

SELECT MEDICAL HOLDINGS CORP  
Form 10-Q  
August 02, 2018  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the Quarterly Period Ended June 30, 2018

OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file numbers: 001-34465 and 001-31441

SELECT MEDICAL HOLDINGS CORPORATION  
SELECT MEDICAL CORPORATION  
(Exact name of Registrant as specified in its Charter)

Delaware 20-1764048  
Delaware 23-2872718  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification Number)

4714 Gettysburg Road, P.O. Box 2034  
Mechanicsburg, PA 17055  
(Address of Principal Executive Offices and Zip code)  
(717) 972-1100

(Registrants' telephone number, including area code)

Indicate by check mark whether the Registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods as such Registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the Registrants have submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrants were required to submit and post such files). Yes  No

Indicate by check mark whether the Registrant, Select Medical Holdings Corporation, is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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(Do not check if a smaller reporting company)  Emerging Growth Company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant, Select Medical Corporation, is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)  Emerging Growth Company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of July 31, 2018, Select Medical Holdings Corporation had outstanding 135,376,051 shares of common stock. This Form 10-Q is a combined quarterly report being filed separately by two Registrants: Select Medical Holdings Corporation and Select Medical Corporation. Unless the context indicates otherwise, any reference in this report to “Holdings” refers to Select Medical Holdings Corporation and any reference to “Select” refers to Select Medical Corporation, the wholly owned operating subsidiary of Holdings, and any of Select’s subsidiaries. Any reference to “Concentra” refers to Concentra Inc., the indirect operating subsidiary of Concentra Group Holdings Parent, LLC (“Concentra Group Holdings Parent”), and its subsidiaries. References to the “Company,” “we,” “us,” and “our” refer collectively to Holdings, Select, and Concentra Group Holdings Parent and its subsidiaries.

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## PART I: FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Condensed Consolidated Balance Sheets

(unaudited)

(in thousands, except share and per share amounts)

	Select Medical Holdings Corporation		Select Medical Corporation	
	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 122,549	\$ 141,029	\$ 122,549	\$ 141,029
Accounts receivable	691,732	775,610	691,732	775,610
Prepaid income taxes	31,387	14,488	31,387	14,488
Other current assets	75,158	88,215	75,158	88,215
Total Current Assets	920,826	1,019,342	920,826	1,019,342
Property and equipment, net	912,591	965,844	912,591	965,844
Goodwill	2,782,812	3,314,606	2,782,812	3,314,606
Identifiable intangible assets, net	326,519	451,932	326,519	451,932
Other assets	184,418	213,076	184,418	213,076
Total Assets	\$ 5,127,166	\$ 5,964,800	\$ 5,127,166	\$ 5,964,800
<b>LIABILITIES AND EQUITY</b>				
Current Liabilities:				
Overdrafts	\$ 29,463	\$ 23,292	\$ 29,463	\$ 23,292
Current portion of long-term debt and notes payable	22,187	24,479	22,187	24,479
Accounts payable	128,194	131,830	128,194	131,830
Accrued payroll	160,562	149,967	160,562	149,967
Accrued vacation	92,875	109,958	92,875	109,958
Accrued interest	19,885	13,293	19,885	13,293
Accrued other	143,166	170,067	143,166	170,067
Income taxes payable	9,071	4,425	9,071	4,425
Total Current Liabilities	605,403	627,311	605,403	627,311
Long-term debt, net of current portion	2,677,715	3,386,209	2,677,715	3,386,209
Non-current deferred tax liability	124,917	150,694	124,917	150,694
Other non-current liabilities	145,709	172,427	145,709	172,427
Total Liabilities	3,553,744	4,336,641	3,553,744	4,336,641
Commitments and contingencies (Note 10)				
Redeemable non-controlling interests	640,818	616,232	640,818	616,232
Stockholders' Equity:				
Common stock of Holdings, \$0.001 par value, 700,000,000 shares authorized, 134,114,715 and 134,326,823 shares issued and outstanding at 2017 and 2018, respectively	134	134	—	—
Common stock of Select, \$0.01 par value, 100 shares issued and outstanding	—	—	0	0
Capital in excess of par	463,499	474,812	947,370	959,173
Retained earnings (accumulated deficit)	359,735	420,525	(124,002	) (63,702
	823,368	895,471	823,368	895,471

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Total Select Medical Holdings Corporation and Select Medical Corporation Stockholders' Equity

Non-controlling interests	109,236	116,456	109,236	116,456
Total Equity	932,604	1,011,927	932,604	1,011,927
Total Liabilities and Equity	\$ 5,127,166	\$ 5,964,800	\$ 5,127,166	\$ 5,964,800

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

Condensed Consolidated Statements of Operations

(unaudited)

(in thousands, except per share amounts)

	Select Medical Holdings Corporation		Select Medical Corporation	
	For the Three Months Ended June 30, 2017	2018	For the Three Months Ended June 30, 2017	2018
Net operating revenues	\$ 1,102,465	\$ 1,296,210	\$ 1,102,465	\$ 1,296,210
Costs and expenses:				
Cost of services	920,194	1,094,731	920,194	1,094,731
General and administrative	28,275	29,194	28,275	29,194
Depreciation and amortization	38,333	51,724	38,333	51,724
Total costs and expenses	986,802	1,175,649	986,802	1,175,649
Income from operations	115,663	120,561	115,663	120,561
Other income and expense:				
Equity in earnings of unconsolidated subsidiaries	5,666	4,785	5,666	4,785
Non-operating gain	—	6,478	—	6,478
Interest expense	(37,655)	(50,159)	(37,655)	(50,159)
Income before income taxes	83,674	81,665	83,674	81,665
Income tax expense	32,374	21,106	32,374	21,106
Net income	51,300	60,559	51,300	60,559
Less: Net income attributable to non-controlling interests	9,245	14,048	9,245	14,048
Net income attributable to Select Medical Holdings Corporation and Select Medical Corporation	\$ 42,055	\$ 46,511	\$ 42,055	\$ 46,511
Income per common share:				
Basic	\$ 0.32	\$ 0.35		
Diluted	\$ 0.32	\$ 0.35		
Weighted average shares outstanding:				
Basic	128,624	129,830		
Diluted	128,777	129,924		

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

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Condensed Consolidated Statements of Operations  
(unaudited)  
(in thousands, except per share amounts)

	Select Medical Holdings Corporation		Select Medical Corporation	
	For the Six Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2018	2017	2018
Net operating revenues	\$ 2,193,982	\$ 2,549,174	\$ 2,193,982	\$ 2,549,174
Costs and expenses:				
Cost of services	1,849,332	2,160,544	1,849,332	2,160,544
General and administrative	56,350	60,976	56,350	60,976
Depreciation and amortization	80,872	98,495	80,872	98,495
Total costs and expenses	1,986,554	2,320,015	1,986,554	2,320,015
Income from operations	207,428	229,159	207,428	229,159
Other income and expense:				
Loss on early retirement of debt	(19,719)	(10,255)	(19,719)	(10,255)
Equity in earnings of unconsolidated subsidiaries	11,187	9,482	11,187	9,482
Non-operating gain (loss)	(49)	6,877	(49)	6,877
Interest expense	(78,508)	(97,322)	(78,508)	(97,322)
Income before income taxes	120,339	137,941	120,339	137,941
Income tax expense	45,576	33,400	45,576	33,400
Net income	74,763	104,541	74,763	104,541
Less: Net income attributable to non-controlling interests	16,838	24,291	16,838	24,291
Net income attributable to Select Medical Holdings Corporation and Select Medical Corporation	\$ 57,925	\$ 80,250	\$ 57,925	\$ 80,250
Income per common share:				
Basic	\$ 0.44	\$ 0.60		
Diluted	\$ 0.44	\$ 0.60		
Weighted average shares outstanding:				
Basic	128,544	129,761		
Diluted	128,703	129,871		

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

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Condensed Consolidated Statements of Changes in Equity and Income  
(unaudited)  
(in thousands)

	Select Medical Holdings Corporation Stockholders								
	Redeemable Non-controlling Interests	Common Stock Issued	Common Stock Par Value	Capital in Excess of Par	Retained Earnings	Total Stockholders' Equity	Non-controlling Interests	Total Equity	
Balance at December 31, 2017	\$ 640,818	134,115	\$ 134	\$ 463,499	\$ 359,735	\$ 823,368	\$ 109,236	\$ 932,604	
Net income attributable to Select Medical Holdings Corporation					80,250	80,250		80,250	
Net income attributable to non-controlling interests	16,652					—	7,639	7,639	
Issuance of restricted stock		174	0	0		—		—	
Forfeitures of unvested restricted stock		(88	) 0	0		—		—	
Vesting of restricted stock				9,562		9,562		9,562	
Repurchase of common shares		(49	) 0	(490	) (399	) (889	)	(889	)
Exercise of stock options		175	0	1,620		1,620		1,620	
Issuance and exchange of non-controlling interests	163,659			1,553	74,341	75,894	1,921	77,815	
Distributions to and purchases of non-controlling interests	(215,084	)		(932	) (83,617	) (84,549	) (3,052	) (87,601	)
Redemption adjustment on non-controlling interests	9,551				(9,551	) (9,551	)	(9,551	)
Other	636				(234	) (234	) 712	478	
Balance at June 30, 2018	\$ 616,232	134,327	\$ 134	\$ 474,812	\$ 420,525	\$ 895,471	\$ 116,456	\$ 1,011,927	

	Select Medical Corporation Stockholders							
	Redeemable Non-controlling Interests	Common Stock Issued	Common Stock Par Value	Capital in Excess of Par	Accumulated Deficit	Total Stockholders' Equity	Non-controlling Interests	Total Equity

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Balance at December 31, 2017	\$ 640,818	0 \$ 0	\$ 947,370	\$(124,002 )	\$ 823,368	\$ 109,236	\$ 932,604
Net income attributable to Select Medical Corporation				80,250	80,250		80,250
Net income attributable to non-controlling interests	16,652				—	7,639	7,639
Additional investment by Holdings			1,620		1,620		1,620
Dividends declared and paid to Holdings				(889 )	(889 )		(889 )
Contribution related to restricted stock award issuances by Holdings			9,562		9,562		9,562
Issuance and exchange of non-controlling interests	163,659		1,553	74,341	75,894	1,921	77,815
Distributions to and purchases of non-controlling interests	(215,084 )		(932 )	(83,617 )	(84,549 )	(3,052 )	(87,601 )
Redemption adjustment on non-controlling interests	9,551			(9,551 )	(9,551 )		(9,551 )
Other	636			(234 )	(234 )	712	478
Balance at June 30, 2018	\$ 616,232	0 \$ 0	\$ 959,173	\$(63,702 )	\$ 895,471	\$ 116,456	\$ 1,011,927

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



Table of ContentsCondensed Consolidated Statements of Cash Flows  
(unaudited)  
(in thousands)

	Select Medical Holdings Corporation		Select Medical Corporation	
	For the Six Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2018	2017	2018
Operating activities				
Net income	\$ 74,763	\$ 104,541	\$ 74,763	\$ 104,541
Adjustments to reconcile net income to net cash provided by operating activities:				
Distributions from unconsolidated subsidiaries	10,933	7,830	10,933	7,830
Depreciation and amortization	80,872	98,495	80,872	98,495
Provision for bad debts	745	102	745	102
Equity in earnings of unconsolidated subsidiaries	(11,187 )	(9,482 )	(11,187 )	(9,482 )
Loss on extinguishment of debt	6,527	484	6,527	484
Gain on sale of assets and businesses	(9,523 )	(6,980 )	(9,523 )	(6,980 )
Stock compensation expense	9,270	10,911	9,270	10,911
Amortization of debt discount, premium and issuance costs	5,974	6,486	5,974	6,486
Deferred income taxes	(1,474 )	(1,691 )	(1,474 )	(1,691 )
Changes in operating assets and liabilities, net of effects of business combinations:				
Accounts receivable	(140,949 )	(5,774 )	(140,949 )	(5,774 )
Other current assets	(5,557 )	(3,011 )	(5,557 )	(3,011 )
Other assets	4,621	6,684	4,621	6,684
Accounts payable	759	(5,462 )	759	(5,462 )
Accrued expenses	(4,833 )	1,207	(4,833 )	1,207
Income taxes	19,399	12,610	19,399	12,610
Net cash provided by operating activities	40,340	216,950	40,340	216,950
Investing activities				
Business combinations, net of cash acquired	(18,508 )	(517,704 )	(18,508 )	(517,704 )
Purchases of property and equipment	(105,302 )	(81,648 )	(105,302 )	(81,648 )
Investment in businesses	(9,874 )	(3,291 )	(9,874 )	(3,291 )
Proceeds from sale of assets and businesses	34,552	6,672	34,552	6,672
Net cash used in investing activities	(99,132 )	(595,971 )	(99,132 )	(595,971 )
Financing activities				
Borrowings on revolving facilities	630,000	265,000	630,000	265,000
Payments on revolving facilities	(550,000 )	(345,000 )	(550,000 )	(345,000 )
Proceeds from term loans	1,139,487	779,904	1,139,487	779,904
Payments on term loans	(1,173,692 )	(5,750 )	(1,173,692 )	(5,750 )
Revolving facility debt issuance costs	(4,392 )	(1,333 )	(4,392 )	(1,333 )
Borrowings of other debt	9,444	19,928	9,444	19,928
Principal payments on other debt	(10,437 )	(11,521 )	(10,437 )	(11,521 )
Repurchase of common stock	(600 )	(889 )	—	—
Dividends paid to Holdings	—	—	(600 )	(889 )
Proceeds from exercise of stock options	963	1,620	—	—
Equity investment by Holdings	—	—	963	1,620

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Decrease in overdrafts	(5,228	) (6,171	) (5,228	) (6,171	)
Proceeds from issuance of non-controlling interests	3,553	2,926	3,553	2,926	
Distributions to non-controlling interests	(5,536	) (301,213	) (5,536	) (301,213	)
Net cash provided by financing activities	33,562	397,501	33,562	397,501	
Net increase (decrease) in cash and cash equivalents	(25,230	) 18,480	(25,230	) 18,480	
Cash and cash equivalents at beginning of period	99,029	122,549	99,029	122,549	
Cash and cash equivalents at end of period	\$ 73,799	\$ 141,029	\$ 73,799	\$ 141,029	
Supplemental Information					
Cash paid for interest	\$ 76,650	\$ 97,338	\$ 76,650	\$ 97,338	
Cash paid for taxes	\$ 27,626	\$ 22,480	\$ 27,626	\$ 22,480	
Non-cash equity exchange for acquisition of U.S. HealthWorks	\$ —	\$ 238,000	\$ —	\$ 238,000	

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

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

1. Basis of Presentation

The unaudited condensed consolidated financial statements of Select Medical Holdings Corporation (“Holdings”) include the accounts of its wholly owned subsidiary, Select Medical Corporation (“Select”). Holdings conducts substantially all of its business through Select and its subsidiaries. Holdings and Select and its subsidiaries are collectively referred to as the “Company.” The unaudited condensed consolidated financial statements of the Company as of June 30, 2018, and for the three and six month periods ended June 30, 2017 and 2018, have been prepared pursuant to the rules and regulations of the Securities Exchange Commission (the “SEC”) for interim reporting and accounting principles generally accepted in the United States of America (“GAAP”). Accordingly, certain information and disclosures required by GAAP, which are normally included in the notes to consolidated financial statements, have been condensed or omitted pursuant to those rules and regulations, although the Company believes the disclosure is adequate to make the information presented not misleading. In the opinion of management, such information contains all adjustments, which are normal and recurring in nature, necessary for a fair statement of the financial position, results of operations and cash flow for such periods. All significant intercompany transactions and balances have been eliminated.

The results of operations for the three and six months ended June 30, 2018, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2018. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2017, contained in the Company’s Annual Report on Form 10-K filed with the SEC on February 22, 2018.

2. Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including disclosure of contingencies, at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

Lease Accounting

Beginning in February 2016, the Financial Accounting Standards Board (the “FASB”) issued several Accounting Standards Updates (“ASU”) which established Topic 842, Leases (the “standard”). This standard includes a lessee accounting model that recognizes two types of leases: finance and operating. This standard requires that a lessee recognize on the balance sheet assets and liabilities for all leases with lease terms of more than twelve months. Lessees will need to recognize almost all leases on the balance sheet as a right-of-use asset and a lease liability. For income statement purposes, the FASB retained the dual model, requiring leases to be classified as either operating or finance. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as finance or operating lease. For short-term leases of twelve months or less, lessees are permitted to make an accounting election by class of underlying asset not to recognize right-of-use assets or lease liabilities. If the alternative is elected, lease expense would be recognized generally on the straight-line basis over the respective lease term.

The amendments in the standard will take effect for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Earlier application is permitted as of the beginning of an interim or annual reporting period. A modified retrospective approach is required for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements.

Upon adoption, the Company will recognize significant assets and liabilities on the consolidated balance sheets as a result of the operating lease obligations of the Company. Operating lease expense will still be recognized as rent expense on a straight-line basis over the respective lease terms in the consolidated statements of operations.

The Company will implement the new standard beginning January 1, 2019. The Company has completed its inventory of leases and has begun to implement a new IT platform to account for leases under the new standard. The Company is currently validating the data in the IT platform to ensure it is complete and accurate. The Company's remaining implementation efforts are focused on designing accounting processes, disclosure processes, and internal controls in order to account for its leases under the new standard.

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## Recently Adopted Accounting Pronouncements

## Revenue from Contracts with Customers

Beginning in May 2014, the FASB issued several Accounting Standards Updates which established Topic 606, Revenue from Contracts with Customers (the “standard”). This standard supersedes existing revenue recognition requirements and seeks to eliminate most industry-specific guidance under current GAAP. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company adopted the new standard on January 1, 2018, using the full retrospective transition method. Adoption of the revenue recognition standard impacted the Company’s reported results as follows:

	Three Months Ended June 30, 2017		
	As Reported	As Adjusted <sup>(1)</sup>	Adoption Impact
	(in thousands)		
<b>Condensed Consolidated Statements of Operations</b>			
Net operating revenues	\$1,120,675	\$1,102,465	\$(18,210)
Bad debt expense	18,174	(36)	(18,210)
	Six Months Ended June 30, 2017		
	As Reported	As Adjusted <sup>(1)</sup>	Adoption Impact
	(in thousands)		
<b>Condensed Consolidated Statements of Operations</b>			
Net operating revenues	\$2,232,036	\$2,193,982	\$(38,054)
Bad debt expense	38,799	745	(38,054)
<b>Condensed Consolidated Statements of Cash Flows</b>			
Provision for bad debts	38,799	745	\$(38,054)
Changes in accounts receivable	(179,003)	(140,949)	38,054

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

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

The Company has presented the applicable disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers in Note 7.

## Income Taxes

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740), and Intra-Entity Transfers of Assets Other Than Inventory. Previous GAAP prohibited the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. The ASU requires an entity to recognize the income tax consequences of an intra entity transfer of an asset other than inventory when the transfer occurs. The Company adopted the guidance effective January 1, 2018. Adoption of the guidance did not have a material impact on the Company’s consolidated financial statements.



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## 3. Acquisitions

## U.S. HealthWorks Acquisition

On February 1, 2018, Concentra Inc. (“Concentra”) acquired all of the issued and outstanding shares of stock of U.S. HealthWorks, Inc. (“U.S. HealthWorks”), an occupational medicine and urgent care service provider, pursuant to the terms of an Equity Purchase and Contribution Agreement (the “Purchase Agreement”) dated as of October 22, 2017, by and among Concentra, U.S. HealthWorks, Concentra Group Holdings, LLC (“Concentra Group Holdings”), Concentra Group Holdings Parent, LLC (“Concentra Group Holdings Parent”) and Dignity Health Holding Corporation (“DHHC”). For the six months ended June 30, 2018, the Company recognized \$2.9 million of U.S. HealthWorks acquisition costs which are included in general and administrative expense.

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

Concentra acquired U.S. HealthWorks for \$753.0 million. The Purchase Agreement provides for certain post-closing adjustments for cash, indebtedness, transaction expenses, and working capital. DHHC, a subsidiary of Dignity Health, was issued a 20% equity interest in Concentra Group Holdings Parent, which was valued at \$238.0 million. The remainder of the purchase price was paid in cash. Select retained a majority voting interest in Concentra Group Holdings Parent following the closing of the transaction.

For the U.S. HealthWorks acquisition, the Company allocated the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their preliminary estimated fair values in accordance with the provisions of Accounting Standards Codification Topic 805, Business Combinations. The Company is in the process of completing its assessment of the acquisition-date fair values of the assets acquired and the liabilities assumed and determining the estimated useful lives of long-lived assets and finite-lived intangible assets; therefore, the values set forth below are subject to adjustment during the measurement period. The amount of these potential adjustments could be significant. The Company expects to complete its purchase price allocation activities by December 31, 2018.

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

Identifiable tangible assets	\$ 181,189
Identifiable intangible assets	140,406
Goodwill	534,347
Total assets	855,942
Total liabilities	102,942
Consideration given	\$ 753,000

A preliminary estimate for goodwill of \$534.3 million has been recognized for the business combination, representing the excess of the consideration given over the fair value of identifiable net assets acquired. The value of goodwill is derived from U.S. HealthWorks’ future earnings potential and its assembled workforce. Goodwill has been assigned to the Concentra reporting unit and is not deductible for tax purposes. However, prior to its acquisition by the Company, U.S. HealthWorks completed certain acquisitions that resulted in tax deductible goodwill with an estimated value of \$83.1 million, which the Company will deduct through 2032.

For the three months ended June 30, 2018, U.S. HealthWorks had net operating revenues of \$139.4 million which is reflected in the Company’s consolidated statements of operations. For the period February 1, 2018 through June 30, 2018, U.S. HealthWorks had net operating revenues of \$229.4 million which is reflected in the Company’s consolidated statements of operations for the six months ended June 30, 2018. Due to the integrated nature of our operations, it is not practicable to separately identify earnings of U.S. HealthWorks on a stand-alone basis.





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## Pro Forma Results

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

	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2017	2018	2017	2018
	(in thousands, except per share amounts)			
Net revenue	\$1,243,221	\$1,296,210	\$2,471,705	\$2,596,755
Net income	51,080	62,612	66,668	107,524
Net income attributable to the Company	38,954	48,563	46,070	82,365
Income per common share:				
Basic	\$0.29	\$0.36	\$0.35	\$0.61
Diluted	\$0.29	\$0.36	\$0.35	\$0.61

The pro forma financial information is based on the preliminary allocation of the purchase price of the U.S. HealthWorks acquisition and is therefore subject to adjustment upon finalizing the purchase price allocation, as described above, during the measurement period. The net income tax impact was calculated at a statutory rate, as if U.S. HealthWorks had been a subsidiary of the Company as of January 1, 2017.

For the six months ended June 30, 2017, pro forma results were adjusted to include the U.S. HealthWorks acquisition costs recognized by the Company during 2017 and 2018, which were approximately \$5.7 million. For the six months ended June 30, 2018, pro forma results were adjusted to exclude approximately \$2.9 million of U.S. HealthWorks acquisition costs which were recognized by the Company during the period.

