

SELECT MEDICAL HOLDINGS CORP
Form 10-Q
October 31, 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 September 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 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 Registrant, Select Medical Holdings Corporation (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 such 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, Select Medical Corporation (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 such 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 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

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As of October 15, 2013, Select Medical Holdings Corporation had outstanding 139,546,090 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)**

ASSETS								
Cash and cash equivalents	\$	40,144	\$	9,293	\$	40,144	\$	9,293
Current deferred tax asset		17,877		15,372		17,877		15,372
Other current assets		31,818		39,968		31,818		39,968
Goodwill		1,640,534		1,641,836		1,640,534		1,641,836
Other assets		93,867		137,215		92,819		137,215
Total Assets	\$	2,761,361	\$	2,842,424	\$	2,760,313	\$	2,842,424
LIABILITIES AND EQUITY								
Bank overdrafts	\$	17,836	\$	7,435	\$	17,836	\$	7,435
Accounts payable		89,547		96,360		89,547		96,360
Accrued vacation		55,714		57,328		55,714		57,328
Accrued other		102,040		102,925		107,280		102,925
Total Current Liabilities		388,463		385,290		390,446		385,290
Long-term debt, net of current portion		1,458,597		1,474,915		1,291,297		1,474,915
Other non-current liabilities		68,502		80,077		68,502		80,077
Total Liabilities		2,005,072		2,031,141		1,839,755		2,031,141
Redeemable non-controlling interests		10,811		11,623		10,811		11,623

Stockholders' Equity:

Common stock of Select, \$0.01 par value, 100 shares issued and outstanding			0	0
Retained earnings (accumulated deficit)	243,210	296,196	21,478	(98,007)
Non-controlling interest	28,430	31,244	28,430	31,244

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 September 30,		Select Medical Corporation For the Three Months Ended September 30,	
	2012	2013	2012	2013
Net operating revenues	\$ 713,669	\$ 722,845	\$ 713,669	\$ 722,845
Costs and expenses:				
Cost of services	598,984	617,281	598,984	617,281
General and administrative	17,130	17,740	17,130	17,740
Bad debt expense	11,199	9,262	11,199	9,262
Depreciation and amortization	15,537	16,163	15,537	16,163
Total costs and expenses	642,850	660,446	642,850	660,446
Income from operations	70,819	62,399	70,819	62,399
Other income and expense:				
Loss on early retirement of debt	(6,064)		(6,064)	
Equity in earnings (losses) of unconsolidated subsidiaries	1,167	(179)	1,167	(179)
Interest expense	(24,575)	(21,252)	(21,740)	(21,252)
Income before income taxes	41,347	40,968	44,182	40,968
Income tax expense	16,189	15,761	17,181	15,761
Net income	25,158	25,207	27,001	25,207
Less: Net income attributable to non-controlling interests	1,048	1,935	1,048	1,935
Net income attributable to Select Medical Holdings Corporation and Select Medical Corporation	\$ 24,110	\$ 23,272	\$ 25,953	\$ 23,272
Income per common share:				
Basic	\$ 0.17	\$ 0.17		
Diluted	\$ 0.17	\$ 0.17		

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 Nine Months Ended September 30,		Select Medical Corporation For the Nine Months Ended September 30,	
	2012	2013	2012	2013
Net operating revenues	\$ 2,207,883	\$ 2,229,473	\$ 2,207,883	\$ 2,229,473
Costs and expenses:				
Cost of services	1,823,272	1,867,915	1,823,272	1,867,915
General and administrative	49,908	53,065	49,908	53,065
Bad debt expense	31,603	27,429	31,603	27,429
Depreciation and amortization	47,164	47,872	47,164	47,872
Total costs and expenses	1,951,947	1,996,281	1,951,947	1,996,281
Income from operations	255,936	233,192	255,936	233,192
Other income and expense:				
Loss on early retirement of debt	(6,064)	(18,747)	(6,064)	(17,788)
Equity in earnings of unconsolidated subsidiaries	6,384	1,447	6,384	1,447
Interest expense	(72,295)	(66,614)	(63,947)	(64,204)
Income before income taxes	183,961	149,278	192,309	152,647
Income tax expense	71,415	57,391	74,337	58,570
Net income	112,546	91,887	117,972	94,077
Less: Net income attributable to non-controlling interests	3,722	6,417	3,722	6,417
Net income attributable to Select Medical Holdings Corporation and Select Medical Corporation	\$ 108,824	\$ 85,470	\$ 114,250	\$ 87,660
Income per common share:				
Basic	\$ 0.77	\$ 0.61		
Diluted	\$ 0.77	\$ 0.61		

