

SELECT MEDICAL HOLDINGS CORP  
Form 10-Q  
August 08, 2013  
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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 June 30, 2013**

**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**

**SELECT MEDICAL HOLDINGS CORPORATION**

(Exact name of Registrant as specified in its charter)

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

**20-1764048**  
(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**

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has 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 Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the Registrant has 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 Registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the Registrant is a large accelerated filer, accelerated filer, non-accelerated filer, or smaller reporting company. 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 Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

As of July 31, 2013, the Company had outstanding 139,625,565 shares of common stock.

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, 2012	June 30, 2013	December 31, 2012	June 30, 2013
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 40,144	\$ 8,768	\$ 40,144	\$ 8,768
Accounts receivable, net of allowance for doubtful accounts of \$41,854 and \$43,066 at 2012 and 2013, respectively	359,929	427,191	359,929	427,191
Current deferred tax asset	17,877	14,850	17,877	14,850
Prepaid income taxes	3,895	12,219	3,895	12,219
Other current assets	31,818	38,077	31,818	38,077
<b>Total Current Assets</b>	<b>453,663</b>	<b>501,105</b>	<b>453,663</b>	<b>501,105</b>
Property and equipment, net	501,552	498,808	501,552	498,808
Goodwill	1,640,534	1,641,796	1,640,534	1,641,796
Other identifiable intangibles	71,745	71,713	71,745	71,713
Other assets	93,867	131,633	92,819	131,633
<b>Total Assets</b>	<b>\$ 2,761,361</b>	<b>\$ 2,845,055</b>	<b>\$ 2,760,313</b>	<b>\$ 2,845,055</b>
<b>LIABILITIES AND EQUITY</b>				
Current Liabilities:				
Bank overdrafts	\$ 17,836	\$ 19,461	\$ 17,836	\$ 19,461
Current portion of long-term debt and notes payable	11,646	13,230	11,646	13,230
Accounts payable	89,547	86,914	89,547	86,914
Accrued payroll	88,586	76,289	88,586	76,289
Accrued vacation	55,714	60,304	55,714	60,304
Accrued interest	22,016	9,057	18,759	9,057
Accrued other	102,040	94,127	107,280	94,127
Due to third party payors	1,078	6,295	1,078	6,295
<b>Total Current Liabilities</b>	<b>388,463</b>	<b>365,677</b>	<b>390,446</b>	<b>365,677</b>
Long-term debt, net of current portion	1,458,597	1,517,728	1,291,297	1,517,728
Non-current deferred tax liability	89,510	89,676	89,510	89,676
Other non-current liabilities	68,502	70,647	68,502	70,647

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Total Liabilities	2,005,072	2,043,728	1,839,755	2,043,728
Redeemable non-controlling interests	10,811	12,520	10,811	12,520
<b>Stockholders' Equity:</b>				
Common stock of Holdings, \$0.001 par value, 700,000,000 shares authorized, 140,589,256 shares and 139,625,565 shares issued and outstanding at 2012 and 2013, respectively	141	140		
Common stock of Select, \$0.01 par value, 100 shares issued and outstanding			0	0
Capital in excess of par	473,697	470,809	859,839	864,557
Retained earnings (accumulated deficit)	243,210	287,350	21,478	(106,258)
Total Select Medical Holdings Corporation and Select Medical Corporation Stockholders' Equity	717,048	758,299	881,317	758,299
Non-controlling interest	28,430	30,508	28,430	30,508
Total Equity	745,478	788,807	909,747	788,807
<b>Total Liabilities and Equity</b>	<b>\$ 2,761,361</b>	<b>\$ 2,845,055</b>	<b>\$ 2,760,313</b>	<b>\$ 2,845,055</b>

