SELECT MEDICAL HOLDINGS CORP
Form 10-Q
May 02, 2019

false--12-31Q120192019-03-310001320414falseLarge Accelerated
Filerfalse20.0010.010.0010.0170000000070000000013526586410013526286610013526586410013526286610000P5YP3YP
0001320414 2019-01-01 2019-03-31 0001320414 2019-04-30 0001320414 2018-12-31 0001320414 srt:SubsidiariesMember 2019-03-31 0001320414 2019-03-31 0001320414 srt:SubsidiariesMember 2018-12-31 0001320414 srt:SubsidiariesMember 2018-01-01 2018-03-31 0001320414 2018-01-01 2018-03-31 0001320414 srt:SubsidiariesMember 2019-01-01 2019-03-31 0001320414 srt:SubsidiariesMember us-gaap:NoncontrollingInterestMember 2018-01-01 2018-03-31 0001320414 srt:SubsidiariesMember us-gaap:CommonStockMember 2017-12-31 0001320414 srt:SubsidiariesMember us-gaap:RetainedEarningsMember 2018-01-01 2018-03-31 0001320414 srt:SubsidiariesMember us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0001320414 srt:SubsidiariesMember us-gaap:ParentMember 2018-01-01 2018-03-31 0001320414 srt:SubsidiariesMember us-gaap:AdditionalPaidInCapitalMember 2018-01-01 2018-03-31 0001320414 srt:SubsidiariesMember us-gaap:NoncontrollingInterestMember 2017-12-31 0001320414 srt:SubsidiariesMember 2018-03-31 0001320414 srt:SubsidiariesMember us-gaap:RetainedEarningsMember 2018-03-31 0001320414 srt:SubsidiariesMember us-gaap:AdditionalPaidInCapitalMember 2018-03-31 0001320414 srt:SubsidiariesMember us-gaap:RetainedEarningsMember 2017-12-31 0001320414 srt:SubsidiariesMember 2017-12-31 0001320414 srt:SubsidiariesMember us-gaap:CommonStockMember 2018-03-31 0001320414 srt:SubsidiariesMember us-gaap:ParentMember 2017-12-31 0001320414 srt:SubsidiariesMember us-gaap:NoncontrollingInterestMember 2018-03-31 0001320414 srt:SubsidiariesMember us-gaap:ParentMember 2018-03-31 0001320414 srt:SubsidiariesMember us-gaap:CommonStockMember 2019-03-31 0001320414 srt:SubsidiariesMember us-gaap:RetainedEarningsMember 2019-01-01 2019-03-31 0001320414 srt:SubsidiariesMember us-gaap:AdditionalPaidInCapitalMember 2019-01-01 2019-03-31 0001320414 srt:SubsidiariesMember us-gaap:NoncontrollingInterestMember 2018-12-31 0001320414 srt:SubsidiariesMember us-gaap:ParentMember 2019-01-01 2019-03-31 0001320414 srt:SubsidiariesMember us-gaap:CommonStockMember 2018-12-31 0001320414 srt:SubsidiariesMember us-gaap:NoncontrollingInterestMember 2019-01-01 2019-03-31 0001320414 srt:SubsidiariesMember us-gaap:ParentMember 2018-12-31 0001320414 srt:SubsidiariesMember us-gaap:RetainedEarningsMember 2018-12-31 0001320414 srt:SubsidiariesMember us-gaap:RetainedEarningsMember 2019-03-31 0001320414 srt:SubsidiariesMember us-gaap:AdditionalPaidInCapitalMember 2019-03-31 0001320414 srt:SubsidiariesMember us-gaap:NoncontrollingInterestMember 2019-03-31 0001320414 srt:SubsidiariesMember us-gaap:ParentMember 2019-03-31 0001320414 srt:SubsidiariesMember us-gaap:AdditionalPaidInCapitalMember 2018-12-31 0001320414 us-gaap:CommonStockMember 2018-01-01 2018-03-31 0001320414 us-gaap:ParentMember 2018-01-01 2018-03-31 0001320414 us-gaap:RetainedEarningsMember 2017-12-31 0001320414 us-gaap:ParentMember 2018-03-31 0001320414 us-gaap:ParentMember 2017-12-31 0001320414 us-gaap:NoncontrollingInterestMember 2017-12-31 0001320414 us-gaap:AdditionalPaidInCapitalMember 2018-01-01 2018-03-31 0001320414 us-gaap:CommonStockMember 2018-03-31 0001320414 us-gaap:AdditionalPaidInCapitalMember 2018-03-31 0001320414 us-gaap:NoncontrollingInterestMember 2018-01-01 2018-03-31 0001320414 us-gaap:RetainedEarningsMember 2018-01-01 2018-03-31 0001320414 us-gaap:NoncontrollingInterestMember 2018-03-31 0001320414 us-gaap:CommonStockMember 2017-12-31 0001320414 2018-03-31 0001320414 us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0001320414 us-gaap:RetainedEarningsMember 2018-03-31 0001320414 2017-12-31 0001320414 us-gaap:NoncontrollingInterestMember 2019-01-01 2019-03-31 0001320414 us-gaap:CommonStockMember 2019-01-01 2019-03-31 0001320414 us-gaap:ParentMember 2019-01-01 2019-03-31 0001320414 us-gaap:RetainedEarningsMember 2019-01-01 2019-03-31 0001320414 us-gaap:ParentMember 2018-12-31 0001320414 us-gaap:AdditionalPaidInCapitalMember 2019-01-01 2019-03-31 0001320414 us-gaap:RetainedEarningsMember 2019-03-31 0001320414 us-gaap:CommonStockMember 2019-03-31 0001320414 us-gaap:RetainedEarningsMember 2018-12-31 0001320414 us-gaap:NoncontrollingInterestMember 2019-03-31 0001320414 us-gaap:AdditionalPaidInCapitalMember 2018-12-31 0001320414 us-gaap:AdditionalPaidInCapitalMember 2019-03-31 0001320414 us-gaap:CommonStockMember 2018-12-31 0001320414 us-gaap:NoncontrollingInterestMember 2018-12-31 0001320414 us-gaap:ParentMember 2019-03-31