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						
	Comprehensive Income	Total	Common Stock Issued	Common Stock Par Value	Capital in Excess of Par	Retained Earnings	Non-controlling Interests
Balance at December 31, 2012		\$ 745,478	140,589	\$ 141	\$ 473,697	\$ 243,210	\$ 28,430
Net income	\$ 89,588	89,588				85,470	4,118
Net income - attributable to redeemable non-controlling interests	2,299						
Total comprehensive income	\$ 91,887						
Dividends paid to common stockholders		(27,929)				(27,929)	
Issuance and vesting of restricted stock		4,695	72	0	4,695		
Stock option expense		708			708		
Repurchase of common shares		(10,946)	(1,115)	(1)	(7,020)	(3,925)	
Acquisitions of non-controlling interests		261					261
Distributions to non-controlling interests		(1,565)					(1,565)
Redeemable non-controlling interests redemption value adjustment		(630)				(630)	
Balance at September 30, 2013		\$ 799,660	139,546	\$ 140	\$ 472,080	\$ 296,196	\$ 31,244

	Select Medical Corporation Stockholders						
	Comprehensive Income	Total	Common Stock Issued	Common Stock Par Value	Capital in Excess of Par	Retained Earnings (accumulated deficit)	Non-controlling Interests
Balance at December 31, 2012		\$ 909,747	0	\$ 0	\$ 859,839	\$ 21,478	\$ 28,430
Net income	\$ 91,778	91,778				87,660	4,118
Net income - attributable to redeemable non-controlling interests	2,299						
Total comprehensive income	\$ 94,077						
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		(211,754)				(211,754)	
Contribution related to restricted stock awards and stock option issuances by Holdings		5,403			5,403		
Acquisitions of non-controlling interests		261					261
Distributions to non-controlling interests		(1,565)					(1,565)
Redeemable non-controlling interests redemption value adjustment		(630)				(630)	

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Balance at September 30, 2013	\$ 799,660	0	\$ 0	\$ 866,423	\$ (98,007)	\$ 31,244
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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 Nine Months Ended September 30,		Select Medical Corporation For the Nine Months Ended September 30,	
	2012	2013	2012	2013
Operating activities				
Net income	\$ 112,546	\$ 91,887	\$ 117,972	\$ 94,077
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	47,164	47,872	47,164	47,872
Provision for bad debts	31,603	27,429	31,603	27,429
Equity in earnings of unconsolidated subsidiaries	(6,384)	(1,447)	(6,384)	(1,447)
Loss on early retirement of debt	6,064	18,747	6,064	17,788
Gain from disposal or sale of assets	(3,484)	(93)	(3,484)	(93)
Non-cash stock compensation expense	3,990	5,403	3,990	5,403
Amortization of debt discount and issuance costs	5,494	6,507	5,215	6,418
Changes in operating assets and liabilities, net of effects from acquisition of businesses:				
Accounts receivable	(10,507)	(89,237)	(10,507)	(89,237)
Other current assets	(1,849)	(7,642)	(1,849)	(7,642)
Other assets	1,270	(3,211)	1,270	(3,211)
Accounts payable	(4,098)	6,798	(4,098)	6,798
Due to third-party payors	360	2,890	360	2,890
Accrued expenses	348	4,788	2,956	8,046
Income and deferred taxes	11,559	4,414	14,481	5,593
Net cash provided by operating activities	194,076	115,105	204,753	120,684
Investing activities				
Purchases of property and equipment	(45,188)	(45,331)	(45,188)	(45,331)
Proceeds from sale of assets	16,511	518	16,511	518
Investment in businesses, net of distributions	(9,899)	(32,430)	(9,899)	(32,430)
Acquisition of businesses, net of cash acquired	(1,547)	(848)	(1,547)	(848)
Net cash used in investing activities	(40,123)	(78,091)	(40,123)	(78,091)
Financing activities				
Borrowings on revolving credit facility	365,000	580,000	365,000	580,000
Payments on revolving credit facility	(405,000)	(645,000)	(405,000)	(645,000)
Borrowings on credit facility term loans, net of discount	266,750	298,500	266,750	298,500
Payments on credit facility term loans	(7,063)	(594,668)	(7,063)	(594,668)
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	(278,495)	(70,000)	(278,495)	(70,000)

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Borrowings of other debt	5,835	9,238	5,835	9,238
Principal payments on other debt	(7,417)	(7,467)	(7,417)	(7,467)
Debt issuance costs	(4,236)	(18,820)	(4,236)	(18,820)
Dividends paid to common stockholders		(27,929)		
Dividends paid to Holdings			(57,467)	(211,754)
Repurchase of common stock	(46,790)	(10,946)		
Proceeds from issuance of common stock	1,104			
Equity investment by Holdings			1,104	
Repayment of bank overdrafts	(3,011)	(10,401)	(3,011)	(10,401)
Distributions to non-controlling interests	(2,997)	(3,072)	(2,997)	(3,072)
Net cash used in financing activities	(116,320)	(67,865)	(126,997)	(73,444)
Net increase (decrease) in cash and cash equivalents	37,633	(30,851)	37,633	(30,851)
Cash and cash equivalents at beginning of period	12,043	40,144	12,043	40,144
Cash and cash equivalents at end of period	\$ 49,676	\$ 9,293	\$ 49,676	\$ 9,293
Supplemental Cash Flow Information				
Cash paid for interest	\$ 68,122	\$ 60,439	\$ 57,448	\$ 54,860
Cash paid for taxes	\$ 59,850	\$ 52,977	\$ 59,850	\$ 52,977

