

SELECT MEDICAL HOLDINGS CORP  
Form 10-Q  
May 05, 2016  
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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, 2016**

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the Transition Period From        to        .**

**Commission File Number: 001 34465 and 001 31441**

**SELECT MEDICAL HOLDINGS CORPORATION**

# SELECT MEDICAL CORPORATION

(Exact name of Registrant as specified in its charter)

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

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

**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 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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated  
filer

Accelerated  
filer

Non-accelerated  
filer   
(Do not check if a smaller  
reporting company)

Smaller reporting  
company

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

Large accelerated  
filer

Accelerated  
filer

Non-accelerated  
filer   
(Do not check if a smaller  
reporting company)

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 March 31, 2016, Select Medical Holdings Corporation had outstanding 131,250,374 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, LLC (Group Holdings), and its subsidiaries. References to the Company, we, us and our refer collectively to Holdings, Select, and Group Holdings and its subsidiaries.

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Table of Contents**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,<br>2015                | March 31,<br>2016   | December 31,<br>2015       | March 31,<br>2016   |
| <b>ASSETS</b>   |                                     |                     |                            |                     |
| Current Assets:   |                                     |                     |                            |                     |
| Cash and cash equivalents   | \$ 14,435                           | \$ 85,408           | \$ 14,435                  | \$ 85,408           |
| Accounts receivable, net of allowance for doubtful accounts of \$61,133 and \$55,709 at 2015 and 2016, respectively | 603,558                             | 626,375             | 603,558                    | 626,375             |
| Current deferred tax asset  | 28,688                              | 45,817              | 28,688                     | 45,817              |
| Prepaid income taxes  | 16,694                              |                     | 16,694                     |                     |
| Other current assets  | 85,779                              | 86,423              | 85,779                     | 86,423              |
| <b>Total Current Assets</b>   | <b>749,154</b>                      | <b>844,023</b>      | <b>749,154</b>             | <b>844,023</b>      |
| Property and equipment, net   | 864,124                             | 872,543             | 864,124                    | 872,543             |
| Goodwill  | 2,314,624                           | 2,675,522           | 2,314,624                  | 2,675,522           |
| Other identifiable intangibles, net   | 318,675                             | 318,174             | 318,675                    | 318,174             |
| Other assets  | 142,101                             | 137,707             | 142,101                    | 137,707             |
| <b>Total Assets</b>   | <b>\$ 4,388,678</b>                 | <b>\$ 4,847,969</b> | <b>\$ 4,388,678</b>        | <b>\$ 4,847,969</b> |
| Current Liabilities:  |                                     |                     |                            |                     |
| Bank overdrafts   | \$ 28,615                           | \$                  | \$ 28,615                  | \$                  |
| Current portion of long-term debt and notes payable   | 225,166                             | 8,296               | 225,166                    | 8,296               |
| Accounts payable  | 137,409                             | 122,279             | 137,409                    | 122,279             |
| Accrued payroll   | 120,989                             | 128,553             | 120,989                    | 128,553             |
| Accrued vacation  | 73,977                              | 79,783              | 73,977                     | 79,783              |
| Accrued interest  | 9,401                               | 23,453              | 9,401                      | 23,453              |
| Accrued other   | 133,728                             | 149,993             | 133,728                    | 149,993             |
| Income taxes payable  |                                     | 2,848               |                            | 2,848               |
| <b>Total Current Liabilities</b>  | <b>729,285</b>                      | <b>515,205</b>      | <b>729,285</b>             | <b>515,205</b>      |
| Long-term debt, net of current portion  | 2,160,730                           | 2,773,450           | 2,160,730                  | 2,773,450           |
| Non-current deferred tax liability  | 218,705                             | 213,923             | 218,705                    | 213,923             |
| Other non-current liabilities   | 133,220                             | 136,046             | 133,220                    | 136,046             |
| <b>Total Liabilities</b>  | <b>3,241,940</b>                    | <b>3,638,624</b>    | <b>3,241,940</b>           | <b>3,638,624</b>    |
| Commitments and contingencies (Note 11)   |                                     |                     |                            |                     |