0001320414 us-gaap:AccountsReceivableMember sem:ThirdPartyPayorRiskMember 2019-01-01 2019-03-31 0001320414 us-gaap:AccountsReceivableMember sem:ThirdPartyPayorRiskMember 2018-01-01 2018-12-31 0001320414 us-gaap:AccountingStandardsUpdate201602Member 2019-01-01 0001320414 sem:ConcentraGroupHoldingsParentLLCMember sem:U.S.HealthWorksMember 2018-02-01 0001320414 sem:ConcentraGroupHoldingsParentLLCMember sem:U.S.HealthWorksMember 2018-02-01 2018-02-01 0001320414 sem:U.S.HealthWorksMember 2018-01-01 2018-03-31 0001320414 sem:U.S.HealthWorksMember 2018-02-01 2018-03-31 0001320414 sem:U.S.HealthWorksMember 2018-02-01 2018-02-01 0001320414 sem:U.S.HealthWorksMember 2018-02-01 0001320414 us-gaap:DisposalGroupHeldForSaleOrDisposedOfBySaleNotDiscontinuedOperationsMember sem:OutpatientRehabilitationMember 2019-01-01 2019-03-31 0001320414 srt:AffiliatedEntityMember 2019-01-01 2019-03-31 0001320414 sem:UnrelatedPartyMember 2019-01-01 2019-03-31 0001320414 sem:UnrelatedPartyMember 2019-03-31 0001320414 srt:AffiliatedEntityMember 2019-03-31 0001320414 sem:ConcentraMember 2019-01-01 2019-03-31 0001320414 sem:CriticalIllnessRecoveryHospitalsMember 2019-03-31 0001320414 sem:ConcentraMember 2019-03-31 0001320414 sem:OutpatientRehabilitationMember 2019-01-01 2019-03-31 0001320414 sem:OutpatientRehabilitationMember 2019-03-31 0001320414 us-gaap:AccountingStandardsUpdate201602Member 2019-01-01 2019-01-01 0001320414 sem:CriticalIllnessRecoveryHospitalsMember 2019-01-01 2019-03-31 0001320414 sem:RehabilitationHospitalsMember 2019-03-31 0001320414 srt:MinimumMember sem:OutpatientRehabilitationMember 2019-03-31 0001320414 sem:RehabilitationHospitalsMember 2019-01-01 2019-03-31 0001320414 srt:MaximumMember sem:OutpatientRehabilitationMember 2019-03-31 0001320414 us-gaap:TrademarksMember 2018-12-31 0001320414 sem:CertificatesOfNeedMember 2019-03-31 0001320414 us-gaap:TrademarksMember 2019-03-31 0001320414 us-gaap:CustomerRelationshipsMember 2018-12-31 0001320414 us-gaap:CustomerRelationshipsMember 2019-03-31 0001320414 us-gaap:OffMarketFavorableLeaseMember 2018-12-31 0001320414 sem:CertificatesOfNeedMember 2018-12-31 0001320414 us-gaap:NoncompeteAgreementsMember 2019-03-31 0001320414 us-gaap:OffMarketFavorableLeaseMember 2019-03-31 0001320414 us-gaap:TrademarksMember 2019-03-31 0001320414 sem:AccreditationsMember 2019-03-31 0001320414 us-gaap:TrademarksMember 2018-12-31 0001320414 us-gaap:NoncompeteAgreementsMember 2018-12-31 0001320414 sem:AccreditationsMember 2018-12-31 0001320414 sem:RehabilitationHospitalsMember 2018-12-31 0001320414 sem:CriticalIllnessRecoveryHospitalsMember 2018-12-31 0001320414 sem:OutpatientRehabilitationMember 2018-12-31 0001320414 sem:ConcentraMember 2018-12-31 0001320414 sem:CustomerRelationshipNoncompeteAgreementsAndTrademarksMember 2019-01-01 2019-03-31 0001320414 us-gaap:TrademarksMember 2019-01-01 2019-03-31 0001320414 sem:CustomerRelationshipNoncompeteAgreementsAndTrademarksMember 2018-01-01 2018-03-31 0001320414 sem:AccreditationsMember 2019-01-01 2019-03-31 0001320414 sem:ConcentraIncMember sem:TermLoanFacilityMember us-gaap:LineOfCreditMember 2018-12-31 0001320414 sem:SelectMedicalCorporationMember sem:TermLoanFacilityMember us-gaap:LineOfCreditMember 2018-12-31 0001320414 sem:ConcentraIncMember us-gaap:NotesPayableOtherPayablesMember 2018-12-31 0001320414 sem:SelectMedicalCorporationMember us-gaap:RevolvingCreditFacilityMember us-gaap:LineOfCreditMember 2018-12-31 0001320414 sem:SelectMedicalCorporationMember sem:A6.375SeniorNotesDueJune2021Member us-gaap:SeniorNotesMember 2018-12-31 0001320414 sem:SelectMedicalCorporationMember 2018-12-31 0001320414 sem:SelectMedicalCorporationMember us-gaap:NotesPayableOtherPayablesMember 2018-12-31 0001320414 sem:ConcentraIncMember 2018-12-31 0001320414 sem:ConcentraIncMember us-gaap:NotesPayableOtherPayablesMember 2019-03-31 0001320414 sem:SelectMedicalCorporationMember us-gaap:NotesPayableOtherPayablesMember 2019-03-31 0001320414 sem:SelectMedicalCorporationMember 2019-03-31 0001320414 sem:SelectMedicalCorporationMember sem:A6.375SeniorNotesDueJune2021Member us-gaap:SeniorNotesMember 2019-03-31 0001320414 sem:SelectMedicalCorporationMember us-gaap:RevolvingCreditFacilityMember us-gaap:LineOfCreditMember 2019-03-31 0001320414 sem:ConcentraIncMember sem:TermLoanFacilityMember us-gaap:LineOfCreditMember 2019-03-31 0001320414 sem:ConcentraIncMember 2019-03-31 0001320414 sem:SelectMedicalCorporationMember sem:TermLoanFacilityMember