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 September 30, 2013 and for the three and nine month periods ended September 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 nine months ended September 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, September 30,
2012 2013
(in thousands)

Goodwill	\$	1,640,534	\$	1,641,836
Trademarks		57,709		57,709
Certificates of need		11,914		12,039
Accreditations		2,122		2,083
Total	\$	1,712,279	\$	1,713,667

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The Company's accreditations and trademarks have renewal terms. The costs to renew these intangibles are expensed as incurred. At September 30, 2013, the accreditations and trademarks have a weighted average time until next renewal of approximately 1.5 years and 6.7 years, respectively.

The changes in the carrying amount of goodwill for the Company's reportable segments for the nine months ended September 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	40	1,435
Purchase price adjustment		(133)	(133)
Balance as of September 30, 2013	\$ 1,334,615	\$ 307,221	\$ 1,641,836

4. Indebtedness

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

	Select Medical Holdings Corporation December 31, 2012	September 30, 2013
	(in thousands)	
7 5/8% senior subordinated notes	\$ 70,000	\$ 600,000
6.375% senior notes		600,000
Senior secured credit facilities:		
Revolving loan	130,000	65,000
Term loans (1)	1,096,641	809,438
Senior floating rate notes	167,300	
Other	6,302	14,443
Total debt	1,470,243	1,488,881
Less: current maturities	11,646	13,966
Total long-term debt	\$ 1,458,597	\$ 1,474,915

	Select Medical Corporation December 31, 2012	September 30, 2013
	(in thousands)	
7 5/8% senior subordinated notes	\$ 70,000	\$ 600,000
6.375% senior notes		600,000
Senior secured credit facilities:		
Revolving loan	130,000	65,000
Term loans (1)	1,096,641	809,438

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Other	6,302	14,443
Total debt	1,302,943	1,488,881
Less: current maturities	11,646	13,966
Total long-term debt	\$ 1,291,297	\$ 1,474,915

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(1) Presented net of unamortized discounts of \$14.2 million and \$6.8 million at December 31, 2012 and September 30, 2013, respectively.

On February 20, 2013, Select entered into a 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, of which approximately \$0.5 million was associated with Select's 7 5/8% senior subordinated notes due 2015 and approximately \$1.0 million was 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 amortized 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 was 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. On May 28, 2013, Select used the proceeds of the senior notes to pay a portion of the amounts then 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 unconditionally guaranteed by all of Select's wholly-owned subsidiaries. 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 unpaid interest, if any, as a result of certain change of control events. These restrictions and prohibitions are subject to certain qualifications and exceptions.

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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.

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.

Maturities of Long-Term Debt and Notes Payable

Maturities of the Company's long-term debt for the period from October 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):

October 1, 2013	December 31, 2013	\$	4,869
2014			11,497
2015			10,086
2016			296,134
2017			4,075
2018 and beyond			1,162,220

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 \$874.4 million at December 31, 2012 and September 30, 2013, respectively. The fair value of Select's senior secured credit facility was \$1,216.2 million and \$867.9 million at December 31, 2012 and September 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.

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The carrying value of Select's 6.375% senior notes was \$600.0 million at September 30, 2013. The fair value of Select's 6.375% senior notes was \$570.0 million at September 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 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).

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 September 30, 2012			Total
		Outpatient Rehabilitation	Other	(in thousands)	
Net operating revenues	\$ 531,409	\$ 182,246	\$ 14	\$ 713,669	
Adjusted EBITDA	83,659	20,354	(16,266)	87,747	
Total assets:					
Select Medical Corporation	2,165,248	431,310	184,120	2,780,678	
Select Medical Holdings Corporation	2,165,248	431,310	185,250	2,781,808	
Capital expenditures	12,281	3,073	1,900	17,254	

	Specialty Hospitals	Three Months Ended September 30, 2013			Total
		Outpatient Rehabilitation	Other	(in thousands)	
Net operating revenues	\$ 532,610	\$ 190,223	\$ 12	\$ 722,845	
Adjusted EBITDA	75,280	21,619	(16,471)	80,428	
Total assets:					
Select Medical Corporation	2,232,756	445,729	163,939	2,842,424	
Select Medical Holdings Corporation	2,232,756	445,729	163,939	2,842,424	
Capital expenditures	14,157	2,802	410	17,369	