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 Three Months Ended June 30,		Select Medical Corporation For the Three Months Ended June 30,	
	2012	2013	2012	2013
Net operating revenues	\$ 750,193	\$ 756,673	\$ 750,193	\$ 756,673
Costs and expenses:				
Cost of services	612,669	625,730	612,669	625,730
General and administrative	18,554	17,927	18,554	17,927
Bad debt expense	10,029	8,846	10,029	8,846
Depreciation and amortization	15,428	15,907	15,428	15,907
Total costs and expenses	656,680	668,410	656,680	668,410
Income from operations	93,513	88,263	93,513	88,263
Other income and expense:				
Loss on early retirement of debt		(17,280)		(17,280)
Equity in earnings of unconsolidated subsidiaries	2,752	568	2,752	568
Interest expense	(23,798)	(21,904)	(20,957)	(21,904)
Income before income taxes	72,467	49,647	75,308	49,647
Income tax expense	27,651	19,769	28,646	19,769
Net income	44,816	29,878	46,662	29,878
Less: Net income attributable to non-controlling interests	1,644	2,098	1,644	2,098
Net income attributable to Select Medical Holdings Corporation and Select Medical Corporation	\$ 43,172	\$ 27,780	\$ 45,018	\$ 27,780
Income per common share:				
Basic	\$ 0.31	\$ 0.20		
Diluted	\$ 0.31	\$ 0.20		

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 Six Months Ended June 30,		Select Medical Corporation For the Six Months Ended June 30,	
	2012	2013	2012	2013
Net operating revenues	\$ 1,494,214	\$ 1,506,628	\$ 1,494,214	\$ 1,506,628
Costs and expenses:				
Cost of services	1,224,288	1,250,634	1,224,288	1,250,634
General and administrative	32,778	35,325	32,778	35,325
Bad debt expense	20,404	18,167	20,404	18,167
Depreciation and amortization	31,627	31,709	31,627	31,709
Total costs and expenses	1,309,097	1,335,835	1,309,097	1,335,835
Income from operations	185,117	170,793	185,117	170,793
Other income and expense:				
Loss on early retirement of debt		(18,747)		(17,788)
Equity in earnings of unconsolidated subsidiaries	5,217	1,626	5,217	1,626
Interest expense	(47,720)	(45,362)	(42,207)	(42,952)
Income before income taxes	142,614	108,310	148,127	111,679
Income tax expense	55,226	41,630	57,156	42,809
Net income	87,388	66,680	90,971	68,870
Less: Net income attributable to non-controlling interests	2,674	4,482	2,674	4,482
Net income attributable to Select Medical Holdings Corporation and Select Medical Corporation	\$ 84,714	\$ 62,198	\$ 88,297	\$ 64,388
Income per common share:				
Basic	\$ 0.60	\$ 0.44		
Diluted	\$ 0.59	\$ 0.44		

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

Table of Contents**Consolidated Statements of Changes in Equity and Income**

(unaudited)

(in thousands)

**Select Medical Holdings Corporation Stockholders**

	<b>Comprehensive Income</b>	<b>Total</b>	<b>Common Stock Issued</b>	<b>Common Stock Par Value</b>	<b>Capital in Excess of Par</b>	<b>Retained Earnings</b>	<b>Non-controlling Interests</b>
Balance at December 31, 2012		\$ 745,478	140,589	\$ 141	\$ 473,697	\$ 243,210	\$ 28,430
Net income	\$ 64,812	64,812				62,198	2,614
Net income - attributable to redeemable non-controlling interests	1,868						
Total comprehensive income	\$ 66,680						
Dividends paid to common stockholders		(13,963)				(13,963)	
Issuance and vesting of restricted stock		3,076	152	0	3,076		
Stock option expense		461			461		
Repurchase of common shares		(9,983)	(1,115)	(1)	(6,425)	(3,557)	
Acquisitions of non-controlling interests		261					261
Distributions to non-controlling interests		(797)					(797)
Redeemable non-controlling interests redemption value adjustment		(538)				(538)	
Balance at June 30, 2013		\$ 788,807	139,626	\$ 140	\$ 470,809	\$ 287,350	\$ 30,508