us-gaap:LineOfCreditMember 2019-03-31 0001320414 sem:SelectMedicalCorporationMember sem:A2017SelectCreditFacilitiesMember us-gaap:LineOfCreditMember 2019-01-01 2019-03-31 0001320414 sem:ConcentraIncMember sem:TermLoanFacilityMember us-gaap:LineOfCreditMember 2019-01-01 2019-03-31 0001320414 us-gaap:OperatingSegmentsMember sem:RehabilitationHospitalsMember 2019-01-01 2019-03-31 0001320414 us-gaap:OperatingSegmentsMember sem:ConcentraMember 2019-01-01 2019-03-31 0001320414 us-gaap:OperatingSegmentsMember sem:OutpatientRehabilitationMember 2019-01-01 2019-03-31 0001320414 sem:CorporateReconcilingItemsAndEliminationsMember 2019-01-01 2019-03-31 0001320414 us-gaap:OperatingSegmentsMember sem:CriticalIllnessRecoveryHospitalsMember 2019-01-01 2019-03-31 0001320414 us-gaap:OperatingSegmentsMember sem:OutpatientRehabilitationMember 2018-01-01 2018-03-31 0001320414 sem:CorporateReconcilingItemsAndEliminationsMember 2018-01-01 2018-03-31 0001320414 us-gaap:OperatingSegmentsMember sem:CriticalIllnessRecoveryHospitalsMember 2018-01-01 2018-03-31 0001320414 us-gaap:OperatingSegmentsMember sem:RehabilitationHospitalsMember 2018-01-01 2018-03-31 0001320414 us-gaap:OperatingSegmentsMember sem:ConcentraMember 2018-01-01 2018-03-31 0001320414 us-gaap:OperatingSegmentsMember sem:ConcentraMember 2019-03-31 0001320414 us-gaap:OperatingSegmentsMember sem:OutpatientRehabilitationMember 2018-03-31 0001320414 sem:CorporateReconcilingItemsAndEliminationsMember 2019-03-31 0001320414 sem:CorporateReconcilingItemsAndEliminationsMember 2018-03-31 0001320414 us-gaap:OperatingSegmentsMember sem:RehabilitationHospitalsMember 2018-03-31 0001320414 us-gaap:OperatingSegmentsMember sem:OutpatientRehabilitationMember 2019-03-31 0001320414 us-gaap:OperatingSegmentsMember sem:CriticalIllnessRecoveryHospitalsMember 2019-03-31 0001320414 us-gaap:OperatingSegmentsMember sem:ConcentraMember 2018-03-31 0001320414 us-gaap:OperatingSegmentsMember sem:RehabilitationHospitalsMember 2019-03-31 0001320414 us-gaap:OperatingSegmentsMember sem:CriticalIllnessRecoveryHospitalsMember 2018-03-31 0001320414 us-gaap:ServiceOtherMember sem:OutpatientRehabilitationMember 2019-01-01 2019-03-31 0001320414 sem:HealthCarePatientServiceNonMedicareMember sem:OutpatientRehabilitationMember 2019-01-01 2019-03-31 0001320414 sem:HealthCarePatientServiceNonMedicareMember sem:ConcentraMember 2019-01-01 2019-03-31 0001320414 us-gaap:ServiceOtherMember sem:ConcentraMember 2019-01-01 2019-03-31 0001320414 us-gaap:HealthCarePatientServiceMember sem:ConcentraMember 2019-01-01 2019-03-31 0001320414 us-gaap:ServiceOtherMember sem:RehabilitationHospitalsMember 2019-01-01 2019-03-31 0001320414 sem:HealthCarePatientServiceNonMedicareMember sem:CriticalIllnessRecoveryHospitalsMember 2019-01-01 2019-03-31 0001320414 us-gaap:HealthCarePatientServiceMember sem:OutpatientRehabilitationMember 2019-01-01 2019-03-31 0001320414 sem:HealthCarePatientServiceMedicareMember sem:RehabilitationHospitalsMember 2019-01-01 2019-03-31 0001320414 us-gaap:HealthCarePatientServiceMember sem:RehabilitationHospitalsMember 2019-01-01 2019-03-31 0001320414 us-gaap:ServiceOtherMember sem:CriticalIllnessRecoveryHospitalsMember 2019-01-01 2019-03-31 0001320414 sem:HealthCarePatientServiceMedicareMember sem:OutpatientRehabilitationMember 2019-01-01 2019-03-31 0001320414 sem:HealthCarePatientServiceNonMedicareMember sem:RehabilitationHospitalsMember 2019-01-01 2019-03-31 0001320414 sem:HealthCarePatientServiceMedicareMember sem:CriticalIllnessRecoveryHospitalsMember 2019-01-01 2019-03-31 0001320414 us-gaap:HealthCarePatientServiceMember sem:CriticalIllnessRecoveryHospitalsMember 2019-01-01 2019-03-31 0001320414 sem:HealthCarePatientServiceMedicareMember sem:ConcentraMember 2019-01-01 2019-03-31 0001320414 us-gaap:HealthCarePatientServiceMember sem:ConcentraMember 2018-01-01 2018-03-31 0001320414 sem:ConcentraMember 2018-01-01 2018-03-31 0001320414 us-gaap:HealthCarePatientServiceMember sem:RehabilitationHospitalsMember 2018-01-01 2018-03-31 0001320414 us-gaap:HealthCarePatientServiceMember sem:CriticalIllnessRecoveryHospitalsMember 2018-01-01 2018-03-31 0001320414 us-gaap:ServiceOtherMember sem:RehabilitationHospitalsMember 2018-01-01 2018-03-31 0001320414 sem:HealthCarePatientServiceNonMedicareMember sem:OutpatientRehabilitationMember 2018-01-01 2018-03-31 0001320414 sem:HealthCarePatientServiceNonMedicareMember sem:CriticalIllnessRecoveryHospitalsMember 2018-01-01 2018-03-31 0001320414 us-gaap:ServiceOtherMember