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	Nine Months Ended September 30, 2012				Total
	Specialty Hospitals	Outpatient Rehabilitation (in thousands)	Other		
Net operating revenues	\$ 1,641,577	\$ 566,195	\$ 111	\$ 2,207,883	
Adjusted EBITDA	285,779	68,669	(47,358)	307,090	
Total assets:					
Select Medical Corporation	2,165,248	431,310	184,120	2,780,678	
Select Medical Holdings Corporation	2,165,248	431,310	185,250	2,781,808	
Capital expenditures	31,963	9,786	3,439	45,188	

	Nine Months Ended September 30, 2013				Total
	Specialty Hospitals	Outpatient Rehabilitation (in thousands)	Other		
Net operating revenues	\$ 1,649,747	\$ 579,404	\$ 322	\$ 2,229,473	
Adjusted EBITDA	265,020	70,506	(49,059)	286,467	
Total assets:					
Select Medical Corporation	2,232,756	445,729	163,939	2,842,424	
Select Medical Holdings Corporation	2,232,756	445,729	163,939	2,842,424	
Capital expenditures	35,257	8,646	1,428	45,331	

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

	Three Months Ended September 30, 2012					Select Medical Corporation	Select Medical Corporation
	Specialty Hospitals	Outpatient Rehabilitation (in thousands)	Other				
Adjusted EBITDA	\$ 83,659	\$ 20,354	\$ (16,266)				
Depreciation and amortization	(11,553)	(3,152)	(832)				
Stock compensation expense			(1,391)				
Income (loss) from operations	\$ 72,106	\$ 17,202	\$ (18,489)	\$ 70,819	\$ 70,819		
Loss on early retirement of debt				(6,064)	(6,064)		
Equity in earnings of unconsolidated subsidiaries				1,167	1,167		
Interest expense				(24,575)	(21,740)		
Income before income taxes				\$ 41,347	\$ 44,182		

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Three Months Ended September 30, 2013

	Specialty Hospitals	Outpatient Rehabilitation (in thousands)	Other	Select Medical Holdings Corporation	Select Medical Corporation
Adjusted EBITDA	\$ 75,280	\$ 21,619	\$ (16,471)		
Depreciation and amortization	(12,267)	(2,979)	(917)		
Stock compensation expense			(1,866)		
Income (loss) from operations	\$ 63,013	\$ 18,640	\$ (19,254)	\$ 62,399	\$ 62,399
Equity in losses of unconsolidated subsidiaries				(179)	(179)
Interest expense				(21,252)	(21,252)
Income before income taxes				\$ 40,968	\$ 40,968

Adjusted EBITDA	\$ 285,779	\$ 68,669	\$ (47,358)		
Depreciation and amortization	(34,875)	(10,034)	(2,255)		
Stock compensation expense			(3,990)		
Income (loss) from operations	\$ 250,904	\$ 58,635	\$ (53,603)	\$ 255,936	\$ 255,936
Loss on early retirement of debt				(6,064)	(6,064)
Equity in earnings of unconsolidated subsidiaries				6,384	6,384
Interest expense				(72,295)	(63,947)
Income before income taxes				\$ 183,961	\$ 192,309

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Nine Months Ended September 30, 2013

	Specialty Hospitals	Outpatient Rehabilitation (in thousands)	Other	Select Medical Holdings Corporation	Select Medical Corporation
Adjusted EBITDA	\$ 265,020	\$ 70,506	\$ (49,059)		
Depreciation and amortization	(36,061)	(8,949)	(2,862)		
Stock compensation expense			(5,403)		
Income (loss) from operations	\$ 228,959	\$ 61,557	\$ (57,324)	\$ 233,192	\$ 233,192
Equity in earnings of unconsolidated subsidiaries				1,447	1,447
Loss on early retirement of debt				(18,747)	(17,788)
Interest expense				(66,614)	(64,204)
Income before income taxes				\$ 149,278	\$ 152,647

7. Income per Common Share

The Company 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 for the periods indicated the calculation of income per common share in the Company's consolidated statement of operations and the differences between basic weighted average shares outstanding and diluted weighted average shares outstanding used to compute basic and diluted income per common share, respectively:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2013	2012	2013
(in thousands, except per share amounts)				
Numerator:				
Net income attributable to Select Medical Holdings Corporation	\$ 24,110	\$ 23,272	\$ 108,824	\$ 85,470
Less: Earnings allocated to unvested restricted stockholders	407	497	1,759	1,802
Net income available to common stockholders	\$ 23,703	\$ 22,775	\$ 107,065	\$ 83,668
Denominator:				
Weighted average shares basic	137,551	136,646	139,138	136,879
Effect of dilutive securities:				
Stock options	337	147	266	161
Weighted average shares diluted	137,888	136,793	139,404	137,040
Basic income per common share	\$ 0.17	\$ 0.17	\$ 0.77	\$ 0.61
Diluted income per common share	\$ 0.17	\$ 0.17	\$ 0.77	\$ 0.61

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The following share amounts are shown here for informational and comparative purposes only since their inclusion would be anti-dilutive:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2013	2012	2013
	(in thousands)			
Stock options	78	1,477	1,683	1,528

8. 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 operations of the Company's specialty hospitals and outpatient rehabilitation facilities, the Company maintains professional malpractice liability insurance and general liability insurance, subject to self-insured retention of \$2.0 million per medical incident for professional liability claims and \$2.0 million per occurrence for general liability claims. 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 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.