**Select Medical Corporation Stockholders**

	<b>Comprehensive Income</b>	<b>Total</b>	<b>Common Stock Issued</b>	<b>Common Stock Par Value</b>	<b>Capital in Excess of Par</b>	<b>Retained Earnings (accumulated deficit)</b>	<b>Non-controlling Interests</b>
Balance at December 31, 2012		\$ 909,747	0	\$ 0	\$ 859,839	\$ 21,478	\$ 28,430
Net income	\$ 67,002	67,002				64,388	2,614
Net income - attributable to redeemable non-controlling interests	1,868						
Total comprehensive income	\$ 68,870						
Federal tax benefit of losses contributed by Holdings		1,181			1,181		
Net change in dividends payable to Holdings		5,239				5,239	
Dividends declared and paid to Holdings		(196,825)				(196,825)	
Contribution related to restricted stock awards and stock option issuances by Holdings		3,537			3,537		
Acquisitions of non-controlling interests		261					261
Distributions to non-controlling interests		(797)					(797)
Redeemable non-controlling interests redemption value adjustment		(538)				(538)	
Balance at June 30, 2013		\$ 788,807	0	\$ 0	\$ 864,557	\$ (106,258)	\$ 30,508

*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 Six Months Ended June 30,		Select Medical Corporation For the Six Months Ended June 30,	
	2012	2013	2012	2013
<b>Operating activities</b>				
Net income	\$ 87,388	\$ 66,680	\$ 90,971	\$ 68,870
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	31,627	31,709	31,627	31,709
Provision for bad debts	20,404	18,167	20,404	18,167
Equity in earnings of unconsolidated subsidiaries	(5,217)	(1,626)	(5,217)	(1,626)
Loss on early retirement of debt		18,747		17,788
Loss (gain) from disposal or sale of assets	(3,604)	81	(3,604)	81
Non-cash stock compensation expense	2,599	3,537	2,599	3,537
Amortization of debt discount and issuance costs	3,511	4,588	3,325	4,499
Changes in operating assets and liabilities, net of effects from acquisition of businesses:				
Accounts receivable	(30,520)	(83,832)	(30,520)	(83,832)
Other current assets	(1,612)	(5,894)	(1,612)	(5,894)
Other assets	1,675	144	1,675	144
Accounts payable	(5,486)	(2,665)	(5,486)	(2,665)
Due to third-party payors	1,738	5,217	1,738	5,217
Accrued expenses	6,423	(28,203)	6,340	(24,945)
Income and deferred taxes	9,879	(4,627)	11,809	(3,448)
Net cash provided by operating activities	118,805	22,023	124,049	27,602
<b>Investing activities</b>				
Purchases of property and equipment	(27,934)	(27,962)	(27,934)	(27,962)
Proceeds from sale of assets	16,511		16,511	
Investment in businesses, net of distributions	(10,014)	(28,716)	(10,014)	(28,716)
Acquisition of businesses, net of cash acquired	(206)	(171)	(206)	(171)
Net cash used in investing activities	(21,643)	(56,849)	(21,643)	(56,849)
<b>Financing activities</b>				
Borrowings on revolving credit facility	340,000	455,000	340,000	455,000
Payments on revolving credit facility	(380,000)	(480,000)	(380,000)	(480,000)
Borrowings on credit facility term loans, net of discount		298,500		298,500
Payments on credit facility term loans	(4,250)	(592,615)	(4,250)	(592,615)
Issuance of 6.375% senior notes		600,000		600,000
Repurchase of senior floating rate notes		(167,300)		
Repurchase of 7 5/8% senior subordinated notes		(70,000)		(70,000)
Borrowings of other debt	5,835	6,909	5,835	6,909
Principal payments on other debt	(5,085)	(4,673)	(5,085)	(4,673)
Debt issuance costs		(18,583)		(18,583)
Dividends paid to common stockholders		(13,963)		

