proceeds of the substantially concurrent sale of Replacement Preferred Stock that is permitted to be incurred pursuant to the covenant described below under Incurrence of indebtedness and issuance of disqualified stock and preferred stock ;

(6) the payment of any dividend (or any similar distribution) by a Restricted Subsidiary of ours to the holders of its Equity Interests on a pro rata basis;

(7) the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of ours or of any Restricted Subsidiary of ours held by any current or former officer, director, employee or consultant of ours or any of our Restricted Subsidiaries, and any dividend payment or other distribution by us or a Restricted Subsidiary to any direct or indirect parent holding company of ours utilized for the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of such direct or indirect parent holding company held by any current or former officer, director, employee or consultant of ours or any of our Restricted Subsidiaries or such parent holding company, in each case, pursuant to any equity subscription agreement, stock option agreement, shareholders agreement or similar agreement or benefit plan of any kind; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests may not exceed $5.0 million in any fiscal year (it being understood, however, that unused amounts permitted to be paid pursuant to this proviso are available to be carried over to subsequent fiscal years); *provided further* that such amount in any fiscal year may be increased by an amount not to exceed:

(a) the cash proceeds from the sale of Equity Interests of ours and, to the extent contributed to us as equity capital (other than Disqualified Stock), Equity Interests of any direct or indirect parent company of ours, in each case to members of management, directors or consultants of ours, any of our Subsidiaries or any direct or indirect parent company of ours that occurs after February 24, 2005, to the extent the cash proceeds from the sale of such Equity Interests have not otherwise been applied to the payment of Restricted Payments by virtue of clause (3)(b) of the preceding paragraph, and excluding Excluded Contributions, *plus*

(b) the cash proceeds of key man life insurance policies received by us and our Restricted Subsidiaries after February 24, 2005, *less*

(c) the amount of any Restricted Payments previously made pursuant to clauses (a) and (b) of this clause (7);

(8) the repurchase of Equity Interests deemed to occur upon the exercise of options, rights or warrants to the extent such Equity Interests represent a portion of the exercise price of those options, rights or warrants;

(9) the repurchase, redemption, defeasance or other acquisition or retirement for value of Indebtedness that is contractually subordinated to the notes with any Excess Proceeds that remain after consummation of an Asset Sale Offer;

(10) so long as no Default has occurred and is continuing or would be caused thereby, after the occurrence of a Change of Control and within 60 days after the completion of the offer to repurchase the notes pursuant to the

covenant described above under Repurchase at the option of holders Change of control (including the purchase of the notes tendered), any purchase or redemption of Indebtedness that is contractually subordinated to the notes required pursuant to the terms thereof as a result of such

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Change of Control at a purchase or redemption price not to exceed 101% of the outstanding principal amount thereof, plus any accrued and unpaid interest; *provided, however,* we are permitted to incur at least $1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption Incurrence of indebtedness and issuance of disqualified stock and preferred stock ;

(11) cash payments in lieu of fractional shares issuable as dividends on preferred stock or upon the conversion of any convertible debt securities of ours or any of our Restricted Subsidiaries;

(12) Permitted Payments to Parent;

(13) so long as no default has occurred and is continuing or would be caused thereby, the payment: