

SELECT MEDICAL HOLDINGS CORP
Form 10-Q
May 03, 2012
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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 March 31, 2012

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 Registrants as specified in their charters)

Delaware
Delaware
(State or other jurisdiction of
incorporation or organization)

20-1764048
23-2872718
(I.R.S. employer identification
number)

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4714 Gettysburg Road, P.O. Box 2034, Mechanicsburg, Pennsylvania 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 the 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 Registrants are large accelerated filers, accelerated filers, non-accelerated filers, or smaller reporting companies. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the Registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of April 30, 2012, Select Medical Holdings Corporation had outstanding 141,056,662 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. References to the Company, we, us, and our refer collectively to Select Medical Holdings Corporation and Select Medical Corporation.

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****Consolidated Balance Sheets**

(unaudited)

(in thousands, except share and per share amounts)

	Select Medical Holdings Corporation		Select Medical Corporation	
	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 12,043	\$ 9,274	\$ 12,043	\$ 9,274
Accounts receivable, net of allowance for doubtful accounts of \$47,469 and \$44,466 in 2011 and 2012, respectively	413,743	465,687	413,743	465,687
Current deferred tax asset	18,305	19,894	18,305	19,894
Prepaid income taxes	9,497		9,497	
Other current assets	29,822	34,178	29,822	34,178
Total Current Assets	483,410	529,033	483,410	529,033
Property and equipment, net	510,028	491,773	510,028	491,773
Goodwill	1,631,716	1,631,383	1,631,716	1,631,383
Other identifiable intangibles	72,123	71,868	72,123	71,868
Assets held for sale	2,742	2,742	2,742	2,742
Other assets	72,128	79,779	70,719	78,463
Total Assets	\$ 2,772,147	\$ 2,806,578	\$ 2,770,738	\$ 2,805,262
LIABILITIES AND EQUITY				
Current Liabilities:				
Bank overdrafts	\$ 16,609	\$ 19,100	\$ 16,609	\$ 19,100
Current portion of long-term debt and notes payable	10,848	14,451	10,848	14,451
Accounts payable	95,618	94,058	95,618	94,058
Accrued payroll	82,888	70,634	82,888	70,634
Accrued vacation	51,250	54,701	51,250	54,701
Accrued interest	15,096	5,942	11,980	5,489
Accrued restructuring	5,027	4,325	5,027	4,325
Accrued other	101,076	95,652	106,316	95,652
Income taxes payable		16,095		16,095
Due to third party payors	5,526	6,011	5,526	6,011
Total Current Liabilities	383,938	380,969	386,062	380,516
Long-term debt, net of current portion	1,385,950	1,399,039	1,218,650	1,231,739

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Non-current deferred tax liability	82,028	85,029	82,028	85,029
Other non-current liabilities	64,905	69,459	64,905	69,459
Total Liabilities	1,916,821	1,934,496	1,751,645	1,766,743
Stockholders' Equity:				
Common stock of Holdings, \$0.001 par value, 700,000,000 shares authorized, 145,268,190 shares and 142,158,133 shares issued and outstanding in 2011 and 2012, respectively	145	142		
Common stock of Select, \$0.01 par value, 100 shares issued and outstanding			0	0
Capital in excess of par	493,828	479,547	848,844	850,800
Retained earnings	328,882	359,990	137,778	155,316
Total Select Medical Holdings Corporation and Select Medical Corporation Stockholders' Equity	822,855	839,679	986,622	1,006,116
Non-controlling interest	32,471	32,403	32,471	32,403
Total Equity	855,326	872,082	1,019,093	1,038,519
Total Liabilities and Equity	\$ 2,772,147	\$ 2,806,578	\$ 2,770,738	\$ 2,805,262

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

Table of Contents**Consolidated Statements of Operations**

(unaudited)

(in thousands, except per share amounts)

