NATURAL RESOURCE PARTNERS LP
Form 4
March 02, 2009

# FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

| | |
|---|---|
| OMB Number: | 3235-0287 |
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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

(Print or Type Responses)

1. Name and Address of Reporting Person *
SCOTT W W JR

(Last) (First) (Middle)

601 JEFFERSON, SUITE 3600

(Street)

HOUSTON, TX 77002

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
NATURAL RESOURCE PARTNERS LP [NRP]

3. Date of Earliest Transaction (Month/Day/Year)
02/26/2009

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1.Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | | | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Code | V | Amount | (A) or (D) | Price | | | |
| Common Units | | | | | | | | 20,620 | I | By The W.W. Scott Family Partnership |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**
**(*e.g.*, puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | | 6. Date Exercisable and Expiration Date (Month/Day/Year) | | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | | 8 D S ( |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Code | V | (A) | (D) | Date Exercisable | Expiration Date | Title | Amount or Number of Shares | |
| Phantom Units (1) | (2) (3) | 02/26/2009 | | A | | 3,000 | | 02/26/2013 | 02/26/2013 | Common Units | 3,000 | |
| Phantom Units (1) | (2) (3) | | | | | | | 02/28/2012 | 02/28/2012 | Common Units | 3,000 | |
| Phantom Units (1) | (2) | | | | | | | 02/13/2011 | 02/13/2011 | Common Units | 3,000 | |
| Phantom Units (1) | (2) | | | | | | | 02/13/2010 | 02/13/2010 | Common Units | 3,000 | |

# Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---|---|---|---|
| | Director | 10% Owner | Officer | Other |
| SCOTT W W JR<br>601 JEFFERSON<br>SUITE 3600<br>HOUSTON, TX 77002 | X | | | |

# Signatures

| | |
|---|---|
| W.W. Scott, Jr. | 03/02/2009 |
| **Signature of Reporting Person | Date |

# Explanation of Responses:

***** If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

****** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

**(1)** The phantom units were granted to the reporting person under the issuer?s long term incentive plan.

**(2)** The phantom units will be paid in cash based on the average closing price of the common units for the 20 trading days immediately prior to the date of vesting.

**(3)** Award includes tandem distribution equivalent rights pursuant to which the quarterly distributions paid by the partnership on each unit will be accrued over the vesting period and paid on vesting.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. 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-

Table of Contents

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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:<br><br>is an affiliate of Holdings,<br><br>does not acquire exchange notes in the ordinary course of its business, or<br><br>tenders in the exchange offer with the intention to participate, or for the purpose of participating, in a distribution of exchange notes,<br><br>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.<br><br>By executing or agreeing to be bound by the letter of transmittal, you will represent to us that, among other things:<br><br>any exchange notes to be received by you will be acquired in the ordinary course of business;<br><br>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; |

4

**Table of Contents**

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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<br><br>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.<br><br>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 |

**Table of Contents**

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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. |

Table of Contents

**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 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:<br><br>rank equally in right of payment to all of its future senior indebtedness;<br><br>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;<br><br>are effectively subordinated in right of payment to its secured debt to the extent of the value of the assets securing such debt; and |

Table of Contents

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 7 7/8 % 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

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

Table of Contents

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|---|---|
| | 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. |

Table of Contents

**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 |

Table of Contents

| | 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

Table of Contents

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.

Table of Contents

## 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

Table of Contents

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

Table of Contents

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 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

Table of Contents

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 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

Table of Contents

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.

***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

17

Table of Contents

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 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

Table of Contents

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 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**

***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

19

Table of Contents

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

Table of Contents

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, 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.

Table of Contents

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.***

We and our subsidiaries may be able to incur additional indebtedness in