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|  |                     |                     |                     |                     |
|--|---------------------|---------------------|---------------------|---------------------|
| Redeemable non-controlling interests   | 238,221             | 239,627             | 238,221             | 239,627             |
| Stockholders' Equity:  |                     |                     |                     |                     |
| Common stock of Holdings, \$0.001 par value, 700,000,000 shares authorized, 131,282,798 and 131,250,374 shares issued and outstanding at 2015 and 2016, respectively | 131                 | 131                 |                     |                     |
| Common stock of Select, \$0.01 par value, 100 shares issued and outstanding  |                     |                     | 0                   | 0                   |
| Capital in excess of par   | 424,506             | 428,294             | 904,375             | 908,163             |
| Retained earnings (accumulated deficit)  | 434,616             | 489,518             | (45,122)            | 9,780               |
| Total Select Medical Holdings Corporation and Select Medical Corporation Stockholders' Equity  | 859,253             | 917,943             | 859,253             | 917,943             |
| Non-controlling interest   | 49,264              | 51,775              | 49,264              | 51,775              |
| Total Equity   | 908,517             | 969,718             | 908,517             | 969,718             |
| <b>Total Liabilities and Equity</b>  | <b>\$ 4,388,678</b> | <b>\$ 4,847,969</b> | <b>\$ 4,388,678</b> | <b>\$ 4,847,969</b> |

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

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

|   | <b>Select Medical Holdings Corporation</b>  |              | <b>Select Medical Corporation</b>           |              |
|---|---|--------------|---|--------------|
|   | <b>For the Three Months Ended March 31,</b> |              | <b>For the Three Months Ended March 31,</b> |              |
|   | <b>2015</b>                                 | <b>2016</b>  | <b>2015</b>                                 | <b>2016</b>  |
| Net operating revenues  | \$ 795,343                                  | \$ 1,088,330 | \$ 795,343                                  | \$ 1,088,330 |
| Costs and expenses:   |   |              |   |              |
| Cost of services  | 664,385                                     | 922,262      | 664,385                                     | 922,262      |
| General and administrative  | 21,675                                      | 28,268       | 21,675                                      | 28,268       |
| Bad debt expense  | 12,670                                      | 16,397       | 12,670                                      | 16,397       |
| Depreciation and amortization   | 17,348                                      | 34,517       | 17,348                                      | 34,517       |
| Total costs and expenses  | 716,078                                     | 1,001,444    | 716,078                                     | 1,001,444    |
| Income from operations  | 79,265                                      | 86,886       | 79,265                                      | 86,886       |
| Other income and expense:   |   |              |   |              |
| Loss on early retirement of debt  |   | (773)        |   | (773)        |
| Equity in earnings of unconsolidated subsidiaries   | 2,592                                       | 4,652        | 2,592                                       | 4,652        |
| Non-operating gain, net   |   | 25,087       |   | 25,087       |
| Interest expense  | (21,388)                                    | (38,848)     | (21,388)                                    | (38,848)     |
| Income before income taxes  | 60,469                                      | 77,004       | 60,469                                      | 77,004       |
| Income tax expense  | 23,184                                      | 17,060       | 23,184                                      | 17,060       |
| Net income  | 37,285                                      | 59,944       | 37,285                                      | 59,944       |
| Less: Net income attributable to non-controlling interests                                    | 2,222                                       | 5,111        | 2,222                                       | 5,111        |
| Net income attributable to Select Medical Holdings Corporation and Select Medical Corporation | \$ 35,063                                   | \$ 54,833    | \$ 35,063                                   | \$ 54,833    |
| Basic   | \$ 0.27                                     | \$ 0.42      |   |              |
| Diluted   | \$ 0.27                                     | \$ 0.42      |   |              |
| Dividends paid per share  | \$ 0.10                                     | \$           |   |              |
| Weighted average shares outstanding:  |   |              |   |              |
| Basic   | 127,565                                     | 127,500      |   |              |
| Diluted   | 127,872                                     | 127,581      |   |              |

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





Table of Contents**Condensed Consolidated Statement of Changes in Equity and Income**