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## 4. Intangible Assets

## Goodwill

The following table shows changes in the carrying amounts of goodwill by reporting unit for the six months ended June 30, 2018:

	Critical Illness Recovery Hospital <sup>(1)</sup>	Rehabilitation Hospital <sup>(1)</sup>	Outpatient Rehabilitation	Concentra	Total
	(in thousands)				
Balance as of December 31, 2017	\$1,045,220	\$ 415,528	\$ 647,522	\$674,542	\$2,782,812
Acquired	—	1,118	2,465	535,595	539,178
Measurement period adjustment	—	—	—	(1,248 )	(1,248 )
Sold	—	—	(6,136 )	—	(6,136 )
Balance as of June 30, 2018	\$1,045,220	\$ 416,646	\$ 643,851	\$1,208,889	\$3,314,606

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

## Identifiable Intangible Assets

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

	December 31, 2017			June 30, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in thousands)					
Indefinite-lived intangible assets:						
Trademarks	\$166,698	\$ —	\$166,698	\$166,698	\$ —	\$166,698
Certificates of need	19,155	—	19,155	19,173	—	19,173
Accreditations	1,895	—	1,895	1,895	—	1,895
Finite-lived intangible assets:						
Trademarks	—	—	—	5,000	(2,083 )	2,917
Customer relationships	143,953	(38,281 )	105,672	278,969	(49,617 )	229,352
Favorable leasehold interests	13,295	(4,319 )	8,976	13,553	(5,148 )	8,405
Non-compete agreements	28,023	(3,900 )	24,123	28,472	(4,980 )	23,492
Total identifiable intangible assets	\$373,019	\$ (46,500 )	\$326,519	\$513,760	\$ (61,828 )	\$451,932

The Company's accreditations and indefinite-lived trademarks have renewal terms and the costs to renew these intangible assets are expensed as incurred. At June 30, 2018, the accreditations and indefinite-lived trademarks have a weighted average time until next renewal of 1.5 years and 8.7 years, respectively.

The Company's finite-lived customer relationships, non-compete agreements, and trademarks amortize over their estimated useful lives. Amortization expense was \$4.3 million and \$7.8 million for the three months ended June 30, 2017 and 2018, respectively. Amortization expense was \$8.7 million and \$14.2 million for the six months ended June 30, 2017 and 2018, respectively. The Company's leasehold interests have finite lives and are amortized to rent expense over the remaining term of their respective leases to reflect a market rent per period based upon the market conditions present at the acquisition date.

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## 5. Long-Term Debt and Notes Payable

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

As of June 30, 2018, the Company's long-term debt and notes payable are as follows (in thousands):

	Principal Outstanding	Unamortized Premium (Discount)	Unamortized Issuance Costs	Carrying Value	Fair Value
Select:					
6.375% senior notes	\$ 710,000	\$ 664	\$ (5,601)	) \$ 705,063	\$ 718,094
Credit facilities:					
Revolving facility	150,000	—	—	150,000	138,000
Term loans	1,135,625	(11,444)	(11,504)	) 1,112,677	1,148,401
Other	43,680	—	(500)	) 43,180	43,180
Total Select debt	2,039,305	(10,780)	(17,605)	) 2,010,920	2,047,675
Concentra:					
Credit facilities:					
Term loans	1,414,175	(3,288)	(21,720)	) 1,389,167	1,414,840
Other	10,601	—	—	10,601	10,601
Total Concentra debt	1,424,776	(3,288)	(21,720)	) 1,399,768	1,425,441
Total debt	\$ 3,464,081	\$ (14,068)	\$ (39,325)	) \$ 3,410,688	\$ 3,473,116

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

	2018	2019	2020	2021	2022	Thereafter	Total
Select:							
6.375% senior notes	\$—	\$—	\$—	\$ 710,000	\$—	\$—	\$ 710,000
Credit facilities:							
Revolving facility	—	—	—	—	150,000	—	150,000
Term loans	5,750	11,500	11,500	11,500	11,500	1,083,875	1,135,625
Other	6,119	3,321	25,285	221	—	8,734	43,680
Total Select debt	11,869	14,821	36,785	721,721	161,500	1,092,609	2,039,305
Concentra:							
Credit facilities:							
Term loans	—	—	5,719	12,365	1,156,091	240,000	1,414,175
Other	2,860	3,418	322	320	308	3,373	10,601
Total Concentra debt	2,860	3,418	6,041	12,685	1,156,399	243,373	1,424,776
Total debt	\$ 14,729	\$ 18,239	\$ 42,826	\$ 734,406	\$ 1,317,899	\$ 1,335,982	\$ 3,464,081

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

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

**Select Credit Facilities**

On March 22, 2018, Select entered into Amendment No. 1 to the senior secured credit agreement (the "Select credit agreement") dated March 6, 2017. The Select credit agreement originally provided for \$1.6 billion in senior secured credit facilities comprised of \$1.15 billion in term loans (the "Select term loans") and a \$450.0 million revolving credit facility (the "Select revolving facility" and together with the Select term loans, the "Select credit facilities"), including a \$75.0 million sublimit for the issuance of standby letters of credit.

Amendment No. 1 (i) decreased the applicable interest rate on the Select term loans from the Adjusted LIBO Rate (as defined in the Select credit agreement and subject to an Adjusted LIBO floor of 1.00%) plus 3.50% to the Adjusted LIBO Rate plus a percentage ranging from 2.50% to 2.75%, or from the Alternative Base Rate (as defined in the Select credit agreement and subject to an Alternate Base Rate floor of 2.00%) plus 2.50% to the Alternative Base Rate plus a percentage ranging from 1.50% to 1.75%, in each case based on Select's total net leverage ratio (as defined in the Select credit agreement); (ii) decreased the applicable interest rate on the loans outstanding under the Select revolving credit facility from the Adjusted LIBO Rate plus a percentage ranging from 3.00% to 3.25% to the Adjusted LIBO Rate plus a percentage ranging from 2.50% to 2.75%, or from the Alternative Base Rate plus a percentage ranging from 2.00% to 2.25% to the Alternative Base Rate plus a percentage ranging from 1.50% to 1.75%, in each case based on Select's total net leverage ratio; (iii) extended the maturity date for the Select term loans from March 6, 2024 to March 6, 2025; and (iv) made certain other technical amendments to the Select credit agreement as set forth therein.

**Concentra Credit Facilities****Concentra First Lien Credit Agreement**

On February 1, 2018, Concentra entered into an amendment to its first lien credit agreement (the "Concentra first lien credit agreement") dated June 1, 2015, by and among Concentra, as the borrower, Concentra Holdings, Inc., a subsidiary of Concentra Group Holdings Parent, JPMorgan Chase Bank, N.A., as the administrative agent and the collateral agent, and the other lenders party thereto. Concentra used borrowings under the Concentra first lien credit agreement and the Concentra second lien credit agreement, as described below, together with cash on hand, to pay the purchase price for all of the issued and outstanding stock of U.S. HealthWorks to DHHC and to finance the redemption and reorganization transactions executed under the Purchase Agreement (as described in Note 3), as well as to pay fees and expenses associated with the financing.

Concentra amended the Concentra first lien credit agreement to, among other things, provide for (i) an additional \$555.0 million in tranche B term loans that, along with the existing tranche B term loans under the Concentra first lien credit agreement, have a maturity date of June 1, 2022 (collectively, the "Concentra first lien term loan") and (ii) an additional \$25.0 million to the \$50.0 million, five-year revolving credit facility under the terms of the existing

Concentra first lien credit agreement. The tranche B term loans bear interest at a rate equal to the Adjusted LIBO Rate (as defined in the Concentra first lien credit agreement) plus 2.75% (subject to an Adjusted LIBO Rate floor of 1.00%) for Eurodollar Borrowings (as defined in the Concentra first lien credit agreement), or Alternate Base Rate (as defined in the Concentra first lien credit agreement) plus 1.75% (subject to an Alternate Base Rate floor of 2.00%) for ABR Borrowings (as defined in the Concentra first lien credit agreement). All other material terms and conditions applicable to the original tranche B term loan commitments are applicable to the additional tranche B term loans created under the Concentra first lien credit agreement.

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### Concentra Second Lien Credit Agreement

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

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

In the event that, on or prior to February 1, 2019, Concentra prepays any of the Concentra second lien term loan to refinance such term loans, Concentra shall pay a premium of 2.00% of the aggregate principal amount of the Concentra second lien term loan prepaid. If Concentra prepays any of the Concentra second lien term loan to refinance such term loans on or prior to February 1, 2020, Concentra shall pay a premium of 1.00% of the aggregate principal amount of the Concentra second lien term loan prepaid.