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Dividends paid to Holdings			(52,034)		(196,825)
Repurchase of common stock	(46,790)		(9,983)		
Proceeds from issuance of common stock	547				
Equity investment by Holdings			547		
Proceeds from bank overdrafts	3,739		1,625		3,739
Distributions to non-controlling interests	(1,681)		(1,467)		(1,681)
Net cash provided by (used in) financing activities	(87,685)		3,450		(92,929)
Net increase (decrease) in cash and cash equivalents	9,477		(31,376)		9,477
Cash and cash equivalents at beginning of period	12,043		40,144		12,043
Cash and cash equivalents at end of period	\$ 21,520	\$	8,768	\$	21,520
					\$ 8,768
<b>Supplemental Cash Flow Information</b>					
Cash paid for interest	\$ 32,378	\$	53,914	\$	27,136
Cash paid for taxes	\$ 45,344	\$	46,832	\$	45,344

*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**

The unaudited consolidated financial statements of Select Medical Holdings Corporation ( Holdings ) and Select Medical Corporation ( Select ) as of June 30, 2013 and for the three and six month periods ended June 30, 2012 and 2013 have been prepared in accordance with generally accepted accounting principles ( 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 and six months ended June 30, 2013 are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2013. 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.

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, 2012 contained in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2013.

**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.

**3. Intangible Assets**

The gross carrying amounts of the Company s indefinite-lived intangible assets consist of the following:

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	December 31, 2012		June 30, 2013
	(in thousands)		
Goodwill	\$ 1,640,534	\$	1,641,796
Trademarks	57,709		57,709
Certificates of need	11,914		11,921
Accreditations	2,122		2,083
Total	\$ 1,712,279	\$	1,713,509

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The Company's accreditations and trademarks have renewal terms. The costs to renew these intangibles are expensed as incurred. At June 30, 2013, the accreditations and trademarks have a weighted average time until next renewal of approximately 1.5 years and 7.0 years, respectively.

The changes in the carrying amount of goodwill for the Company's reportable segments for the six months ended June 30, 2013 are as follows:

	Specialty Hospitals	Outpatient Rehabilitation (in thousands)	Total
Balance as of December 31, 2012	\$ 1,333,220	\$ 307,314	\$ 1,640,534
Goodwill acquired during the period	1,395		1,395
Purchase price adjustment		(133)	(133)
Balance as of June 30, 2013	\$ 1,334,615	\$ 307,181	\$ 1,641,796

**4. Indebtedness**

The components of long-term debt and notes payable are as follows:

	December 31, 2012	Holdings (in thousands)	June 30, 2013
7 5/8% senior subordinated notes	\$ 70,000		\$ 600,000
6.375% senior notes			600,000
Senior secured credit facilities:			
Revolving loan	130,000		105,000
Term loans (1)	1,096,641		811,060
Senior floating rate notes	167,300		
Other	6,302		14,898
Total debt	1,470,243		1,530,958
Less: current maturities	11,646		13,230
Total long-term debt	\$ 1,458,597		\$ 1,517,728

	December 31, 2012	Select (in thousands)	June 30, 2013
7 5/8% senior subordinated notes	\$ 70,000		\$ 600,000
6.375% senior notes			600,000
Senior secured credit facilities:			
Revolving loan	130,000		105,000
Term loans (1)	1,096,641		811,060
Other	6,302		14,898
Total debt	1,302,943		1,530,958

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Less: current maturities		11,646		13,230
Total long-term debt	\$	1,291,297	\$	1,517,728

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(1) Presented net of unamortized discounts of \$14.2 million and \$7.2 million at December 31, 2012 and June 30, 2013, respectively.

On February 20, 2013, Select entered into an additional credit extension amendment to its senior secured credit facilities providing for a \$300.0 million additional term loan tranche, (the series B term loan ) to Select. Select used the borrowings under the series B term loan to redeem all of its outstanding 7 5/8% senior subordinated notes due 2015 on March 22, 2013, to finance Holdings' redemption of all of its senior floating rate notes due 2015 on March 22, 2013 and to repay a portion of the balance outstanding under Select's revolving credit facility.