	Select Medical Holdings Corporation For the Quarter Ended March 31,		Select Medical Corporation For the Quarter Ended March 31,	
	2011	2012	2011	2012
Net operating revenues	\$ 693,186	\$ 744,021	\$ 693,186	\$ 744,021
Costs and expenses:				
Cost of services	557,416	611,619	557,416	611,619
General and administrative	16,566	14,224	16,566	14,224
Bad debt expense	14,350	10,375	14,350	10,375
Depreciation and amortization	17,222	16,199	17,222	16,199
Total costs and expenses	605,554	652,417	605,554	652,417
Income from operations	87,632	91,604	87,632	91,604
Other income and expense:				
Equity in earnings (losses) of unconsolidated subsidiaries	(73)	2,465	(73)	2,465
Interest income	56		56	
Interest expense	(25,664)	(23,922)	(18,662)	(21,250)
Income before income taxes	61,951	70,147	68,953	72,819
Income tax expense	26,564	27,575	29,014	28,510
Net income	35,387	42,572	39,939	44,309
Less: Net income attributable to non-controlling interests	1,715	1,030	1,715	1,030
Net income attributable to Select Medical Holdings Corporation and Select Medical Corporation	\$ 33,672	\$ 41,542	\$ 38,224	\$ 43,279
Income per common share:				
Basic	\$ 0.22	\$ 0.29		
Diluted	\$ 0.22	\$ 0.29		

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

Table of Contents**Select Medical Holdings Corporation****Consolidated Statement of Changes in Equity and Income**

(unaudited)

(in thousands)

	Select Medical Holdings Corporation Stockholders					
	Total	Common Stock Issued	Common Stock Par Value	Capital in Excess of Par	Retained Earnings	Non-controlling Interests
Balance at December 31, 2011	\$ 855,326	145,268	\$ 145	\$ 493,828	\$ 328,882	\$ 32,471
Net income	42,572				41,542	1,030
Issuance and vesting of restricted stock	960	65	0	960		
Exercise of stock options	95	29	0	95		
Stock option expense	300			300		
Repurchase of common shares	(25,739)	(3,204)	(3)	(15,302)	(10,434)	
Distributions to non-controlling interests	(1,098)					(1,098)
Other	(334)			(334)		
Balance at March 31, 2012	\$ 872,082	142,158	\$ 142	\$ 479,547	\$ 359,990	\$ 32,403

Select Medical Corporation**Consolidated Statement of Changes in Equity and Income**

(unaudited)

(in thousands)

	Select Medical Corporation Stockholders					
	Total	Common Stock Issued	Common Stock Par Value	Capital in Excess of Par	Retained Earnings	Non-controlling Interests
Balance at December 31, 2011	\$ 1,019,093	0	\$ 0	\$ 848,844	\$ 137,778	\$ 32,471
Net income	44,309				43,279	1,030
Federal tax benefit of losses contributed by Holdings	935			935		
Additional investment by Holdings	95			95		
Net change in dividends payable to Holdings	5,240				5,240	
Dividends declared and paid to Holdings	(30,981)				(30,981)	
	(1,098)					(1,098)

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Distributions to non-controlling interests											
Other		(334)				(334)					
Contribution related to restricted stock awards and stock option issuances by Holdings		1,260				1,260					
Balance at March 31, 2012	\$	1,038,519	0	\$	0	\$	850,800	\$	155,316	\$	32,403

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

Table of Contents**Consolidated Statements of Cash Flows**

(unaudited)

(in thousands)

	Select Medical Holdings Corporation For the Three Months Ended March 31,		Select Medical Corporation For the Three Months Ended March 31,	
	2011	2012	2011	2012
Operating activities				
Net income	\$ 35,387	\$ 42,572	\$ 39,939	\$ 44,309
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	17,222	16,199	17,222	16,199
Provision for bad debts	14,350	10,375	14,350	10,375
Loss (gain) from disposal or sale of assets	188	(3,550)	188	(3,550)
Non-cash stock compensation expense	880	1,261	880	1,261
Amortization of debt discount	507	311		311
Changes in operating assets and liabilities, net of effects from acquisition of businesses:				
Accounts receivable	(100,135)	(62,319)	(100,135)	(62,319)
Other current assets	(3,076)	(4,419)	(3,076)	(4,419)
Other assets	2,052	2,028	1,914	1,935
Accounts payable	11,777	(1,560)	11,777	(1,560)
Due to third-party payors	(474)	485	(474)	485
Accrued expenses	(9,948)	(20,585)	(3,588)	(17,922)
Income and deferred taxes	26,238	27,382	28,688	28,317
Net cash provided by (used in) operating activities	(5,032)	8,180	7,685	13,422
Investing activities				
Purchases of property and equipment	(12,920)	(11,751)	(12,920)	(11,751)
Proceeds from sale of assets	250	16,511	250	16,511
Investment in business		(7,840)		(7,840)
Acquisition of businesses, net of cash acquired	(2,000)		(2,000)	
Net cash used in investing activities	(14,670)	(3,080)	(14,670)	(3,080)
Financing activities				
Borrowings on revolving credit facilities	205,000	230,000	205,000	230,000
Payments on revolving credit facilities	(105,000)	(215,000)	(105,000)	(215,000)
Payments on 2011 credit facility term loans		(2,125)		(2,125)
Payments on 2005 credit facility term loans	(59,563)		(59,563)	
Borrowings of other debt	5,496	5,835	5,496	5,835
Principal payments on other debt	(2,494)	(2,328)	(2,494)	(2,328)
Dividends paid to Holdings			(14,743)	(30,981)
Repurchase of common stock	(2,026)	(25,739)		
Proceeds from issuance of common stock	81	95		
Equity investment by Holdings			81	95
Proceeds from (repayment of) bank overdrafts	(9,418)	2,491	(9,418)	2,491
Distributions to non-controlling interests	(1,671)	(1,098)	(1,671)	(1,098)
Net cash provided by (used in) financing activities	30,405	(7,869)	17,688	(13,111)