Concentra will be required to prepay borrowings under the Concentra second lien term loan with (i) 100% of the net cash proceeds received from non-ordinary course asset sales or other dispositions, or as a result of a casualty or condemnation, subject to reinvestment provisions and other customary carveouts and the payment of certain indebtedness secured by liens, (ii) 100% of the net cash proceeds received from the issuance of debt obligations other than certain permitted debt obligations, and (iii) 50% of excess cash flow (as defined in the Concentra second lien credit agreement) if Concentra’s leverage ratio is greater than 4.25 to 1.00 and 25% of excess cash flow if Concentra’s leverage ratio is less than or equal to 4.25 to 1.00 and greater than 3.75 to 1.00, in each case, reduced by the aggregate amount of term loans and certain debt optionally prepaid during the applicable fiscal year and the aggregate amount of senior revolving commitments reduced permanently during the applicable fiscal year (other than in connection with a refinancing). Concentra will not be required to prepay borrowings with excess cash flow if Concentra’s leverage ratio is less than or equal to 3.75 to 1.00.

The Concentra second lien credit agreement also contains a number of affirmative and restrictive covenants, including limitations on mergers, consolidations and dissolutions; sales of assets; investments and acquisitions; indebtedness; liens; affiliate transactions; and dividends and restricted payments. The Concentra second lien credit agreement contains events of default for non-payment of principal and interest when due (subject to a grace period for interest), cross-default and cross-acceleration provisions and an event of default that would be triggered by a change of control. The borrowings under the Concentra second lien term loan are guaranteed, on a second lien basis, by Concentra Holdings, Inc., Concentra, and certain domestic subsidiaries of Concentra and will be guaranteed by Concentra’s future domestic subsidiaries (other than Excluded Subsidiaries and Consolidated Practices, each as defined in the Concentra second lien credit agreement). The borrowings under the Concentra second lien term loan are secured by substantially all of Concentra’s and its domestic subsidiaries’ existing and future property and assets and by a pledge of Concentra’s capital stock, the capital stock of certain of Concentra’s domestic subsidiaries and up to 65% of the voting capital stock and 100% of the non-voting capital stock of Concentra’s foreign subsidiaries, if any.

### Loss on Early Retirement of Debt

The amendments to the Select credit facilities and Concentra credit facilities resulted in losses on early retirement of debt totaling \$10.3 million for the six months ended June 30, 2018. The losses on early retirement of debt consisted of \$0.5 million of debt extinguishment losses and \$9.8 million of debt modification losses during the six months ended June 30, 2018.

### Fair Value

The Company considers the inputs in the valuation process to be Level 2 in the fair value hierarchy for Select’s 6.375% senior notes and for its credit facilities. Level 2 in the fair value hierarchy is defined as inputs that are observable for the asset or liability, either directly or indirectly, which includes quoted prices for identical assets or liabilities in markets that are not active.

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

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## 6. Segment Information

The Company identifies its operating segments according to how the chief operating decision maker evaluates financial performance and allocates resources. During the year ended December 31, 2017, the Company changed its internal segment reporting structure which is reflective of how the Company now manages its business operations, reviews operating performance, and allocates resources. The Company's reportable segments include the critical illness recovery hospital segment (previously referred to as the long term acute care segment), rehabilitation hospital segment (previously referred to as the inpatient rehabilitation segment), outpatient rehabilitation segment, and Concentra segment. Prior year results for the three and six months ended June 30, 2017, presented herein have been recast to conform to the current presentation. The Company previously disclosed financial information for the following reportable segments: specialty hospitals, outpatient rehabilitation, and Concentra.

Other activities include the Company's corporate shared services and certain other non-consolidating joint ventures and minority investments in other healthcare related businesses. The Company evaluates performance of the segments based on Adjusted EBITDA. Adjusted EBITDA is defined as earnings excluding interest, income taxes, depreciation and amortization, gain (loss) on early retirement of debt, stock compensation expense, acquisition costs associated with U.S. HealthWorks, non-operating gain (loss), and equity in earnings (losses) of unconsolidated subsidiaries. The Company has provided additional information regarding its reportable segments, such as total assets, which contributes to the understanding of the Company and provides useful information to the users of the consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2018	2017	2018
	(in thousands)			
Net operating revenues: <sup>(1)</sup>				
Critical illness recovery hospital <sup>(2)</sup>	\$439,194	\$442,452	\$884,317	\$907,128
Rehabilitation hospital <sup>(2)</sup>	151,378	173,769	296,203	348,543
Outpatient rehabilitation	254,984	267,183	505,355	524,564
Concentra	256,887	412,823	507,476	768,939
Other	22	(17	) 631	—
Total Company	\$1,102,465	\$1,296,210	\$2,193,982	\$2,549,174
Adjusted EBITDA:				
Critical illness recovery hospital <sup>(2)</sup>	\$75,043	\$60,725	\$147,380	\$133,697
Rehabilitation hospital <sup>(2)</sup>	23,129	28,195	39,457	54,971
Outpatient rehabilitation	41,926	41,947	73,277	72,472
Concentra	43,061	72,568	85,653	130,365
Other	(24,479	) (25,207	) (48,197	) (50,045
Total Company	\$158,680	\$178,228	\$297,570	\$341,460
Total assets:				
Critical illness recovery hospital <sup>(2)</sup>	\$1,989,618	\$1,828,038	\$1,989,618	\$1,828,038
Rehabilitation hospital <sup>(2)</sup>	665,999	867,175	665,999	867,175
Outpatient rehabilitation	982,811	979,678	982,811	979,678
Concentra	1,310,483	2,174,931	1,310,483	2,174,931
Other	105,300	114,978	105,300	114,978
Total Company	\$5,054,211	\$5,964,800	\$5,054,211	\$5,964,800
Purchases of property and equipment, net:				
Critical illness recovery hospital <sup>(2)</sup>	\$9,771	\$12,849	\$20,714	\$23,321
Rehabilitation hospital <sup>(2)</sup>	26,920	8,080	48,334	20,997
Outpatient rehabilitation	6,201	8,018	12,874	15,356



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Concentra	7,601	10,121	16,287	16,742
Other	4,156	2,963	7,093	5,232
Total Company	\$54,649	\$42,031	\$105,302	\$81,648

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

	Three Months Ended June 30, 2017					
	Critical					
	Illness Recovery Hospital <sup>(2)</sup>	Rehabilitation Hospital <sup>(2)</sup>	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Adjusted EBITDA	\$75,043	\$ 23,129	\$ 41,926	\$43,061	\$(24,479)	
Depreciation and amortization	(10,917 )	(4,537 )	(5,878 )	(15,429 )	(1,572 )	
Stock compensation expense	—	—	—	(264 )	(4,420 )	
Income (loss) from operations	\$64,126	\$ 18,592	\$ 36,048	\$27,368	\$(30,471)	\$115,663
Equity in earnings of unconsolidated subsidiaries						5,666
Interest expense						(37,655 )
Income before income taxes						\$83,674
	Three Months Ended June 30, 2018					
	Critical					
	Illness Recovery Hospital <sup>(2)</sup>	Rehabilitation Hospital <sup>(2)</sup>	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Adjusted EBITDA	\$60,725	\$ 28,195	\$ 41,947	\$72,568	\$(25,207)	
Depreciation and amortization	(11,952 )	(6,015 )	(6,704 )	(24,697 )	(2,356 )	
Stock compensation expense	—	—	—	(1,138 )	(4,846 )	
U.S. HealthWorks acquisition costs	—	—	—	41	—	
Income (loss) from operations	\$48,773	\$ 22,180	\$ 35,243	\$46,774	\$(32,409)	\$120,561
Equity in earnings of unconsolidated subsidiaries						4,785
Non-operating gain						6,478
Interest expense						(50,159 )
Income before income taxes						\$81,665
	Six Months Ended June 30, 2017					
	Critical					
	Illness Recovery Hospital <sup>(2)</sup>	Rehabilitation Hospital <sup>(2)</sup>	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Adjusted EBITDA	\$147,380	\$ 39,457	\$ 73,277	\$85,653	\$(48,197)	
Depreciation and amortization	(23,959 )	(9,995 )	(12,218 )	(31,552 )	(3,148 )	
Stock compensation expense	—	—	—	(570 )	(8,700 )	
Income (loss) from operations	\$123,421	\$ 29,462	\$ 61,059	\$53,531	\$(60,045)	\$207,428
Loss on early retirement of debt						(19,719 )
Equity in earnings of unconsolidated subsidiaries						11,187
Non-operating loss						(49 )
Interest expense						(78,508 )
Income before income taxes						\$120,339