On January 8, 2013, a federal magistrate judge unsealed an Amended Complaint in United States of America and the State of Indiana, ex rel. Doe I, Doe II and Doe III v. Select Medical Corporation, Select Specialty Hospital-Evansville, Evansville Physician Investment Corporation, Dr. Richard Sloan and Dr. Jeffrey Selby. The Amended Complaint, which was served on the Company on February 15, 2013, is a civil action filed under seal on September 28, 2012 in the United States District Court for the Southern District of Indiana by private plaintiff-relators on behalf of the United States and the state of Indiana under the federal False Claims Act and Indiana False Claims and Whistleblower Protection Act. Although the Amended Complaint identifies

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the relators by fictitious pseudonyms, on March 28, 2013, the relators filed a Notice identifying themselves as the former CEO at the Company's long term acute care hospital in Evansville, Indiana (SSH-Evansville) and two former case managers at SSH-Evansville. The named defendants include the Company, SSH-Evansville, and two physicians who have practiced at SSH-Evansville. On March 26, 2013, the defendants, relators and the United States filed a joint motion seeking a stay of the proceedings, in which the United States notified the court that its investigation has not been completed and therefore it is not yet able to decide whether or not to intervene, and on March 29, 2013, the magistrate judge granted the motion and stayed all deadlines in the case for 90 days. On June 26, 2013, the United States filed a motion seeking to extend such stay of the proceedings for an additional 90 days, and, on August 12, 2013, the court granted the motion and stayed all deadlines in the case until October 1, 2013. On September 25, 2013, the United States filed a motion seeking to extend such stay for an additional 90 days.

The Amended Complaint alleges that the defendants manipulated the length of stay of patients at SSH-Evansville in order to maximize reimbursement under the Medicare prospective payment system applicable to long term acute care hospitals. It also alleges that the defendants manipulated the discharge of patients to other facilities and the timing of readmissions from those facilities in order to enable SSH-Evansville to receive two separate Medicare payments and causing the other facility to submit claims for unnecessary services. The Amended Complaint discusses the federal Stark Law and Anti-Kickback Statute and implies that the behavior of physicians referring to or providing services at SSH-Evansville was based on their financial interests. The Amended Complaint further alleges that Dr. Selby, a pulmonologist formerly on the medical staff of SSH-Evansville, performed unnecessary bronchoscopies at the hospital with the knowledge of the Company, and that Dr. Sloan, the Chief Medical Officer and an attending physician at SSH-Evansville, falsely coded the diagnoses of Medicare patients in order to increase SSH-Evansville's reimbursement. Moreover, the Amended Complaint alleges that the practices at SSH-Evansville involved corporate policies of the Company used to maximize profit at all Select long term acute care hospitals. The Amended Complaint alleges that, through these acts, the defendants have violated the federal False Claims Act and Indiana False Claims and Whistleblower Protection Act and are liable for unspecified treble damages and penalties.

As previously disclosed, beginning in April 2012, the Company and SSH-Evansville have received various subpoenas and demands for documents relating to SSH-Evansville, including a request for information and subpoenas from the Office of Inspector General of the U.S. Department of Health and Human Services and subpoenas from the Office of Attorney General for the State of Indiana, and the Evansville (Indiana) Police Department has executed a search warrant at SSH-Evansville. The Company has produced and will continue to produce documents in response to, and intends to fully cooperate with, these governmental investigations. At this time, the Company is unable to predict the timing and outcome of this matter.

Construction Commitments

At September 30, 2013, the Company had outstanding commitments under construction contracts related to new construction, improvements and renovations at the Company's long term acute care properties and inpatient rehabilitation facilities totaling approximately \$15.3 million.

9. Subsequent Event

On October 30, 2013, Holdings' board of directors declared a quarterly cash dividend of \$0.10 per share. The dividend will be payable on or about November 22, 2013 to stockholders of record as of the close of business on November 12, 2013.

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10. Financial Information for Subsidiary Guarantors and Non-Guarantor Subsidiaries under Select's 6.375% Senior Notes

Select's 6.375% senior notes are fully and unconditionally guaranteed, except for customary limitations, on a senior basis by all of Select's wholly-owned subsidiaries (the "Subsidiary Guarantors") which is defined as a subsidiary 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").