The Company recognized a loss on early retirement of debt of \$1.5 million during the three months ended March 31, 2013 for unamortized debt issuance costs, approximately \$0.5 million associated with Select's 7 5/8% senior subordinated notes due 2015 and approximately \$1.0 million associated with Holdings' senior floating rate notes due 2015.

Borrowings under the series B term loan bear interest at a rate equal to Adjusted LIBO plus 3.25%, or Alternate Base Rate plus 2.25%. The series B term loan amortizes in equal quarterly installments on the last day of each March, June, September and December in aggregate annual amounts equal to \$3.0 million. The balance of the series B term loan is payable on February 20, 2016.

At the time of issuing the series B term loan, Select had additional term loan tranches outstanding including an \$850.0 million term loan tranche issued on June 1, 2011 (the original term loan ) and a \$275.0 million incremental term loan tranche issued August 13, 2012 (the series A term loan ). Both the original term loan and series A term loan tranches were issued at a discount and amortize in equal quarterly installments on the last day of each March, June, September and December. The balance of both the original term loan and series A term loan are payable on June 1, 2018.

On May 28, 2013, Select issued and sold \$600.0 million aggregate principal amount of its 6.375% senior notes due 2021. The senior notes are senior unsecured obligations of Select and are fully and unconditionally guaranteed by all of Select's wholly owned subsidiaries. On May 28, 2013, Select used the proceeds of the senior notes to pay a portion of the amounts outstanding on the original term loan and the series A term loan, and to pay related fees and expenses. Select recognized a loss on early retirement of debt of \$17.3 million in the three months ended June 30, 2013 in connection with the repayment of a portion of its term loans and amendment of the existing senior secured credit facility, which included the write-off of unamortized debt issuance costs.

Interest on the senior notes accrues at the rate of 6.375% per annum and is payable semi-annually in cash in arrears on June 1 and December 1 of each year, commencing on December 1, 2013. The senior notes are Select's senior unsecured obligations and rank equally in right of payment with all of its other existing and future senior unsecured indebtedness and senior in right of payment to all of its existing and future subordinated indebtedness. The senior notes are guaranteed, jointly and severally, by Select's direct or indirect existing and future domestic restricted subsidiaries other than certain non-guarantor subsidiaries.

Select may redeem some or all of the senior notes prior to June 1, 2016 by paying a make-whole premium. Select may redeem some or all of the senior notes on or after June 1, 2016 at specified redemption prices. In addition, prior to June 1, 2016, Select may redeem up to 35% of the senior notes with the net proceeds of certain equity offerings at a price of 106.375% plus accrued and unpaid interest, if any. Select is obligated to offer to repurchase the senior notes at a price of 101% of their principal amount plus accrued and



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unpaid interest, if any, as a result of certain change of control events. These restrictions and prohibitions are subject to certain qualifications and exceptions.

The Indenture relating to the senior notes contains covenants that, among other things, limit Select's ability and the ability of certain of its subsidiaries to (i) grant liens on its assets, (ii) make dividend payments, other distributions or other restricted payments, (iii) incur restrictions on the ability of Select's restricted subsidiaries to pay dividends or make other payments, (iv) enter into sale and leaseback transactions, (v) merge, consolidate, transfer or dispose of substantially all of their assets, (vi) incur additional indebtedness, (vii) make investments, (viii) sell assets, including capital stock of subsidiaries, (ix) use the proceeds from sales of assets, including capital stock of restricted subsidiaries, and (x) enter into transactions with affiliates. In addition, the Indenture requires, among other things, Select to provide financial and current reports to holders of the senior notes or file such reports electronically with the U.S. Securities and Exchange Commission (the "SEC"). These covenants are subject to a number of exceptions, limitations and qualifications set forth in the Indenture.