sem:CriticalIllnessRecoveryHospitalsMember 2018-01-01 2018-03-31 0001320414 sem:OutpatientRehabilitationMember 2018-01-01 2018-03-31 0001320414 sem:HealthCarePatientServiceMedicareMember sem:ConcentraMember 2018-01-01 2018-03-31 0001320414 sem:HealthCarePatientServiceNonMedicareMember sem:RehabilitationHospitalsMember 2018-01-01 2018-03-31 0001320414 us-gaap:ServiceOtherMember sem:OutpatientRehabilitationMember 2018-01-01 2018-03-31 0001320414 sem:HealthCarePatientServiceMedicareMember sem:RehabilitationHospitalsMember 2018-01-01 2018-03-31 0001320414 sem:CriticalIllnessRecoveryHospitalsMember 2018-01-01 2018-03-31 0001320414 sem:HealthCarePatientServiceNonMedicareMember sem:ConcentraMember 2018-01-01 2018-03-31 0001320414 sem:HealthCarePatientServiceMedicareMember sem:CriticalIllnessRecoveryHospitalsMember 2018-01-01 2018-03-31 0001320414 us-gaap:ServiceOtherMember sem:ConcentraMember 2018-01-01 2018-03-31 0001320414 sem:RehabilitationHospitalsMember 2018-01-01 2018-03-31 0001320414 us-gaap:HealthCarePatientServiceMember sem:OutpatientRehabilitationMember 2018-01-01 2018-03-31 0001320414 sem:HealthCarePatientServiceMedicareMember sem:OutpatientRehabilitationMember 2018-01-01 2018-03-31 0001320414 sem:SelectSpecialtyHospitalEvansvilleMember sem:AmendedComplaintMember 2015-10-19 2015-10-19 0001320414 srt:MinimumMember us-gaap:CorporateJointVentureMember us-gaap:ProfessionalMalpracticeLiabilityMember 2019-01-01 2019-03-31 0001320414 srt:MaximumMember us-gaap:ProfessionalMalpracticeLiabilityMember 2019-01-01 2019-03-31 0001320414 srt:MaximumMember us-gaap:CorporateJointVentureMember us-gaap:ProfessionalMalpracticeLiabilityMember 2019-01-01 2019-03-31 0001320414 srt:ParentCompanyMember srt:ReportableLegalEntitiesMember 2018-03-31 0001320414 srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2018-01-01 2018-03-31 0001320414 sem:ConcentraGroupHoldingsParentLLCMember srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2018-01-01 2018-03-31 0001320414 srt:GuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2018-01-01 2018-03-31 0001320414 srt:ParentCompanyMember srt:ReportableLegalEntitiesMember 2018-01-01 2018-03-31 0001320414 srt:ConsolidationEliminationsMember 2018-01-01 2018-03-31 0001320414 sem:ConcentraGroupHoldingsParentLLCMember srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2017-12-31 0001320414 srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2017-12-31 0001320414 srt:ParentCompanyMember srt:ReportableLegalEntitiesMember 2017-12-31 0001320414 srt:GuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2018-03-31 0001320414 srt:ConsolidationEliminationsMember 2018-03-31 0001320414 srt:GuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2017-12-31 0001320414 sem:ConcentraGroupHoldingsParentLLCMember srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2018-03-31 0001320414 srt:ConsolidationEliminationsMember 2017-12-31 0001320414 srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2018-03-31 0001320414 srt:ParentCompanyMember srt:ReportableLegalEntitiesMember 2019-01-01 2019-03-31 0001320414 srt:ConsolidationEliminationsMember 2019-01-01 2019-03-31 0001320414 sem:ConcentraGroupHoldingsParentLLCMember srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2019-01-01 2019-03-31 0001320414 srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2019-03-31 0001320414 srt:GuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2019-01-01 2019-03-31 0001320414 srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2019-01-01 2019-03-31 0001320414 srt:ConsolidationEliminationsMember 2019-03-31 0001320414 srt:GuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2019-03-31 0001320414 srt:ConsolidationEliminationsMember 2018-12-31 0001320414 srt:ParentCompanyMember srt:ReportableLegalEntitiesMember 2018-12-31 0001320414 srt:ParentCompanyMember srt:ReportableLegalEntitiesMember 2019-03-31 0001320414 sem:ConcentraGroupHoldingsParentLLCMember srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2019-03-31 0001320414 sem:ConcentraGroupHoldingsParentLLCMember srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2018-12-31 0001320414 srt:GuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2018-12-31 0001320414 srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2018-12-31 0001320414 srt:GuarantorSubsidiariesMember us-gaap:SeniorNotesMember 2019-03-31 sem:renewal_option xbrli:pure iso4217:USD xbrli:shares sem:clinic iso4217:USD xbrli:shares sem:case_manager

