

SELECT MEDICAL HOLDINGS CORP
Form 10-Q
August 04, 2016
[Table of Contents](#)

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, 2016

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

For the Transition Period From to .

Commission File Number: 001 34465 and 001 31441

SELECT MEDICAL HOLDINGS CORPORATION

SELECT MEDICAL CORPORATION

(Exact name of Registrant as specified in its charter)

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

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

4714 Gettysburg Road, P.O. Box 2034, Mechanicsburg, Pennsylvania 17055

(Address of principal executive offices and zip code)

(717) 972-1100

(Registrants telephone number, including area code)

Indicate by check mark whether the Registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods as such Registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the Registrants have submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrants were required to submit and post such files).

YES NO

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

Large accelerated
filer

Accelerated
filer

Non-accelerated
filer

Smaller reporting
company

(Do not check if a smaller
reporting company)

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

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Large accelerated
filer

Accelerated
filer

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

Smaller reporting
company

Indicate by check mark whether the Registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

YES NO

As of June 30, 2016, Select Medical Holdings Corporation had outstanding 131,472,188 shares of common stock.

This Form 10-Q is a combined quarterly report being filed separately by two Registrants: Select Medical Holdings Corporation and Select Medical Corporation. Unless the context indicates otherwise, any reference in this report to "Holdings" refers to Select Medical Holdings Corporation and any reference to "Select" refers to Select Medical Corporation, the wholly owned operating subsidiary of Holdings, and any of Select's subsidiaries. Any reference to "Concentra" refers to Concentra Inc., the indirect operating subsidiary of Concentra Group Holdings, LLC ("Group Holdings"), and its subsidiaries. References to the "Company," "we," "us" and "our" refer collectively to Holdings, Select, and Group Holdings and its subsidiaries.

Table of Contents

TABLE OF CONTENTS

<u>PART I</u>	<u>FINANCIAL INFORMATION</u>	3
<u>ITEM 1.</u>	<u>CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	
	<u>Condensed consolidated balance sheets</u>	3
	<u>Condensed consolidated statements of operations</u>	4
	<u>Condensed consolidated statements of changes in equity and income</u>	6
	<u>Condensed consolidated statements of cash flows</u>	7
	<u>Notes to condensed consolidated financial statements</u>	8
<u>ITEM 2.</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	31
<u>ITEM 3.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	56
<u>ITEM 4.</u>	<u>CONTROLS AND PROCEDURES</u>	57
<u>PART II</u>	<u>OTHER INFORMATION</u>	59
<u>ITEM 1.</u>	<u>LEGAL PROCEEDINGS</u>	59
<u>ITEM 1A.</u>	<u>RISK FACTORS</u>	60
<u>ITEM 2.</u>	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	60
<u>ITEM 3.</u>	<u>DEFAULTS UPON SENIOR SECURITIES</u>	61
<u>ITEM 4.</u>	<u>MINE SAFETY DISCLOSURES</u>	61
<u>ITEM 5.</u>	<u>OTHER INFORMATION</u>	61
<u>ITEM 6.</u>	<u>EXHIBITS</u>	61
	<u>SIGNATURES</u>	

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, 2015	June 30, 2016	December 31, 2015	June 30, 2016
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 14,435	\$ 78,420	\$ 14,435	\$ 78,420
Accounts receivable, net of allowance for doubtful accounts of \$61,133 and \$56,664 at 2015 and 2016, respectively	603,558	613,790	603,558	613,790
Current deferred tax asset	28,688	43,955	28,688	43,955
Prepaid income taxes	16,694		16,694	
Other current assets	85,779	88,862	85,779	88,862
Total Current Assets	749,154	825,027	749,154	825,027
Property and equipment, net	864,124	889,171	864,124	889,171
Goodwill	2,314,624	2,638,286	2,314,624	2,638,286
Other identifiable intangibles, net	318,675	343,928	318,675	343,928
Other assets	142,101	141,937	142,101	141,937
Total Assets	\$ 4,388,678	\$ 4,838,349	\$ 4,388,678	\$ 4,838,349
Current Liabilities:				
Bank overdrafts	\$ 28,615	\$ 26,477	\$ 28,615	\$ 26,477
Current portion of long-term debt and notes payable	225,166	10,511	225,166	10,511
Accounts payable	137,409	118,420	137,409	118,420
Accrued payroll	120,989	135,552	120,989	135,552
Accrued vacation	73,977	81,074	73,977	81,074
Accrued interest	9,401	16,927	9,401	16,927
Accrued other	133,728	134,085	133,728	134,085
Income taxes payable		12,314		12,314
Total Current Liabilities	729,285	535,360	729,285	535,360
Long-term debt, net of current portion	2,160,730	2,707,311	2,160,730	2,707,311
Non-current deferred tax liability	218,705	201,538	218,705	201,538
Other non-current liabilities	133,220	131,699	133,220	131,699
Total Liabilities	3,241,940	3,575,908	3,241,940	3,575,908
Commitments and contingencies (Note 11)				