(unaudited)

(in thousands)

|   | Select Medical Holdings Corporation Stockholders |            |                     |                    |                              |                   |                           |
|---|--|------------|---------------------|--------------------|------------------------------|-------------------|---------------------------|
|   | Comprehensive Income                             | Total      | Common Stock Issued | Common Stock Value | Par Capital in Excess of Par | Retained Earnings | Non-controlling Interests |
| Balance at December 31, 2015                                      |  | \$ 908,517 | 131,283             | 131                | 424,506                      | 434,616           | 49,264                    |
| Net income  | \$ 56,195  | 56,195     |                     |                    |                              | 54,833            | 1,362                     |
| Net income - attributable to redeemable non-controlling interests | 3,749  |            |                     |                    |                              |                   |                           |
| Total comprehensive income  | \$ 59,944  |            |                     |                    |                              |                   |                           |
| Issuance and vesting of restricted stock                          |  | 3,773      | (36)                | 0                  | 3,773                        |                   |                           |
| Tax benefit from stock based awards                               |  | 16         |                     |                    | 16                           |                   |                           |
| Stock option expense  |  | 11         |                     |                    | 11                           |                   |                           |
| Exercise of stock options   |  | 21         | 3                   | 0                  | 21                           |                   |                           |
| Non-controlling interests acquired in business combination        |  | 2,514      |                     |                    |                              |                   | 2,514                     |
| Distributions to non-controlling interests                        |  | (2,323)    |                     |                    |                              |                   | (2,323)                   |
| Issuance of non-controlling interests                             |  | 523        |                     |                    |                              |                   | 523                       |
| Purchase of redeemable non-controlling interests                  |  | 320        |                     |                    |                              | 320               |                           |
| Other   |  | 151        |                     |                    | (33)                         | (251)             | 435                       |
| Balance at March 31, 2016   |  | \$ 969,718 | 131,250             | \$ 131             | \$ 428,294                   | \$ 489,518        | \$ 51,775                 |

|   | Select Medical Corporation Stockholders |            |                     |                    |                              |   |                           |
|---|---|------------|---------------------|--------------------|------------------------------|---|---------------------------|
|   | Comprehensive Income                    | Total      | Common Stock Issued | Common Stock Value | Par Capital in Excess of Par | Retained Earnings (Accumulated Deficit) | Non-controlling Interests |
| Balance at December 31, 2015                                      |   | \$ 908,517 | 0                   | \$ 0               | \$ 904,375                   | \$ (45,122)                             | \$ 49,264                 |
| Net income  | \$ 56,195                               | 56,195     |                     |                    |                              | 54,833                                  | 1,362                     |
| Net income - attributable to redeemable non-controlling interests | 3,749                                   |            |                     |                    |                              |   |                           |
| Total comprehensive income  | \$ 59,944                               |            |                     |                    |                              |   |                           |
| Additional investment by Holdings                                 |   | 21         |                     |                    | 21                           |   |                           |
|   |   | 3,784      |                     |                    | 3,784                        |   |                           |

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|  |            |   |      |            |          |           |  |  |         |
|--|------------|---|------|------------|----------|-----------|--|--|---------|
| Contribution related to restricted stock awards and stock option issuances by Holdings |            |   |      |            |          |           |  |  |         |
| Tax benefit from stock based awards  | 16         |   |      | 16         |          |           |  |  |         |
| Non-controlling interests acquired in business combination                             | 2,514      |   |      |            |          |           |  |  | 2,514   |
| Distributions to non-controlling interests   | (2,323)    |   |      |            |          |           |  |  | (2,323) |
| Issuance of non-controlling interests  | 523        |   |      |            |          |           |  |  | 523     |
| Purchase of redeemable non-controlling interests                                       | 320        |   |      |            |          | 320       |  |  |         |
| Other  | 151        |   |      | (33)       |          | (251)     |  |  | 435     |
| Balance at March 31, 2016  | \$ 969,718 | 0 | \$ 0 | \$ 908,163 | \$ 9,780 | \$ 51,775 |  |  |         |

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

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

(unaudited)