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý 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
o 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 Incorporation or Organization)	(I.R.S. Employer 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 ý No o
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 ý No o
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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
	Emerging Growth Company o

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. o
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 o	Accelerated filer o
Non-accelerated filer x	Smaller reporting company o
	Emerging Growth Company o

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. o
Indicate by check mark whether the Registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
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.

Table of Contents

TABLE OF CONTENTS

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

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.

Table of Contents

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.

Table of Contents

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	Common Stock Par 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	Common Stock Par 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.

Table of Contents

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)
Loss on extinguishment of debt	412	—	412	—
Gain on sale of assets and businesses	(513)	(6,233)	(513)	(6,233)
Stock compensation expense	4,927	6,255	4,927	6,255
Amortization of debt discount, premium and issuance costs	3,136	3,231	3,136	3,231
Deferred income taxes	78	(81)	78	(81)
Changes in operating assets and liabilities, net of effects of business combinations:				
Accounts receivable	(45,811)	(74,752)	(45,811)	(74,752)
Other current assets	(8,945)	(7,523)	(8,945)	(7,523)
Other assets	16,633	57,319	16,633	57,319
Accounts payable	(6,552)	4,324	(6,552)	4,324
Accrued expenses	(11,981)	(69,163)	(11,981)	(69,163)
Income taxes	11,838	17,830	11,838	17,830
Net cash provided by operating activities	50,727	41,762	50,727	41,762
Investing activities				
Business combinations, net of cash acquired	(515,359)	(6,120)	(515,359)	(6,120)
Purchases of property and equipment	(39,617)	(49,073)	(39,617)	(49,073)
Investment in businesses	(1,754)	(27,608)	(1,754)	(27,608)
Proceeds from sale of assets and businesses	691	2	691	2
Net cash used in investing activities	(556,039)	(82,799)	(556,039)	(82,799)
Financing activities				
Borrowings on revolving facilities	165,000	360,000	165,000	360,000
Payments on revolving facilities	(150,000)	(220,000)	(150,000)	(220,000)
Proceeds from term loans	779,904	—	779,904	—
Payments on term loans	(2,875)	(132,685)	(2,875)	(132,685)
Revolving facility debt issuance costs	(1,333)	—	(1,333)	—
Borrowings of other debt	11,600	8,290	11,600	8,290
Principal payments on other debt	(5,909)	(6,155)	(5,909)	(6,155)
Repurchase of common stock	(122)	—	—	—
Dividends paid to Holdings	—	—	(122)	—
Proceeds from exercise of stock options	738	—	—	—
Equity investment by Holdings	—	—	738	—
Increase (decrease) in overdrafts	(7,916)	6,050	(7,916)	6,050
Proceeds from issuance of non-controlling interests	—	3,425	—	3,425
Distributions to and purchases of non-controlling interests	(286,641)	(5,251)	(286,641)	(5,251)
Net cash provided by financing activities	502,446	13,674	502,446	13,674