Select conducts a significant portion of its business through its subsidiaries. Presented below is condensed consolidating financial information for Select, the Subsidiary Guarantors and the Non-Guarantor Subsidiaries at December 31, 2012 and September 30, 2013 and for the three and nine months ended September 30, 2012 and 2013.

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.

Table of Contents**Select Medical Corporation****Condensed Consolidating Balance Sheet****September 30, 2013****(unaudited)**

	Select Medical Corporation (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	\$ 5,052	\$ 2,996	\$ 1,245	\$	\$ 9,293
Accounts receivable, net		360,805	62,529		423,334
Current deferred tax asset	8,038	2,945	4,389		15,372
Prepaid income taxes	4,044				4,044
Intercompany receivables		1,034,542	100,930	(1,135,472)(a)	
Other current assets	8,325	26,783	4,860		39,968
Total Current Assets	25,459	1,428,071	173,953	(1,135,472)	492,011
Property and equipment, net	14,911	426,915	57,705		499,531
Investment in affiliates	3,024,968	80,282		(3,105,250)(b) (c)	
Goodwill		1,641,836			1,641,836
Other identifiable intangibles		71,831			71,831
Non-current deferred tax asset	8,097			(8,097)(d)	
Other assets	36,509	100,113	593		137,215
Total Assets	\$ 3,109,944	\$ 3,749,048	\$ 232,251	\$ (4,248,819)	\$ 2,842,424
Liabilities and Equity					
Current Liabilities:					
Bank overdrafts	\$ 7,435	\$	\$	\$	\$ 7,435
Current portion of long-term debt and notes payable	9,467	1,918	2,581		13,966
Accounts payable	7,554	75,452	13,354		96,360
Intercompany payables	1,135,472			(1,135,472)(a)	
Accrued payroll	516	80,527	260		81,303
Accrued vacation	4,502	45,567	7,259		57,328
Accrued interest	20,783	1,222			22,005
Accrued other	52,028	41,525	9,372		102,925
Due to third party payors		733	3,235		3,968
Total Current Liabilities	1,237,757	246,944	36,061	(1,135,472)	385,290
Long-term debt, net of current portion	1,048,053	367,232	59,630		1,474,915
Non-current deferred tax liability		89,222	9,734	(8,097)(d)	90,859
Other non-current liabilities	55,718	23,028	1,331		80,077

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Total Liabilities	2,341,528	726,426	106,756	(1,143,569)	2,031,141
Redeemable non-controlling interest			11,623		11,623
Stockholder's Equity:					
Common stock	0				0
Capital in excess of par	866,423				866,423
Retained earnings (accumulated deficit)	(98,007)	886,099	18,438	(904,537)(c)	(98,007)
Subsidiary investment		2,136,523	64,190	(2,200,713)(b)	
Total Select Medical Corporation Stockholder's Equity	768,416	3,022,622	82,628	(3,105,250)	768,416
Non-controlling interest			31,244		31,244
Total Equity	768,416	3,022,622	113,872	(3,105,250)	799,660
Total Liabilities and Equity	\$ 3,109,944	\$ 3,749,048	\$ 232,251	\$ (4,248,819)	\$ 2,842,424

(a) Elimination of intercompany.

(b) Elimination of investments in consolidated subsidiaries.

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

(d) Reclass 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 September 30, 2013
(unaudited)

	Select Medical Corporation (Parent Company Only)	Subsidiary Guarantors	Non- Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Net operating revenues	\$ 12	\$ 617,415	\$ 105,418	\$	\$ 722,845
Costs and expenses:					
Cost of services	608	526,198	90,475		617,281
General and administrative	17,696	44			17,740
Bad debt expense		7,563	1,699		9,262
Depreciation and amortization	917	12,831	2,415		16,163
Total costs and expenses	19,221	546,636	94,589		660,446
Income (loss) from operations	(19,209)	70,779	10,829		62,399
Other income and expense:					
Intercompany interest and royalty fees	(278)	310	(32)		
Intercompany management fees	32,621	(27,386)	(5,235)		
Equity in earnings (losses) of unconsolidated subsidiaries		(196)	17		(179)
Interest expense	(14,192)	(6,031)	(1,029)		(21,252)
Income (loss) from operations before income taxes	(1,058)	37,476	4,550		40,968
Income tax expense	44	15,218	499		15,761
Equity in earnings of subsidiaries	24,374	1,952		(26,326)(a)	
Net income	23,272	24,210	4,051	(26,326)	25,207
Less: Net income attributable to non-controlling interests			1,935		1,935
Net income attributable to Select Medical Corporation	\$ 23,272	\$ 24,210	\$ 2,116	\$ (26,326)	\$ 23,272

(a) Elimination of equity in earnings of subsidiaries.