(in thousands)

|   | Select Medical Holdings Corporation<br>For the Three Months Ended March 31, |           | Select Medical Corporation<br>For the Three Months Ended March 31, |           |
|---|---|-----------|--|-----------|
|   | 2015  | 2016      | 2015   | 2016      |
| <b>Operating activities</b>   |   |           |  |           |
| Net income  | \$ 37,285   | \$ 59,944 | \$ 37,285  | \$ 59,944 |
| Adjustments to reconcile net income to net cash provided by operating activities:           |   |           |  |           |
| Distributions from unconsolidated subsidiaries  | 28  | 8,305     | 28   | 8,305     |
| Depreciation and amortization   | 17,348  | 34,517    | 17,348   | 34,517    |
| Amortization of leasehold interests   |   | 123       |  | 123       |
| Provision for bad debts   | 12,670  | 16,397    | 12,670   | 16,397    |
| Equity in earnings of unconsolidated subsidiaries   | (2,592)   | (4,652)   | (2,592)  | (4,652)   |
| Loss on early retirement of debt  |   | 773       |  | 773       |
| Loss (gain) on sale of assets and business  | 5   | (30,393)  | 5  | (30,393)  |
| Impairment of equity investment   |   | 5,339     |  | 5,339     |
| Stock compensation expense  | 2,399   | 3,976     | 2,399  | 3,976     |
| Amortization of debt discount, premium and issuance costs                                   | 1,929   | 3,691     | 1,929  | 3,691     |
| Deferred income taxes   | (2,471)   | (3,475)   | (2,471)  | (3,475)   |
| Changes in operating assets and liabilities, net of effects from acquisition of businesses: |   |           |  |           |
| Accounts receivable   | (61,810)  | (39,164)  | (61,810)   | (39,164)  |
| Other current assets  | (5,924)   | 7,560     | (5,924)  | 7,560     |
| Other assets  | 1,663   | (1,014)   | 1,663  | (1,014)   |
| Accounts payable  | 5,332   | (21,322)  | 5,332  | (21,322)  |
| Accrued expenses  | 6,757   | 51,193    | 6,757  | 51,193    |
| Income taxes  | 24,916  | 19,354    | 24,916   | 19,354    |
| Net cash provided by operating activities   | 37,535  | 111,152   | 37,535   | 111,152   |
| <b>Investing activities</b>   |   |           |  |           |
| Purchases of property and equipment   | (27,848)  | (46,768)  | (27,848)   | (46,768)  |
| Proceeds from sale of assets and business   |   | 62,600    |  | 62,600    |
| Investment in businesses  | (1,000)   | (623)     | (1,000)  | (623)     |
| Acquisition of businesses, net of cash acquired   | (2,686)   | (412,883) | (2,686)  | (412,883) |
| Net cash used in investing activities   | (31,534)  | (397,674) | (31,534)   | (397,674) |
| <b>Financing activities</b>   |   |           |  |           |
| Borrowings on revolving facilities  | 215,000   | 190,000   | 215,000  | 190,000   |
| Payments on revolving facilities  | (175,000)   | (175,000) | (175,000)  | (175,000) |

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|  |          |           |          |           |
|--|----------|-----------|----------|-----------|
| Payments on term loans   | (26,884) | (226,962) | (26,884) | (226,962) |
| Borrowings on Select term loans, net of discount and debt issuance costs |          | 600,127   |          | 600,127   |
| Borrowings of other debt   | 6,582    | 6,727     | 6,582    | 6,727     |
| Principal payments on other debt   | (4,584)  | (4,464)   | (4,584)  | (4,464)   |
| Dividends paid to common stockholders                                    | (13,129) |           |          |           |
| Dividends paid to Holdings   |          |           | (13,129) |           |
| Proceeds from issuance of common stock                                   | 489      | 21        |          |           |
| Equity investment by Holdings  |          |           | 489      | 21        |
| Repayments of bank overdrafts  | (2,821)  | (28,615)  | (2,821)  | (28,615)  |
| Tax benefit from stock based awards                                      | 5        | 16        | 5        |           |