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SELECT MEDICAL HOLDINGS CORP

Form 10-Q

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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, 2019

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Trading Symbol(s) Name of each exchange on which registered

Common Stock, par value \$0.001 per share SEM New York Stock Exchange (NYSE)

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 every Interactive Data File required to be submitted 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 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

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

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 April 30, 2019, Select Medical Holdings Corporation had outstanding 135,416,312 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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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, 2018	March 31, 2019	December 31, 2018	March 31, 2019
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 175,178	\$ 147,815	\$ 175,178	\$ 147,815
Accounts receivable	706,676	779,861	706,676	779,861
Prepaid income taxes	20,539	7,709	20,539	7,709
Other current assets	90,131	117,500	90,131	117,500
Total Current Assets	992,524	1,052,885	992,524	1,052,885
Operating lease right-of-use assets	—	982,616	—	982,616
Property and equipment, net	979,810	972,807	979,810	972,807
Goodwill	3,320,726	3,323,749	3,320,726	3,323,749
Identifiable intangible assets, net	437,693	426,428	437,693	426,428
Other assets	233,512	263,007	233,512	263,007
Total Assets	\$ 5,964,265	\$ 7,021,492	\$ 5,964,265	\$ 7,021,492
LIABILITIES AND EQUITY				
Current Liabilities:				
Overdrafts	\$ 25,083	\$ 31,133	\$ 25,083	\$ 31,133
Current operating lease liabilities	—	205,145	—	205,145
Current portion of long-term debt and notes payable	43,865	12,329	43,865	12,329
Accounts payable	146,693	140,581	146,693	140,581
Accrued payroll	172,386	142,289	172,386	142,289
Accrued vacation	110,660	116,675	110,660	116,675
Accrued interest	12,137	22,593	12,137	22,593
Accrued other	190,691	205,535	190,691	205,535
Income taxes payable	3,671	8,657	3,671	8,657
Total Current Liabilities	705,186	884,937	705,186	884,937
Non-current operating lease liabilities	—	820,007	—	820,007
Long-term debt, net of current portion	3,249,516	3,299,103	3,249,516	3,299,103
Non-current deferred tax liability	153,895	153,863	153,895	153,863
Other non-current liabilities	158,940	105,791	158,940	105,791
Total Liabilities	4,267,537	5,263,701	4,267,537	5,263,701
Commitments and contingencies (Note 12)				
Redeemable non-controlling interests	780,488	833,241	780,488	833,241
Stockholders' Equity:				
Common stock of Holdings, \$0.001 par value, 700,000,000 shares authorized, 135,265,864 and 135,262,866 shares issued and outstanding at 2018 and 2019, respectively	135	135	—	—
Common stock of Select, \$0.01 par value, 100 shares issued and outstanding	—	—	0	0
Capital in excess of par	482,556	488,303	970,156	975,903
Retained earnings (accumulated deficit)	320,351	313,593	(167,114)	(173,872)
Total Select Medical Holdings Corporation and Select Medical Corporation Stockholders' Equity	803,042	802,031	803,042	802,031
Non-controlling interests	113,198	122,519	113,198	122,519

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Total Equity	916,240	924,550	916,240	924,550
Total Liabilities and Equity	\$ 5,964,265	\$ 7,021,492	\$ 5,964,265	\$ 7,021,492

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 Three Months Ended March 31,		For the Three Months Ended March 31,	
	2018	2019	2018	2019
Net operating revenues	\$ 1,252,964	\$ 1,324,631	\$ 1,252,964	\$ 1,324,631
Costs and expenses:				
Cost of services, exclusive of depreciation and amortization	1,065,813	1,132,092	1,065,813	1,132,092
General and administrative	31,782	28,677	31,782	28,677
Depreciation and amortization	46,771	52,138	46,771	52,138
Total costs and expenses	1,144,366	1,212,907	1,144,366	1,212,907
Income from operations	108,598	111,724	108,598	111,724
Other income and expense:				
Loss on early retirement of debt	(10,255	) —	(10,255) —
Equity in earnings of unconsolidated subsidiaries	4,697	4,366	4,697	4,366
Non-operating gain	399	6,532	399	6,532
Interest expense	(47,163	) (50,811	) (47,163	) (50,811
Income before income taxes	56,276	71,811	56,276	71,811
Income tax expense	12,294	18,467	12,294	18,467
Net income	43,982	53,344	43,982	53,344
Less: Net income attributable to non-controlling interests	10,243	12,510	10,243	12,510
Net income attributable to Select Medical Holdings Corporation and Select Medical Corporation	\$ 33,739	\$ 40,834	\$ 33,739	\$ 40,834
Earnings per common share (Note 11):				
Basic	\$ 0.25	\$ 0.30		
Diluted	\$ 0.25	\$ 0.30		

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)

For the Three Months Ended March 31, 2019**Select Medical Holdings Corporation Stockholders**