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Select Medical Corporation
Condensed Consolidating Statement of Operations
For the Nine Months Ended September 30, 2013
(unaudited)

	Select Medical Corporation (Parent Company Only)	Subsidiary Guarantors	Non- Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Net operating revenues	\$ 322	\$ 1,913,597	\$ 315,554	\$	\$ 2,229,473
Costs and expenses:					
Cost of services	1,718	1,599,493	266,704		1,867,915
General and administrative	52,915	150			53,065
Bad debt expense		22,485	4,944		27,429
Depreciation and amortization	2,862	37,856	7,154		47,872
Total costs and expenses	57,495	1,659,984	278,802		1,996,281
Income (loss) from operations	(57,173)	253,613	36,752		233,192
Other income and expense:					
Intercompany interest and royalty fees	(1,033)	1,051	(18)		
Intercompany management fees	114,597	(100,005)	(14,592)		
Loss on early retirement of debt	(17,788)				(17,788)
Equity in earnings of unconsolidated subsidiaries		1,375	72		1,447
Interest expense	(44,345)	(16,800)	(3,059)		(64,204)
Income (loss) from operations before income taxes	(5,742)	139,234	19,155		152,647
Income tax expense	1,956	55,900	714		58,570
Equity in earnings of subsidiaries	95,358	12,073		(107,431)(a)	
Net income	87,660	95,407	18,441	(107,431)	94,077
Less: Net income attributable to non-controlling interests			6,417		6,417
Net income attributable to Select Medical Corporation	\$ 87,660	\$ 95,407	\$ 12,024	\$ (107,431)	\$ 87,660

(a) Elimination of equity in earnings of subsidiaries.

Table of Contents**Select Medical Corporation****Condensed Consolidating Statement of Cash Flows****For the Nine Months Ended September 30, 2013****(unaudited)**

	Select Medical Corporation (Parent Company Only)	Subsidiary Guarantors	Non- Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Operating activities					
Net income	\$ 87,660	\$ 95,407	\$ 18,441	\$ (107,431)(a)	\$ 94,077
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	2,862	37,856	7,154		47,872
Provision for bad debts		22,485	4,944		27,429
Equity in earnings of unconsolidated subsidiaries		(1,375)	(72)		(1,447)
Loss on early retirement of debt	17,788				17,788
Loss (gain) from disposal of assets		25	(118)		(93)
Non-cash stock compensation expense	5,403				5,403
Amortization of debt discount and issuance costs	6,418				6,418
Changes in operating assets and liabilities, net of effects from acquisition of businesses:					
Equity in earnings of subsidiaries	(95,358)	(12,073)		107,431(a)	
Accounts receivable		(75,295)	(13,942)		(89,237)
Other current assets	(2,725)	(6,620)	1,703		(7,642)
Other assets	(7,829)	4,519	99		(3,211)
Accounts payable	2,880	3,224	694		6,798
Due to third-party payors		2,378	512		2,890
Accrued expenses	(3,211)	10,381	876		8,046
Income and deferred taxes	5,593				5,593
Net cash provided by operating activities	19,481	80,912	20,291		120,684
Investing activities					
Purchases of property and equipment	(1,428)	(39,101)	(4,802)		(45,331)
Proceeds from sale of assets		62	456		518
Investment in businesses, net of distributions		(32,430)			(32,430)
Acquisition of businesses, net of cash acquired		(848)			(848)
Net cash used in investing activities	(1,428)	(72,317)	(4,346)		(78,091)

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Financing activities							
Borrowings on revolving credit facility	580,000						580,000
Payments on revolving credit facility	(645,000)						(645,000)
Borrowings on credit facility term loans, net of discount	298,500						298,500
Payments on credit facility term loans	(594,668)						(594,668)
Issuance of 6.375% senior notes	600,000						600,000
Repurchase of 7 5/8% senior subordinated notes	(70,000)						(70,000)
Borrowings of other debt	8,154			1,084			9,238
Principal payments on other debt	(5,971)	(521)		(975)			(7,467)
Debt issuance costs	(18,820)						(18,820)
Dividends paid to Holdings	(211,754)						(211,754)
Repayments of bank overdrafts	(10,401)						(10,401)
Intercompany	21,889	(8,812)		(13,077)			
Distributions to non-controlling interests				(3,072)			(3,072)
Net cash used in financing activities	(48,071)	(9,333)		(16,040)			(73,444)
Net decrease in cash and cash equivalents	(30,018)	(738)		(95)			(30,851)
Cash and cash equivalents at beginning of period	35,070	3,734		1,340			40,144
Cash and cash equivalents at end of period	\$ 5,052	\$ 2,996		\$ 1,245			\$ 9,293

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

Table of Contents**Select Medical Corporation****Consolidating Balance Sheet****December 31, 2012****(unaudited)****Assets**

Current Assets:

