

SELECT MEDICAL HOLDINGS CORP
Form 10-Q
August 06, 2015
[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, 2015

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

For the Transition Period From to .

Commission File Number: 001 34465 and 001 31441

SELECT MEDICAL HOLDINGS CORPORATION

SELECT MEDICAL CORPORATION

(Exact name of Registrant as specified in its charter)

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

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

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

(Address of principal executive offices and zip code)

(717) 972-1100

(Registrants telephone number, including area code)

Indicate by check mark whether the Registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods as such Registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the Registrants have submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrants were required to submit and post such files). YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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):

Large accelerated filer

Accelerated filer

Edgar Filing: SELECT MEDICAL HOLDINGS CORP - Form 10-Q

Non-accelerated filer X

Smaller reporting company O

(Do not check if a 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 X

As of July 31, 2015, Select Medical Holdings Corporation had outstanding 131,381,185 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>	62
<u>ITEM 4.</u>	<u>CONTROLS AND PROCEDURES</u>	63
<u>PART II</u>	<u>OTHER INFORMATION</u>	64
<u>ITEM 1.</u>	<u>LEGAL PROCEEDINGS</u>	64
<u>ITEM 1A.</u>	<u>RISK FACTORS</u>	65
<u>ITEM 2.</u>	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	74
<u>ITEM 3.</u>	<u>DEFAULTS UPON SENIOR SECURITIES</u>	74
<u>ITEM 4.</u>	<u>MINE SAFETY DISCLOSURES</u>	74
<u>ITEM 5.</u>	<u>OTHER INFORMATION</u>	74
<u>ITEM 6.</u>	<u>EXHIBITS</u>	74
<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, 2014	June 30, 2015	December 31, 2014	June 30, 2015
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 3,354	\$ 25,191	\$ 3,354	\$ 25,191
Accounts receivable, net of allowance for doubtful accounts of \$46,425 and \$50,675 at 2014 and 2015, respectively	444,269	633,621	444,269	633,621
Current deferred tax asset	15,991	17,355	15,991	17,355
Prepaid income taxes	17,888		17,888	
Other current assets	46,142	78,153	46,142	78,153
Total Current Assets	527,644	754,320	527,644	754,320
Property and equipment, net	542,310	771,410	542,310	771,410
Goodwill	1,642,083	2,353,975	1,642,083	2,353,975
Other identifiable intangibles	72,519	261,642	72,519	261,642
Other assets	140,253	199,988	140,253	199,988
Total Assets	\$ 2,924,809	\$ 4,341,335	\$ 2,924,809	\$ 4,341,335
LIABILITIES AND EQUITY				
Current Liabilities:				
Bank overdrafts	\$ 21,746	\$ 27,337	\$ 21,746	\$ 27,337
Current portion of long-term debt and notes payable	10,874	17,448	10,874	17,448
Accounts payable	108,532	105,369	108,532	105,369
Accrued payroll	97,090	122,707	97,090	122,707
Accrued vacation	63,132	76,262	63,132	76,262
Accrued interest	10,674	14,152	10,674	14,152
Accrued other	82,376	122,801	82,376	122,801
Income taxes payable		2,303		2,303
Total Current Liabilities	394,424	488,379	394,424	488,379
Long-term debt, net of current portion	1,542,102	2,431,319	1,542,102	2,431,319
Non-current deferred tax liability	109,203	167,908	109,203	167,908
Other non-current liabilities	92,855	142,383	92,855	142,383
Total Liabilities	2,138,584	3,229,989	2,138,584	3,229,989

Edgar Filing: SELECT MEDICAL HOLDINGS CORP - Form 10-Q

Commitments and contingencies (Note 10)

Redeemable non-controlling interests	10,985	257,187	10,985	257,187
--------------------------------------	--------	---------	--------	---------

Stockholders' Equity:

Common stock of Holdings, \$0.001 par value, 700,000,000 shares authorized, 131,233,308 shares and 131,373,985 shares issued and outstanding at 2014 and 2015, respectively	131	131		
Common stock of Select, \$0.01 par value, 100 shares issued and outstanding			0	0
Capital in excess of par	413,706	422,524	885,407	894,225
Retained earnings (accumulated deficit)	325,678	383,278	(145,892)	(88,292)
Total Select Medical Holdings Corporation and Select Medical Corporation Stockholders' Equity	739,515	805,933	739,515	805,933
Non-controlling interest	35,725	48,226	35,725	48,226
Total Equity	775,240	854,159	775,240	854,159
Total Liabilities and Equity	\$ 2,924,809	\$ 4,341,335	\$ 2,924,809	\$ 4,341,335

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

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

	Select Medical Holdings Corporation For the Three Months Ended June 30,		Select Medical Corporation For the Three Months Ended June 30,	
	2014	2015	2014	2015
Net operating revenues	\$ 772,762	\$ 887,065	\$ 772,762	\$ 887,065
Costs and expenses:				
Cost of services	642,881	743,879	642,881	743,879
General and administrative	19,377	24,041	19,377	24,041
Bad debt expense	11,115	12,286	11,115	12,286
Depreciation and amortization	17,196	21,848	17,196	21,848
Total costs and expenses	690,569	802,054	690,569	802,054
Income from operations	82,193	85,011	82,193	85,011
Other income and expense:				
Equity in earnings of unconsolidated subsidiaries	1,239	3,848	1,239	3,848
Interest expense	(21,663)	(25,288)	(21,663)	(25,288)
Income before income taxes	61,769	63,571	61,769	63,571
Income tax expense	23,775	23,517	23,775	23,517
Net income	37,994	40,054	37,994	40,054
Less: Net income attributable to non-controlling interests	2,653	3,114	2,653	3,114
Net income attributable to Select Medical Holdings Corporation and Select Medical Corporation	\$ 35,341	\$ 36,940	\$ 35,341	\$ 36,940
Income per common share:				
Basic	\$ 0.27	\$ 0.28		