Net decrease in cash and cash equivalents	(2,866)	(27,363)	(2,866)	(27,363)
Cash and cash equivalents at beginning of period	122,549	175,178	122,549	175,178
Cash and cash equivalents at end of period	$ 119,683	$ 147,815	$ 119,683	$ 147,815
Supplemental Information				
Cash paid for interest	$ 35,233	$ 37,199	$ 35,233	$ 37,199
Cash paid for taxes	376	718	376	718
Non-cash equity exchange for acquisition of U.S. HealthWorks	238,000	—	238,000	—

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

SELECT MEDICAL HOLDINGS CORPORATION AND SELECT MEDICAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

The unaudited condensed consolidated financial statements of Select Medical Holdings Corporation ("Holdings") include the accounts of its wholly owned subsidiary, Select Medical Corporation ("Select"). Holdings conducts substantially all of its business through Select and its subsidiaries. Holdings and Select and its subsidiaries are collectively referred to as the "Company." The unaudited condensed consolidated financial statements of the Company as of March 31, 2019, and for the three month periods ended March 31, 2018 and 2019, have been prepared pursuant to the rules and regulations of the Securities Exchange Commission (the "SEC") for interim reporting and accounting principles generally accepted in the United States of America ("GAAP"). Accordingly, certain information and disclosures required by GAAP, which are normally included in the notes to consolidated financial statements, have been condensed or omitted pursuant to those rules and regulations, although the Company believes the disclosure is adequate to make the information presented not misleading. 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 months ended March 31, 2019, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2019. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2018, contained in the Company's Annual Report on Form 10-K filed with the SEC on February 21, 2019.

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, including disclosure of contingencies, at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Credit Risk Concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash balances and trade receivables. The Company's excess cash is held with large financial institutions. The Company grants unsecured credit to its patients, most of whom reside in the service area of the Company's facilities and are insured under third-party payor agreements. The Company's general policy is to verify insurance coverage prior to the date of admission for patients admitted to the Company's critical illness recovery hospitals and rehabilitation hospitals. Within the Company's outpatient rehabilitation clinics, the Company verifies insurance coverage prior to the patient's visit. Within the Company's Concentra centers, the Company verifies insurance coverage or receives authorization from the patient's employer prior to the patient's visit.

Because of the geographic diversity of the Company's facilities and non-governmental third-party payors, Medicare represents the Company's only significant concentration of credit risk. Approximately 16% and 18% of the Company's accounts receivable are from Medicare at December 31, 2018, and March 31, 2019, respectively.

Leases

The Company evaluates whether a contract is or contains a lease at the inception of the contract. Upon lease commencement, the date on which a lessor makes the underlying asset available to the Company for use, the Company classifies the lease as either an operating or finance lease. Most of the Company's facility and equipment leases are classified as operating leases.

Balance Sheet

For both operating and finance leases, the Company recognizes a right-of-use asset and lease liability at lease commencement. A right-of-use asset represents the Company's right to use an underlying asset for the lease term while the lease liability represents an obligation to make lease payments arising from a lease which are measured on a discounted basis. The Company elected the short-term lease exemption for its equipment leases; accordingly, equipment leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets.

Lease liabilities are measured at the present value of the remaining, fixed lease payments at lease commencement. The Company primarily uses its incremental borrowing rate, based on the information available at lease commencement, in determining the present value of its remaining lease payments. The Company's leases may also specify extension or termination clauses. These options are factored into the measurement of the lease liability when it is reasonably certain that the Company will exercise the option. Right-of-use assets are measured at an amount equal to the initial lease liability, plus any prepaid lease payments (less any incentives received, such as reimbursement for leasehold improvements) and initial direct costs, at the lease commencement date.

The Company has elected to account for lease and non-lease components, such as common area maintenance, as a single lease component for its facility leases. As a result, the fixed payments that would otherwise be allocated to the non-lease components will be accounted for as lease payments and are included in the measurement of the Company's right-of-use asset and lease liability.