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Redeemable non-controlling interests	238,221	245,784	238,221	245,784
Stockholders' Equity:				
Common stock of Holdings, \$0.001 par value, 700,000,000 shares authorized, 131,282,798 and 131,472,188 shares issued and outstanding at 2015 and 2016, respectively	131	131		
Common stock of Select, \$0.01 par value, 100 shares issued and outstanding			0	0
Capital in excess of par	424,506	432,951	904,375	913,058
Retained earnings (accumulated deficit)	434,616	522,995	(45,122)	43,019
Total Select Medical Holdings Corporation and Select Medical Corporation Stockholders' Equity	859,253	956,077	859,253	956,077
Non-controlling interest	49,264	60,580	49,264	60,580
Total Equity	908,517	1,016,657	908,517	1,016,657
Total Liabilities and Equity	\$ 4,388,678	\$ 4,838,349	\$ 4,388,678	\$ 4,838,349

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

Table of Contents**Condensed 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,	
	2015	2016	2015	2016
Net operating revenues	\$ 887,065	\$ 1,097,631	\$ 887,065	\$ 1,097,631
Costs and expenses:				
Cost of services	743,879	916,985	743,879	916,985
General and administrative	24,041	25,870	24,041	25,870
Bad debt expense	12,286	17,517	12,286	17,517
Depreciation and amortization	21,848	36,205	21,848	36,205
Total costs and expenses	802,054	996,577	802,054	996,577
Income from operations	85,011	101,054	85,011	101,054
Other income and expense:				
Equity in earnings of unconsolidated subsidiaries	3,848	4,546	3,848	4,546
Non-operating gain		13,035		13,035
Interest expense	(25,288)	(44,332)	(25,288)	(44,332)
Income before income taxes	63,571	74,303	63,571	74,303
Income tax expense	23,517	33,450	23,517	33,450
Net income	40,054	40,853	40,054	40,853
Less: Net income attributable to non-controlling interests	3,114	6,918	3,114	6,918
Net income attributable to Select Medical Holdings Corporation and Select Medical Corporation	\$ 36,940	\$ 33,935	\$ 36,940	\$ 33,935
Basic	\$ 0.28	\$ 0.26		
Diluted	\$ 0.28	\$ 0.26		
Weighted average shares outstanding:				
Basic	127,674	127,626		
Diluted	128,009	127,820		

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

Table of Contents**Condensed 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,	
	2015	2016	2015	2016
Net operating revenues	\$ 1,682,408	\$ 2,185,961	\$ 1,682,408	\$ 2,185,961
Costs and expenses:				
Cost of services	1,408,264	1,839,247	1,408,264	1,839,247
General and administrative	45,716	54,138	45,716	54,138
Bad debt expense	24,956	33,914	24,956	33,914
Depreciation and amortization	39,196	70,722	39,196	70,722
Total costs and expenses	1,518,132	1,998,021	1,518,132	1,998,021
Income from operations	164,276	187,940	164,276	187,940
Other income and expense:				
Loss on early retirement of debt		(773)		(773)
Equity in earnings of unconsolidated subsidiaries	6,440	9,198	6,440	9,198
Non-operating gain		38,122		38,122
Interest expense	(46,676)	(83,180)	(46,676)	(83,180)
Income before income taxes	124,040	151,307	124,040	151,307
Income tax expense	46,701	50,510	46,701	50,510
Net income	77,339	100,797	77,339	100,797
Less: Net income attributable to non-controlling interests	5,336	12,029	5,336	12,029
Net income attributable to Select Medical Holdings Corporation and Select Medical Corporation	\$ 72,003	\$ 88,768	\$ 72,003	\$ 88,768
Basic	\$ 0.55	\$ 0.68		
Diluted	\$ 0.55	\$ 0.68		
Dividends paid per share	\$ 0.10	\$		
Weighted average shares outstanding:				
Basic	127,620	127,563		
Diluted	127,944	127,709		

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

Table of Contents

Condensed Consolidated Statement of Changes in Equity and Income

(unaudited)

(in thousands)

	Comprehensive Income	Total	Select Medical Holdings Corporation Stockholders				Non-controlling Interests
			Common Stock Issued	Common Stock Value	Par Capital in Excess of Par	Retained Earnings	
Balance at December 31, 2015		\$ 908,517	131,283	\$ 131	\$ 424,506	\$ 434,616	\$ 49,264
Net income	\$ 90,774	90,774				88,768	2,006
Net income - attributable to redeemable non-controlling interests	10,023						