In connection with the issuance of the senior notes, Select entered into a registration rights agreement on May 28, 2013 with certain guarantors of the notes named therein and J.P. Morgan Securities LLC, on behalf of itself and the other initial purchasers named therein (the "Registration Rights Agreement"). Pursuant to the Registration Rights Agreement, Select has agreed to file an exchange offer registration statement to exchange the senior notes for substantially identical notes registered under the Securities Act unless the exchange offer is not permitted by applicable law or the policy of the SEC. Select has also agreed to file a shelf registration statement to cover resales of notes under certain circumstances. Select has agreed to file the exchange offer registration statement with the SEC within 150 days of the issue date of the senior notes and use commercially reasonable efforts to have the exchange offer registration statement declared effective within 240 days of the issue date and to complete the exchange offer with respect to the senior notes within 30 days of effectiveness. In addition, Select agreed to use commercially reasonable efforts to file the shelf registration statement on or prior to the later of (i) 120 days after a filing obligation arises and (ii) 270 days after the issue date, and to use commercially reasonable efforts to cause such shelf registration statement to be declared effective by the SEC on or prior to 210 days after such filing. If Select fails to satisfy its registration obligations under the Registration Rights Agreement, it will be required to pay additional interest to the holders of the senior notes under certain circumstances.

On June 3, 2013, Select amended its existing senior secured credit facilities in order to:

- extend the maturity date on \$293.3 million of its \$300.0 million revolving credit facility from June 1, 2016 to March 1, 2018;
- convert the remaining original term loan and series A term loan to a series C term loan and lower the interest rate payable on the series C term loan from Adjusted LIBO plus 3.75%, or Alternate Base Rate plus 2.75%, to Adjusted LIBO plus 3.00%, or Alternate Base Rate plus 2.00%, and amend the provision of the series C term loan from providing that Adjusted LIBO will at no time be less than 1.75% to providing that Adjusted LIBO will at no time be less than 1.00%; and
- amend the restrictive covenants governing the senior secured credit facilities in order to allow for unlimited restricted payments so long as there is no event of default under the senior secured credit facilities and the total pro forma ratio of total indebtedness to Consolidated EBITDA (as defined in our senior secured credit facilities) is less than or equal to 2.75 to 1.00.

Table of Contents***Maturities of Long-Term Debt and Notes Payable***

Maturities of the Company's long-term debt for the period from July 1, 2013 through December 31, 2013 and the years after 2013 are approximately as follows and are presented net of the discounts on the senior secured credit facility term loans (in thousands):

July 1, 2013	December 31, 2013	\$	8,252
2014			9,742
2015			10,536
2016			296,134
2017			4,075
2018 and beyond			1,202,219

**5. Fair Value**

Financial instruments include cash and cash equivalents, notes payable and long-term debt. The carrying amount of cash and cash equivalents approximates fair value because of the short-term maturity of these instruments.

The carrying value of Select's senior secured credit facility was \$1,226.6 million and \$916.1 million at December 31, 2012 and June 30, 2013, respectively. The fair value of Select's senior secured credit facility was \$1,216.2 million and \$907.8 million at December 31, 2012 and June 30, 2013, respectively. The fair value of Select's senior secured credit facility was based on quoted market prices for this debt in the syndicated loan market.

The carrying value of Select's 6.375% senior notes was \$600.0 million at June 30, 2013. The fair value of Select's 6.375% senior notes was \$570.0 million June 30, 2013. The fair value of this debt was based on quoted market prices.

The Company considers the inputs in the valuation process of its senior secured credit facility and 6.375% senior notes to be Level 2 in the fair value hierarchy. 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.

**6. Segment Information**

The Company's reportable segments consist of (i) specialty hospitals and (ii) outpatient rehabilitation. Other activities include the Company's corporate services and certain other non-consolidating joint ventures and minority investments in other healthcare related businesses. The outpatient rehabilitation reportable segment has two operating segments: outpatient rehabilitation clinics and contract therapy. These operating segments are aggregated for reporting purposes as they have common economic characteristics and provide a similar service to a similar patient base. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company

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evaluates performance of the segments based on Adjusted EBITDA. Adjusted EBITDA is defined as net income before interest, income taxes, depreciation and amortization, gain (loss) on early retirement of debt, stock compensation expense, equity in earnings (losses) of unconsolidated subsidiaries and other income (expense).