Statement of Operations

For the Company's operating leases, rent expense, a component of cost of services and general and administrative expenses on the consolidated statements of operations, is recognized on a straight-line basis over the lease term. The straight-line rent expense is reflective of the interest expense on the lease liability using the effective interest method and the amortization of the right-of-use asset.

For the Company's finance leases, interest expense on the lease liability is recognized using the effective interest method. Amortization expense related to the right-of-use asset is recognized on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term.

The Company elected the short-term lease exemption for its equipment leases. For these leases, the Company recognizes lease payments on a straight-line basis over the lease term and variable lease payments are expensed as incurred. These expenses are included as components of cost of services on the consolidated statements of operations.

The Company makes payments related to changes in indexes or rates after the lease commencement date. Additionally, the Company makes payments, which are not fixed at lease commencement, for property taxes, insurance, and common area maintenance related to its facility leases. These variable lease payments, which are expensed as incurred, are included as a component of cost of services and general and administrative expenses on the consolidated statements of operations.

Redeemable Non-Controlling Interests

The ownership interests held by outside parties in subsidiaries, limited liability companies, and limited partnerships controlled by the Company are classified as non-controlling interests. Some of the Company's non-controlling ownership interests consist of outside parties that have certain redemption rights that, if exercised, require the Company to purchase the parties' ownership interests. These interests are classified and reported as redeemable non-controlling interests and have been adjusted to their approximate redemption values after the attribution of net income or loss.

The changes in redeemable non-controlling interests, which are the same for Holdings and Select, are as follows (in thousands):

Balance as of December 31, 2017	$ 640,818
Net income attributable to redeemable non-controlling interests	5,743
Issuance and exchange of redeemable non-controlling interests	163,659
Distributions to redeemable non-controlling interests	(203,972)
Redemption adjustment on redeemable non-controlling interests	1,051
Other	175
Balance as of March 31, 2018	$ 607,474

Balance as of December 31, 2018	$ 780,488
Net income attributable to redeemable non-controlling interests	7,700
Distributions to and purchases of redeemable non-controlling interests	(2,771)
Redemption adjustment on redeemable non-controlling interests	47,470
Other	354
Balance as of March 31, 2019	$ 833,241

9

Table of Contents

Recent Accounting Pronouncements

Financial Instruments

In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments — Credit Losses: Measurement of Credit Losses on Financial Instruments*. The current standard delays the recognition of a credit loss on a financial asset until the loss is probable of occurring. The new standard removes the requirement that a credit loss be probable of occurring for it to be recognized and requires entities to use historical experience, current conditions, and reasonable and supportable forecasts to estimate their future expected credit losses. The Company's accounts receivable derived from contracts with customers will be subject to ASU 2016-13.

The standard will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The guidance must be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the earliest comparative period in the financial statements. Given the very high rate of collectability of the Company's accounts receivable derived from contracts with customers, the Company believes that the impact of ASU 2016-13 is unlikely to be material.

Recently Adopted Accounting Pronouncements

Leases

The Company adopted Accounting Standards Codification ("ASC") Topic 842, *Leases* using a modified retrospective approach as of January 1, 2019, for leases which existed on that date. Prior comparative periods were not adjusted and continue to be reported in accordance with ASC Topic 840, *Leases*.

The Company elected the package of practical expedients, which permitted the Company not to reassess under ASC Topic 842 the Company's prior conclusions about lease identification, lease classification, and initial direct costs. The Company did not elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to the Company.

The adoption of the standard resulted in the recognition of operating lease right-of-use assets of $1,015.0 million and operating lease liabilities of $1,057.0 million at January 1, 2019. The difference between the operating lease right-of-use assets and operating lease liabilities resulted from the reclassification of prepaid rent, deferred rent, unamortized lease incentives, and acquired favorable and unfavorable leasehold interests upon adoption. The Company did not recognize a cumulative-effect adjustment to retained earnings upon adoption.

Table of Contents

3. Acquisitions

U.S. HealthWorks Acquisition

On February 1, 2018, Concentra Inc. (“Concentra”) acquired all of the issued and outstanding shares of stock of U.S. HealthWorks, Inc. (“U.S. HealthWorks”), an occupational medicine and urgent care service provider, from Dignity Health Holding Corporation (“DHHC”).

Concentra acquired U.S. HealthWorks for $753.6 million. DHHC, a subsidiary of Dignity Health, was issued a 20.0% equity interest in Concentra Group Holdings Parent, LLC (“Concentra Group Holdings Parent”) which was valued at $238.0 million. The remainder of the purchase price was paid in cash. Select retained a majority voting interest in Concentra Group Holdings Parent following the closing of the transaction.

For the U.S. HealthWorks acquisition, the Company allocated the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values in accordance with the provisions of ASC Topic 805, *Business Combinations*. During the year ended December 31, 2018, the Company finalized the purchase accounting related to this acquisition.