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	Six Months Ended June 30, 2018					
	Critical Illness Recovery Hospital <sup>(2)</sup>	Rehabilitation Hospital <sup>(2)</sup>	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Adjusted EBITDA	\$ 133,697	\$ 54,971	\$ 72,472	\$ 130,365	\$(50,045)	
Depreciation and amortization	(23,010 )	(11,737 )	(13,341 )	(45,844 )	(4,563 )	
Stock compensation expense	—	—	—	(1,349 )	(9,562 )	
U.S. HealthWorks acquisition costs	—	—	—	(2,895 )	—	
Income (loss) from operations	\$ 110,687	\$ 43,234	\$ 59,131	\$ 80,277	\$(64,170)	\$ 229,159
Loss on early retirement of debt						(10,255 )
Equity in earnings of unconsolidated subsidiaries						9,482
Non-operating gain						6,877
Interest expense						(97,322 )
Income before income taxes						\$ 137,941

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

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

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## 7. Revenue from Contracts with Customers

Net operating revenues consist primarily of patient service revenues generated from services provided to patients and other revenues for services provided to healthcare institutions under contractual arrangements. The following tables disaggregate the Company's net operating revenues by operating segment for the three and six months ended June 30, 2017 and 2018:

	Three Months Ended June 30, 2017			
	Critical Illness Recovery Hospital <sup>(1)</sup> (in thousands)	Rehabilitation Hospital <sup>(1)</sup>	Outpatient Rehabilitation	Concentra
Patient service revenues:				
Medicare	\$228,733	\$ 62,089	\$ 38,119	\$ 571
Non-Medicare	207,875	51,434	189,009	254,107
Total patient services revenues	436,608	113,523	227,128	254,678
Other revenues	2,586	37,855	27,856	2,209
Total net operating revenues	\$439,194	\$ 151,378	\$ 254,984	\$ 256,887
	Three Months Ended June 30, 2018			
	Critical Illness Recovery Hospital <sup>(1)</sup> (in thousands)	Rehabilitation Hospital <sup>(1)</sup>	Outpatient Rehabilitation	Concentra
Patient service revenues:				
Medicare	\$225,857	\$ 73,054	\$ 41,475	\$ 517
Non-Medicare	213,083	62,387	194,611	409,922
Total patient services revenues	438,940	135,441	236,086	410,439
Other revenues	3,512	38,328	31,097	2,384
Total net operating revenues	\$442,452	\$ 173,769	\$ 267,183	\$ 412,823
	Six Months Ended June 30, 2017			
	Critical Illness Recovery Hospital <sup>(1)</sup> (in thousands)	Rehabilitation Hospital <sup>(1)</sup>	Outpatient Rehabilitation	Concentra
Patient service revenues:				
Medicare	\$465,170	\$ 119,593	\$ 74,817	\$ 1,116
Non-Medicare	414,500	98,677	372,812	501,908
Total patient services revenues	879,670	218,270	447,629	503,024
Other revenues	4,647	77,933	57,726	4,452
Total net operating revenues	\$884,317	\$ 296,203	\$ 505,355	\$ 507,476
	Six Months Ended June 30, 2018			
	Critical Illness Recovery Hospital <sup>(1)</sup> (in thousands)	Rehabilitation Hospital <sup>(1)</sup>	Outpatient Rehabilitation	Concentra
Patient service revenues:				
Medicare	\$466,849	\$ 145,895	\$ 79,665	\$ 1,145

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Non-Medicare	433,089	124,289	383,511	763,174
Total patient services revenues	899,938	270,184	463,176	764,319
Other revenues	7,190	78,359	61,388	4,620
Total net operating revenues	\$907,128	\$ 348,543	\$ 524,564	\$768,939

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

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Patient Services Revenue

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

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

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

In the critical illness recovery hospital and rehabilitation hospital segments, the Company recognizes revenue based on known contractual provisions associated with the specific payor or, where the Company has a relatively homogeneous patient population, the Company will monitor individual payors' historical reimbursement rates to derive a per diem rate which is used to determine the amount of revenue to be recognized for services rendered.

In the outpatient rehabilitation and Concentra segments, the Company recognizes revenue from payors based on known contractual provisions, negotiated amounts, or usual and customary amounts associated with the specific payor. The Company performs provision testing, using internally developed systems, whereby the Company monitors a payors' historical reimbursement rates and compares them against the associated gross charges for the service provided. The percentage of historical reimbursed claims to gross charges is utilized to determine the amount of revenue to be recognized for services rendered.

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

Other Revenues

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

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## 8. Income Taxes

In December 2017, the Tax Cuts and Jobs Act of 2017 (the “Act”) was signed into law which made significant changes to the Internal Revenue Code. These changes included a corporate tax rate decrease from 35.0% to 21.0% effective after December 31, 2017. Reconciliations of the statutory federal income tax rate to the effective income tax rate are as follows:

	Three Months Ended June 30,	
	2017	2018
Federal income tax at statutory rate	35.0 %	21.0 %
State and local income taxes, less federal income tax benefit	3.7	4.6
Permanent differences	1.2	2.0
Valuation allowance	0.6	(0.7 )
Uncertain tax positions	0.2	0.2
Non-controlling interest	(1.7 )	(1.6 )
Stock-based compensation	(0.2 )	(0.6 )
Other	(0.1 )	0.9
Total effective income tax rate	38.7 %	25.8 %
	Six Months Ended June 30,	
	2017	2018
Federal income tax at statutory rate	35.0 %	21.0 %
State and local income taxes, less federal income tax benefit	3.8	4.6
Permanent differences	1.1	1.9
Valuation allowance	0.1	(0.2 )
Uncertain tax positions	0.2	0.2
Non-controlling interest	(1.9 )	(2.1 )
Stock-based compensation	(0.4 )	(2.5 )
Other	—	1.3
Total effective income tax rate	37.9 %	24.2 %

## 9. Income per Common Share

Holdings applies the two-class method for calculating and presenting income per common share. The two-class method is an earnings allocation formula that determines earnings per share for each class of stock participation rights in undistributed earnings.

The following table sets forth the calculation of income per share in Holdings’ condensed consolidated statements of operations and the differences between basic weighted average shares outstanding and diluted weighted average shares outstanding used to compute basic and diluted earnings per share, respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2018	2017	2018
(in thousands, except per share amounts)				
Numerator:				
Net income attributable to Select Medical Holdings Corporation	\$ 42,055	\$ 46,511	\$ 57,925	\$ 80,250
Less: Earnings allocated to unvested restricted stockholders	1,341	1,517	1,849	2,630
Net income available to common stockholders	\$ 40,714	\$ 44,994	\$ 56,076	\$ 77,620
Denominator:				
Weighted average shares—basic	128,624	129,830	128,544	129,761
Effect of dilutive securities:				
Stock options	153	94	159	110
Weighted average shares—diluted	128,777	129,924	128,703	129,871



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Basic income per common share:	\$0.32	\$0.35	\$0.44	\$0.60
Diluted income per common share:	\$0.32	\$0.35	\$0.44	\$0.60

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10. Commitments and Contingencies

Litigation

The Company is a party to various legal actions, proceedings, and claims (some of which are not insured), and regulatory and other governmental audits and investigations in the ordinary course of its business. The Company cannot predict the ultimate outcome of pending litigation, proceedings, and regulatory and other governmental audits and investigations. These matters could potentially subject the Company to sanctions, damages, recoupments, fines, and other penalties. The Department of Justice, Centers for Medicare & Medicaid Services (“CMS”), or other federal and state enforcement and regulatory agencies may conduct additional investigations related to the Company’s businesses in the future that may, either individually or in the aggregate, have a material adverse effect on the Company’s business, financial position, results of operations, and liquidity.