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

	Specialty Hospitals	Three Months Ended June 30, 2012		Total
		Outpatient Rehabilitation	Other	
(in thousands)				
Net operating revenues	\$ 557,130	\$ 193,050	\$ 13	\$ 750,193
Adjusted EBITDA	102,166	25,837	(17,724)	110,279
Total assets:				
Select Medical Corporation	2,184,743	437,591	156,080	2,778,414
Select Medical Holdings Corporation	2,184,743	437,591	157,303	2,779,637
Capital expenditures	12,631	2,922	630	16,183

	Specialty Hospitals	Three Months Ended June 30, 2013		Total
		Outpatient Rehabilitation	Other	
(in thousands)				
Net operating revenues	\$ 559,386	\$ 197,080	\$ 207	\$ 756,673
Adjusted EBITDA	96,393	26,054	(16,489)	105,958
Total assets:				
Select Medical Corporation	2,229,458	445,411	170,186	2,845,055
Select Medical Holdings Corporation	2,229,458	445,411	170,186	2,845,055
Capital expenditures	10,203	2,999	761	13,963

	Specialty Hospitals	Six Months Ended June 30, 2012		Total
		Outpatient Rehabilitation	Other	
(in thousands)				
Net operating revenues	\$ 1,110,168	\$ 383,949	\$ 97	\$ 1,494,214
Adjusted EBITDA	202,120	48,315	(31,092)	219,343
Total assets:				
Select Medical Corporation	2,184,743	437,591	156,080	2,778,414
Select Medical Holdings Corporation	2,184,743	437,591	157,303	2,779,637
Capital expenditures	19,682	6,713	1,539	27,934

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	Six Months Ended June 30, 2013				Total
	Specialty Hospitals	Outpatient Rehabilitation (in thousands)	Other		
Net operating revenues	\$ 1,117,137	\$ 389,181	\$ 310	\$ 1,506,628	
Adjusted EBITDA	189,740	48,887	(32,588)	206,039	
Total assets:					
Select Medical Corporation	2,229,458	445,411	170,186	2,845,055	
Select Medical Holdings Corporation	2,229,458	445,411	170,186	2,845,055	
Capital expenditures	21,100	5,844	1,018	27,962	

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

	Three Months Ended June 30, 2012				Select Medical Holdings Corporation	Select Medical Corporation
	Specialty Hospitals	Outpatient Rehabilitation (in thousands)	Other			
Adjusted EBITDA	\$ 102,166	\$ 25,837	\$ (17,724)	\$ 93,513	\$ 93,513	
Depreciation and amortization	(11,479)	(3,232)	(717)			
Stock compensation expense			(1,338)			
Income (loss) from operations	\$ 90,687	\$ 22,605	\$ (19,779)	\$ 93,513	\$ 93,513	
Equity in earnings of unconsolidated subsidiaries				2,752	2,752	
Interest expense				(23,798)	(20,957)	
Income before income taxes				\$ 72,467	\$ 75,308	

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	Three Months Ended June 30, 2013				
	Specialty Hospitals	Outpatient Rehabilitation (in thousands)	Other	Select Medical Holdings Corporation	Select Medical Corporation
Adjusted EBITDA	\$ 96,393	\$ 26,054	\$ (16,489)		
Depreciation and amortization	(11,932)	(3,001)	(974)		
Stock compensation expense			(1,788)		
Income (loss) from operations	\$ 84,461	\$ 23,053	\$ (19,251)	\$ 88,263	\$ 88,263
Equity in earnings of unconsolidated subsidiaries				568	568
Loss on early retirement of debt				(17,280)	(17,280)
Interest expense				(21,904)	(21,904)
Income before income taxes				\$ 49,647	\$ 49,647

	Six Months Ended June 30, 2012				
	Specialty Hospitals	Outpatient Rehabilitation (in thousands)	Other		
Adjusted EBITDA	\$ 202,120	\$ 48,315	\$ (31,092)		
Depreciation and amortization	(23,322)	(6,882)	(1,423)		
Stock compensation expense					