Cash and cash equivalents	\$	35,070	\$	3,734	\$	1,340	\$		\$	40,144
Accounts receivable, net				308,043		53,531		(1,645)(a)		359,929
Current deferred tax asset		12,383		1,060		4,434				17,877
Prepaid income taxes		3,895								3,895
Intercompany receivables				1,021,479		102,694		(1,124,173)(b)		
Other current assets		5,600		19,655		6,563				31,818
Total Current Assets		56,948		1,353,971		168,562		(1,125,818)		453,663
Property and equipment, net		16,344		425,677		59,531				501,552
Investment in affiliates		2,930,022		82,475				(3,012,497)(d)		
Goodwill				1,640,534						1,640,534
Other identifiable intangibles				71,745						71,745
Non-current deferred tax asset		5,107						(5,107)(e)		
Other assets		28,680		63,447		692				92,819
Total Assets	\$	3,037,101	\$	3,637,849	\$	228,785	\$	(4,143,422)	\$	2,760,313

Liabilities and Equity

Current Liabilities:

Bank overdrafts	\$	17,836	\$		\$		\$		\$	17,836
Current portion of long-term debt and notes payable		8,916		1,059		1,671				11,646
Accounts payable		4,674		72,213		12,660				89,547
Intercompany payables		1,124,173						(1,124,173)(b)		
Accrued payroll		186		88,096		304				88,586
Accrued vacation		4,249		44,508		6,957				55,714
Accrued interest		17,955		804						18,759
Accrued other		58,650		39,876		8,754				107,280
Due to third party payors						2,723		(1,645)(a)		1,078
Total Current Liabilities		1,236,639		246,556		33,069		(1,125,818)		390,446
Long-term debt, net of current portion		872,671		358,104		60,522				1,291,297
Non-current deferred tax liability				85,287		9,330		(5,107)(e)		89,510

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Other non-current liabilities	46,474	20,275	1,753		68,502
Total Liabilities	2,155,784	710,222	104,674	(1,130,925)	1,839,755
Redeemable non-controlling interests			10,811		10,811
Stockholder's Equity:					
Common stock	0				0
Capital in excess of par	859,839				859,839
Retained earnings	21,478	790,692	21,197	(811,889)(d)	21,478
Subsidiary investment		2,136,935	63,673	(2,200,608)(c)	
Total Select Medical Corporation Stockholder's Equity	881,317	2,927,627	84,870	(3,012,497)	881,317
Non-controlling interests			28,430		28,430
Total Equity	881,317	2,927,627	113,300	(3,012,497)	909,747
Total Liabilities and Equity	\$ 3,037,101	\$ 3,637,849	\$ 228,785	\$ (4,143,422)	\$ 2,760,313

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- (a) Reclass portion of due to third party payor to accounts receivable net in consolidation.
- (b) Elimination of intercompany.
- (c) Elimination of investments in consolidated subsidiaries.
- (d) Elimination of investments in consolidated subsidiaries' earnings.
- (e) Reclass 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 September 30, 2012
(unaudited)

	Select Medical Corporation (Parent Company Only)	Subsidiary Guarantors	Non- Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Net operating revenues	\$ 14	\$ 616,610	\$ 97,045	\$	\$ 713,669
Costs and expenses:					
Cost of services	544	514,136	84,304		598,984
General and administrative	17,742	(612)			17,130
Bad debt expense		9,525	1,674		11,199
Depreciation and amortization	832	12,372	2,333		15,537
Total costs and expenses	19,118	535,421	88,311		642,850
Income (loss) from operations	(19,104)	81,189	8,734		70,819
Other income and expense:					
Intercompany interest and royalty fees	(469)	459	10		
Intercompany management fees	34,811	(29,960)	(4,851)		
Loss on early retirement of debt	(6,064)				(6,064)
Equity in earnings of unconsolidated subsidiaries		1,146	21		1,167
Interest expense	(14,676)	(6,010)	(1,054)		(21,740)
Income (loss) from operations before income taxes	(5,502)	46,824	2,860		44,182
Income tax expense (benefit)	(3,589)	21,020	(250)		17,181
Equity in earnings of subsidiaries	27,866	2,123		(29,989)(a)	
Net income	25,953	27,927	3,110	(29,989)	27,001
Less: Net income attributable to non-controlling interests			1,048		1,048
Net income attributable to Select Medical Corporation	\$ 25,953	\$ 27,927	\$ 2,062	\$ (29,989)	\$ 25,953

(a) Elimination of equity in earnings of subsidiaries.

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Select Medical Corporation
Condensed Consolidating Statement of Operations
For the Nine Months Ended September 30, 2012
(unaudited)

	Select Medical Corporation (Parent Company Only)	Subsidiary Guarantors	Non- Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Net operating revenues	\$ 111	\$ 1,910,563	\$ 297,209	\$	\$ 2,207,883
Costs and expenses:					
Cost of services	1,554				