To address claims arising out of the Company’s operations, the Company maintains professional malpractice liability insurance and general liability insurance coverages through a number of different programs that are dependent upon such factors as the state where the Company is operating and whether the operations are wholly owned or are operated through a joint venture. For the Company’s wholly owned operations, the Company maintains insurance coverages under a combination of policies with a total annual aggregate limit of \$35.0 million. The Company’s insurance for the professional liability coverage is written on a “claims-made” basis, and its commercial general liability coverage is maintained on an “occurrence” basis. These coverages apply after a self-insured retention limit is exceeded. For the Company’s joint venture operations, the Company has numerous programs that are designed to respond to the risks of the specific joint venture. The annual aggregate limit under these programs ranges from \$5.0 million to \$20.0 million. The policies are generally written on a “claims-made” basis. Each of these programs has either a deductible or self-insured retention limit. The Company reviews its insurance program annually and may make adjustments to the amount of insurance coverage and self-insured retentions in future years. The Company also maintains umbrella liability insurance covering claims which, due to their nature or amount, are not covered by or not fully covered by the Company’s other insurance policies. These insurance policies also do not generally cover punitive damages and are subject to various deductibles and policy limits. Significant legal actions, as well as the cost and possible lack of available insurance, could subject the Company to substantial uninsured liabilities. In the Company’s opinion, the outcome of these actions, individually or in the aggregate, will not have a material adverse effect on its financial position, results of operations, or cash flows.

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

Evansville Litigation. On October 19, 2015, the plaintiff relators filed a Second Amended Complaint in United States of America, ex rel. Tracy Conroy, Pamela Schenk and Lisa Wilson v. Select Medical Corporation, Select Specialty Hospital-Evansville, LLC (“SSH Evansville”), Select Employment Services, Inc., and Dr. Richard Sloan. The case is a civil action filed in the United States District Court for the Southern District of Indiana by private plaintiff relators on behalf of the United States under the federal False Claims Act. The plaintiff relators are the former CEO and two former case managers at SSH Evansville, and the defendants currently include the Company, SSH Evansville, a subsidiary of the Company serving as common paymaster for its employees, and a physician who practices at SSH Evansville. The plaintiff relators allege that SSH Evansville discharged patients too early or held patients too long, improperly discharged patients to and readmitted them from short stay hospitals, up coded diagnoses at admission, and admitted patients for whom long term acute care was not medically necessary. They also allege that the defendants engaged in retaliation in violation of federal and state law. The Second Amended Complaint replaced a prior complaint that was filed under seal on September 28, 2012 and served on the Company on February 15, 2013, after a federal magistrate judge unsealed it on January 8, 2013. All deadlines in the case had been stayed after the seal was lifted in order to allow the government time to complete its investigation and to decide whether or not to intervene. On June 19, 2015, the United States Department of Justice notified the District Court of its decision not to

intervene in the case.

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

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

**Knoxville Litigation.** On July 13, 2015, the United States District Court for the Eastern District of Tennessee unsealed a qui tam Complaint in *Armes v. Garman, et al*, No. 3:14 cv 00172 TAV CCS, which named as defendants Select, Select Specialty Hospital-Knoxville, Inc. ("SSH Knoxville"), Select Specialty Hospital-North Knoxville, Inc. and ten current or former employees of these facilities. The Complaint was unsealed after the United States and the State of Tennessee notified the court on July 13, 2015 that each had decided not to intervene in the case. The Complaint is a civil action that was filed under seal on April 29, 2014 by a respiratory therapist formerly employed at SSH Knoxville. The Complaint alleges violations of the federal False Claims Act and the Tennessee Medicaid False Claims Act based on extending patient stays to increase reimbursement and to increase average length of stay; artificially prolonging the lives of patients to increase Medicare reimbursements and decrease inspections; admitting patients who do not require medically necessary care; performing unnecessary procedures and services; and delaying performance of procedures to increase billing. The Complaint was served on some of the defendants during October 2015.

In November 2015, the defendants filed a Motion to Dismiss the Complaint on multiple grounds. The defendants first argued that False Claims Act's first-to-file bar required dismissal of plaintiff relator's claims. Under the first-to-file bar, if a qui tam case is pending, no person may bring a related action based on the facts underlying the first action. The defendants asserted that the plaintiff relator's claims were based on the same underlying facts as were asserted in the Evansville litigation, discussed above. The defendants also argued that the plaintiff relator's claims must be dismissed under the public disclosure bar, and because the plaintiff relator did not plead his claims with sufficient particularity. In June 2016, the District Court granted the defendants' Motion to Dismiss and dismissed with prejudice the plaintiff relator's lawsuit in its entirety. The District Court ruled that the first-to-file bar precludes all but one of the plaintiff relator's claims, and that the remaining claim must also be dismissed because the plaintiff relator failed to plead it with sufficient particularity. In July 2016, the plaintiff relator filed a Notice of Appeal to the United States Court of Appeals for the Sixth Circuit. Then, on October 11, 2016, the plaintiff relator filed a Motion to Remand the case to the District Court for further proceedings, arguing that the September 30, 2016 decision in the Evansville litigation, discussed above, undermines the basis for the District Court's dismissal. After the Court of Appeals denied the Motion to Remand, the plaintiff relator then sought an indicative ruling from the District Court that it would vacate its prior dismissal ruling and allow plaintiff relator to supplement his Complaint, but the District Court denied such request. In December 2017, the Court of Appeals, relying on the public disclosure bar, denied the appeal of the plaintiff relator and affirmed the judgment of the District Court. In February 2018, the Court of Appeals denied a petition for

rehearing that the plaintiff-relator filed in January 2018.

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

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

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

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

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11. Condensed Consolidating Financial Information

Select's 6.375% senior notes are fully and unconditionally and jointly and severally guaranteed, except for customary limitations, on a senior basis by all of Select's wholly owned subsidiaries (the "Subsidiary Guarantors"). The Subsidiary Guarantors are defined as subsidiaries where Select, or a subsidiary of Select, holds all of the outstanding ownership interests. Certain of Select's subsidiaries did not guarantee the 6.375% senior notes (the "Non-Guarantor Subsidiaries" and Concentra Group Holdings Parent and its subsidiaries, the "Non-Guarantor Concentra").

Select conducts a significant portion of its business through its subsidiaries. Presented below is condensed consolidating financial information for Select, the Subsidiary Guarantors, the Non-Guarantor Subsidiaries, and Non-Guarantor Concentra.

The equity method has been used by Select with respect to investments in subsidiaries. The equity method has been used by Subsidiary Guarantors with respect to investments in Non-Guarantor Subsidiaries. Separate financial statements for Subsidiary Guarantors are not presented.

Certain reclassifications have been made to prior reported amounts in order to conform to the current year guarantor structure.

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Select Medical Corporation  
Condensed Consolidating Balance Sheet  
June 30, 2018  
(unaudited)