	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, 2018	135,266	\$ 135	\$482,556	\$320,351	\$ 803,042	\$ 113,198	\$916,240
Net income attributable to Select Medical Holdings Corporation				40,834	40,834		40,834
Net income attributable to non-controlling interests						4,810	4,810
Issuance of restricted stock	21	0	0				
Forfeitures of unvested restricted stock	(24	) 0	0				
Vesting of restricted stock			5,488		5,488		5,488
Issuance of non-controlling interests						6,837	6,837
Distributions to and purchases of non-controlling interests			259		259	(2,739	) (2,480)
Redemption adjustment on non-controlling interests				(47,470)	(47,470)		(47,470)
Other				(122)	(122)	413	291
Balance at March 31, 2019	135,263	\$ 135	\$488,303	\$313,593	\$ 802,031	\$ 122,519	\$924,550

For the Three Months Ended March 31, 2018**Select Medical Holdings Corporation Stockholders**

	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	134,115	\$ 134	\$463,499	\$359,735	\$ 823,368	\$ 109,236	\$932,604
Net income attributable to Select Medical Holdings Corporation				33,739	33,739		33,739
Net income attributable to non-controlling interests						4,500	4,500
Issuance of restricted stock	4	0	0				
Forfeitures of unvested restricted stock	(88	) 0	0				
Vesting of restricted stock			4,717		4,717		4,717
Repurchase of common shares	(7	) 0	(69	) (53	) (122	)	(122)
Exercise of stock options	80	0	738		738		738
Issuance and exchange of non-controlling interests				74,341	74,341		74,341
Distributions to non-controlling interests				(83,233)	(83,233)	(1,094	) (84,327)
Redemption adjustment on non-controlling interests				(1,051)	(1,051)		(1,051)
Other				103	103	35	138
Balance at March 31, 2018	134,104	\$ 134	\$468,885	\$383,581	\$ 852,600	\$ 112,677	\$965,277

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

Table of Contents**Condensed Consolidated Statements of Changes in Equity and Income (Continued)**

(unaudited)

(in thousands)

For the Three Months Ended March 31, 2019**Select Medical Corporation Stockholders**

	Common Stock Issued	Value	Capital in Excess of Par	Accumulated Deficit	Total Stockholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2018	0	\$ 0	\$970,156	\$(167,114)	\$ 803,042	\$ 113,198	\$916,240
Net income attributable to Select Medical Corporation				40,834	40,834		40,834
Net income attributable to non-controlling interests					—	4,810	4,810
Contribution related to restricted stock award issuances by Holdings			5,488		5,488		5,488
Issuance of non-controlling interests					—	6,837	6,837
Distributions to and purchases of non-controlling interests			259		259	(2,739)	(2,480)
Redemption adjustment on non-controlling interests				(47,470)	(47,470)		(47,470)
Other				(122)	(122)	413	291
Balance at March 31, 2019	0	\$ 0	\$975,903	\$(173,872)	\$ 802,031	\$ 122,519	\$924,550

For the Three Months Ended March 31, 2018**Select Medical Corporation Stockholders**

	Common Stock Issued	Value	Capital in Excess of Par	Accumulated Deficit	Total Stockholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2017	0	\$ 0	\$947,370	\$(124,002)	\$ 823,368	\$ 109,236	\$932,604
Net income attributable to Select Medical Corporation				33,739	33,739		33,739
Net income attributable to non-controlling interests					—	4,500	4,500
Additional investment by Holdings			738		738		738
Dividends declared and paid to Holdings				(122)	(122)		(122)
Contribution related to restricted stock award issuances by Holdings			4,717		4,717		4,717
Issuance and exchange of non-controlling interests				74,341	74,341		74,341
Distributions to non-controlling interests				(83,233)	(83,233)	(1,094)	(84,327)
Redemption adjustment on non-controlling interests				(1,051)	(1,051)		(1,051)
Other				103	103	35	138
Balance at March 31, 2018	0	\$ 0	\$952,825	\$(100,225)	\$ 852,600	\$ 112,677	\$965,277

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

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Condensed Consolidated Statements of Cash Flows
(unaudited)
(in thousands)

	Select Medical Holdings Corporation		Select Medical Corporation	
	For the Three Months Ended March 31,		For the Three Months Ended March 31,	
	2018	2019	2018	2019
Operating activities				
Net income	\$ 43,982	\$ 53,344	\$ 43,982	\$ 53,344
Adjustments to reconcile net income to net cash provided by operating activities:				
Distributions from unconsolidated subsidiaries	1,364	7,872	1,364	7,872
Depreciation and amortization	46,771	52,138	46,771	52,138
Provision for bad debts	85	1,567	85	1,567
Equity in earnings of unconsolidated subsidiaries	(4,697)	(4,366)	(4,697)	(4,366)