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Net increase (decrease in) cash and cash equivalents	10,703	(2,769)	10,703	(2,769)
Cash and cash equivalents at beginning of period	4,365	12,043	4,365	12,043
Cash and cash equivalents at end of period	\$ 15,068	\$ 9,274	\$ 15,068	\$ 9,274
Supplemental Cash Flow Information				
Cash paid for interest	\$ 41,365	\$ 31,285	\$ 28,648	\$ 26,042
Cash paid for taxes	\$ 103	\$ 204	\$ 103	\$ 204

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

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SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

Select Medical Corporation (Select) was formed in December 1996 and commenced operations during February 1997 upon the completion of its first acquisition. Select Medical Holdings Corporation (Holdings) was formed in October 2004 for the purpose of affecting a leveraged buyout of Select, which was a publicly traded entity. On February 24, 2005, Select merged with a subsidiary of Holdings, which resulted in Select becoming a wholly-owned subsidiary of Holdings (the Merger). On September 30, 2009 Holdings completed its initial public offering of common stock. Generally accepted accounting principles (GAAP) require that any amounts recorded or incurred (such as goodwill and compensation expense) by the parent as a result of the Merger or for the benefit of the subsidiary be pushed down and recorded in Select s consolidated financial statements. Holdings and Select and their subsidiaries are collectively referred to as the Company. The consolidated financial statements of Holdings include the accounts of its wholly-owned subsidiary Select. Holdings conducts substantially all of its business through Select and its subsidiaries.

The unaudited condensed consolidated financial statements of the Company as of March 31, 2012 and for the three month period ended March 31, 2011 and 2012 have been prepared in accordance with GAAP. 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 months ended March 31, 2012 are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2012.

Certain information and disclosures normally included in the notes to consolidated financial statements have been condensed or omitted consistent with the rules and regulations of the Securities and Exchange Commission (the SEC), although the Company believes the disclosure is adequate to make the information presented not misleading. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2011 contained in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2012.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Table of Contents**Recent Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, Comprehensive Income (Topic 220) Presentation of Comprehensive Income (Update 2011-05) that improves the comparability, consistency and transparency of financial reporting and increases the prominence of items reported in other comprehensive income by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. Update 2011-05 requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under either method, adjustments must be displayed for items that are reclassified from other comprehensive income (OCI) to net income, in both net income and OCI. Update 2011-05 does not change the current option for presenting components of OCI gross or net of the effect of income taxes, provided that such tax effects are presented in the statement in which OCI is presented or disclosed in the notes to the financial statements. Additionally, Update 2011-05 does not affect the calculation or reporting of earnings per share. Update 2011-05 was effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and is to be applied retrospectively. The Company adopted Update 2011-05 on January 1, 2012. Update 2011-05 had no effect on the Company's presentation of other comprehensive income for the three months ended March 31, 2011 and 2012 because the Company did not have any items of other comprehensive income during these periods.

3. Intangible Assets

The Company's intangible assets consist of the following:

	As of March 31, 2012	
	Gross Carrying Amount	Accumulated Amortization
	(in thousands)	
<u>Amortized intangible assets:</u>		
Non-compete agreements	\$ 25,909	\$ (25,824)
<u>Indefinite-lived intangible assets:</u>		
Goodwill	\$ 1,631,383	
Trademarks	57,709	
Certificates of need	11,914	
Accreditations	2,160	
Total	\$ 1,703,166	