	Select (Parent Company Only) (in thousands)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Consolidating and Eliminating Adjustments	Consolidated Select Medical Corporation
<b>Assets</b>						
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 15,074	\$ 6,360	\$ 4,396	\$ 115,199	\$ —	\$ 141,029
Accounts receivable	—	439,614	129,585	206,411	—	775,610
Intercompany receivables	—	1,672,980	80,189	—	(1,753,169 ) (a)	—
Prepaid income taxes	10,691	—	—	3,797	—	14,488
Other current assets	13,897	28,254	10,075	35,989	—	88,215
<b>Total Current Assets</b>	<b>39,662</b>	<b>2,147,208</b>	<b>224,245</b>	<b>361,396</b>	<b>(1,753,169 )</b>	<b>1,019,342</b>
Property and equipment, net	37,157	616,853	84,834	227,000	—	965,844
Investment in affiliates	4,566,506	132,640	—	—	(4,699,146 ) (b)(c)	—
Goodwill	—	2,105,717	—	1,208,889	—	3,314,606
Identifiable intangible assets, net	3	103,119	4,968	343,842	—	451,932
Other assets	35,011	119,499	34,360	33,804	(9,598 ) (e)	213,076
<b>Total Assets</b>	<b>\$ 4,678,339</b>	<b>\$ 5,225,036</b>	<b>\$ 348,407</b>	<b>\$ 2,174,931</b>	<b>\$ (6,461,913 )</b>	<b>\$ 5,964,800</b>
<b>Liabilities and Equity</b>						
<b>Current Liabilities:</b>						
Overdrafts	\$ 23,292	\$ —	\$ —	\$ —	\$ —	\$ 23,292
Current portion of long-term debt and notes payable	17,390	527	967	5,595	—	24,479
Accounts payable	9,929	71,355	18,508	32,038	—	131,830
Intercompany payables	1,672,980	80,189	—	—	(1,753,169 ) (a)	—
Accrued payroll	8,649	89,842	3,650	47,826	—	149,967
Accrued vacation	4,551	61,895	14,091	29,421	—	109,958
Accrued interest	6,926	11	20	6,336	—	13,293
Accrued other	39,928	64,563	15,172	50,404	—	170,067
Income taxes payable	2,387	—	—	2,038	—	4,425
<b>Total Current Liabilities</b>	<b>1,786,032</b>	<b>368,382</b>	<b>52,408</b>	<b>173,658</b>	<b>(1,753,169 )</b>	<b>627,311</b>
Long-term debt, net of current portion	1,958,529	90	33,417	1,394,173	—	3,386,209
Non-current deferred tax liability	—	89,230	820	70,242	(9,598 ) (e)	150,694
Other non-current liabilities	38,307	63,983	9,482	60,655	—	172,427
<b>Total Liabilities</b>	<b>3,782,868</b>	<b>521,685</b>	<b>96,127</b>	<b>1,698,728</b>	<b>(1,762,767 )</b>	<b>4,336,641</b>
Redeemable non-controlling interests	—	—	—	18,549	597,683 (d)	616,232
<b>Stockholders' Equity:</b>						



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Common stock	0	—	—	—	—	0
Capital in excess of par	959,173	—	—	—	—	959,173
Retained earnings (accumulated deficit)	(63,702	) 1,478,075	(20,267	) (3,529	) (1,454,279	)(c)(d) (63,702
Subsidiary investment	—	3,225,276	272,547	455,753	(3,953,576	)(b)(d)—
Total Select Medical Corporation Stockholders' Equity	895,471	4,703,351	252,280	452,224	(5,407,855	) 895,471
Non-controlling interests	—	—	—	5,430	111,026	(d) 116,456
Total Equity	895,471	4,703,351	252,280	457,654	(5,296,829	) 1,011,927
Total Liabilities and Equity	\$4,678,339	\$5,225,036	\$ 348,407	\$ 2,174,931	\$(6,461,913	) \$5,964,800

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(a) Elimination of intercompany balances.

(b) Elimination of investments in consolidated subsidiaries.

(c) Elimination of investments in consolidated subsidiaries' earnings.

(d) Reclassification of equity attributable to non-controlling interests.

(e) Reclassification of non-current deferred tax asset to report net non-current deferred tax liability in consolidation.

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Select Medical Corporation  
Condensed Consolidating Statement of Operations  
For the Three Months Ended June 30, 2018  
(unaudited)

	Select (Parent Company Only) (in thousands)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Consolidating and Eliminating Adjustments	Consolidated Select Medical Corporation
Net operating revenues	\$(17 )	\$690,766	\$ 192,638	\$ 412,823	\$ —	\$ 1,296,210
Costs and expenses:						
Cost of services	799	589,707	162,832	341,393	—	1,094,731
General and administrative	29,208	27	—	(41 )	—	29,194
Depreciation and amortization	2,355	20,535	4,137	24,697	—	51,724
Total costs and expenses	32,362	610,269	166,969	366,049	—	1,175,649
Income (loss) from operations	(32,379 )	80,497	25,669	46,774	—	120,561
Other income and expense:						
Intercompany interest and royalty fees	7,553	(3,629 )	(3,609 )	(315 )	—	—
Intercompany management fees	55,416	(43,931 )	(11,485 )	—	—	—
Equity in earnings of unconsolidated subsidiaries	—	4,776	9	—	—	4,785
Non-operating gain	1,654	4,824	—	—	—	6,478
Interest income (expense)	(29,412 )	188	(186 )	(20,749 )	—	(50,159 )
Income before income taxes	2,832	42,725	10,398	25,710	—	81,665
Income tax expense	831	14,254	145	5,876	—	21,106
Equity in earnings of consolidated subsidiaries	44,510	6,840	—	—	(51,350 )	(a)—
Net income	46,511	35,311	10,253	19,834	(51,350 )	60,559
Less: Net income attributable to non-controlling interests	—	12	3,413	10,623	—	14,048
Net income attributable to Select Medical Corporation	\$46,511	\$35,299	\$ 6,840	\$ 9,211	\$ (51,350 )	\$ 46,511

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

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Select Medical Corporation  
Condensed Consolidating Statement of Operations  
For the Six Months Ended June 30, 2018  
(unaudited)

	Select (Parent Company Only) (in thousands)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Consolidating and Eliminating Adjustments	Consolidated Select Medical Corporation
Net operating revenues	\$—	\$1,397,178	\$ 383,057	\$ 768,939	\$ —	\$ 2,549,174
Costs and expenses:						
Cost of services	1,525	1,197,733	321,363	639,923	—	2,160,544
General and administrative	58,015	66	—	2,895	—	60,976
Depreciation and amortization	4,562	39,982	8,107	45,844	—	98,495
Total costs and expenses	64,102	1,237,781	329,470	688,662	—	2,320,015
Income (loss) from operations	(64,102 )	159,397	53,587	80,277	—	229,159
Other income and expense:						
Intercompany interest and royalty fees	15,672	(7,924 )	(7,240 )	(508 )	—	—
Intercompany management fees	116,148	(93,471 )	(22,677 )	—	—	—
Loss on early retirement of debt	(2,229 )	—	—	(8,026 )	—	(10,255 )
Equity in earnings of unconsolidated subsidiaries	—	9,460	22	—	—	9,482
Non-operating gain	1,654	5,223	—	—	—	6,877
Interest income (expense)	(60,483 )	121	(337 )	(36,623 )	—	(97,322 )
Income before income taxes	6,660	72,806	23,355	35,120	—	137,941
Income tax expense	1,345	26,189	238	5,628	—	33,400
Equity in earnings of consolidated subsidiaries	74,935	15,123	—	—	(90,058 )	(a)—
Net income	80,250	61,740	23,117	29,492	(90,058 )	104,541
Less: Net income attributable to non-controlling interests	—	97	7,994	16,200	—	24,291
Net income attributable to Select Medical Corporation	\$80,250	\$61,643	\$ 15,123	\$ 13,292	\$ (90,058 )	\$ 80,250

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

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Select Medical Corporation  
Condensed Consolidating Statement of Cash Flows  
For the Six Months Ended June 30, 2018  
(unaudited)

	Select (Parent Company Only) (in thousands)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Consolidating and Eliminating Adjustments	Consolidated Select Medical Corporation
Operating activities						
Net income	\$80,250	\$61,740	\$23,117	\$29,492	\$(90,058)	(a)\$104,541
Adjustments to reconcile net income to net cash provided by operating activities:						
Distributions from unconsolidated subsidiaries	—	7,800	30	—	—	7,830
Depreciation and amortization	4,562	39,982	8,107	45,844	—	98,495
Provision for bad debts	—	41	—	61	—	102
Equity in earnings of unconsolidated subsidiaries	—	(9,460)	(22)	—	—	(9,482)
Equity in earnings of consolidated subsidiaries	(74,935)	(15,123)	—	—	90,058	(a)—
Loss on extinguishment of debt	115	—	—	369	—	484
Gain on sale of assets and businesses	(1,642)	(5,338)	—	—	—	(6,980)
Stock compensation expense	9,562	—	—	1,349	—	10,911
Amortization of debt discount, premium and issuance costs	3,553	—	—	2,933	—	6,486
Deferred income taxes	664	1,056	40	(3,451)	—	(1,691)
Changes in operating assets and liabilities, net of effects of business combinations:						
Accounts receivable	—	9,838	(6,857)	(8,755)	—	(5,774)
Other current assets	(876)	1,927	2,956	—	—	—