The following table reconciles the fair values of identifiable net assets and goodwill to the consideration given for the acquired business (in thousands):

Accounts receivable	$ 68,934
Other current assets	10,810
Property and equipment	69,712
Identifiable intangible assets	140,406
Other assets	25,435
Goodwill	540,067
Total assets	855,364
Accounts payable and other current liabilities	49,925
Deferred income taxes and other long-term liabilities	51,851
Total liabilities	101,776
Consideration given	$ 753,588

For the period February 1, 2018 through March 31, 2018, U.S. HealthWorks contributed net operating revenues of $89.9 million which is reflected in the Company’s consolidated statement of operations for the three months ended March 31, 2018. Due to the integrated nature of the Company’s operations, the Company believes that it is not practicable to separately identify earnings of U.S. HealthWorks on a stand-alone basis.

Pro Forma Results

The following pro forma unaudited results of operations have been prepared assuming the acquisition of U.S. HealthWorks occurred on January 1, 2017. These results are not necessarily indicative of the results of future operations nor of the results that would have occurred had the acquisition been consummated on the aforementioned date. For the three months ended March 31, 2019, the Company’s results of operations include U.S. HealthWorks for the entire period and no pro forma adjustments were made.

	Three Months Ended March 31, 2018
	(in thousands)
Net operating revenues	$ 1,300,544
Net income attributable to the Company	34,538

The Company’s pro forma results were adjusted to recognize U.S. HealthWorks acquisition costs as of January 1, 2017. Accordingly, for the three months ended March 31, 2018, pro forma results were adjusted to exclude $2.9 million of U.S. HealthWorks acquisition costs.

4. Sale of Businesses

The Company recognized a non-operating gain of $6.5 million during the three months ended March 31, 2019, which resulted from the sale of 22 wholly-owned outpatient rehabilitation clinics to a non-consolidating subsidiary.

11

Table of Contents

5. Variable Interest Entities

Concentra does not own many of its medical practices, as certain states prohibit the "corporate practice of medicine," which restricts business corporations from practicing medicine through the direct employment of physicians or from exercising control over medical decisions by physicians. In states which prohibit the corporate practice of medicine, Concentra typically enters into long-term management agreements with professional corporations or associations that are owned by licensed physicians, which, in turn, employ or contract with physicians who provide professional medical services in its occupational health centers.

The management agreements have terms that provide for Concentra to conduct, supervise, and manage the day-to-day non-medical operations of the occupational health centers and provide all management and administrative services. Concentra receives a management fee for these services, which is based, in part, on the performance of the professional corporation or association. Additionally, the outstanding voting equity interests of the professional corporations or associations are typically owned by licensed physicians appointed at Concentra's discretion. Concentra has the ability to direct the transfer of ownership of the professional corporation or association to a new licensed physician at any time.

Based on the provisions of these agreements, Concentra has the ability to direct the activities which most significantly impact the performance of these professional corporations and associations and has an obligation to absorb losses or receive benefits which could potentially be significant to the professional corporations and associations. Accordingly, the professional corporations and associations are variable interest entities for which Concentra is the primary beneficiary.

The total assets of Concentra's variable interest entities, which are comprised principally of accounts receivable, were $166.2 million and $177.6 million at December 31, 2018, and March 31, 2019, respectively. The total liabilities of Concentra's variable interest entities, which are comprised principally of accounts payable, accrued expenses, and obligations payable for services received under the aforementioned management agreements, were $164.4 million and $175.8 million at December 31, 2018, and March 31, 2019, respectively.

6. Leases

The Company has operating and finance leases for its facilities and certain equipment. The Company leases its corporate office space from related parties.

The Company's critical illness recovery hospitals and rehabilitation hospitals generally have lease terms of 10 years with two, five year renewal options. These renewal options vary for hospitals which operate as a hospital within a hospital, or "HIH." The Company's outpatient rehabilitation clinics generally have lease terms of five years with two, three to five year renewal options. The Company's Concentra centers generally have lease terms of 10 years with two, five year renewal options.

For the three months ended March 31, 2019, the Company's total lease cost was as follows (in thousands):

	Unrelated Parties	Related Parties	Total
Operating lease cost	$ 66,836	$ 1,342	$ 68,178
Finance lease cost:			
Amortization of right-of-use assets	36	—	36
Interest on lease liabilities	97	—	97
Short-term lease cost	592	—	592
Variable lease cost	11,836	156	11,992
Sublease income	(2,488)	—	(2,488)
Total lease cost	$ 76,909	$ 1,498	$ 78,407

Table of Contents

For the three months ended March 31, 2019, supplemental cash flow information related to leases was as follows (in thousands):

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	$68,352
Operating cash flows for finance leases	97
Financing cash flows for finance leases	85
Right-of-use assets obtained in exchange for lease liabilities:	
Operating leases(1)	$1,080,992

---

(1) Includes the right-of-use assets obtained in exchange for lease liabilities of $1,057.0 million which were recognized upon adoption of ASC Topic 842 at January 1, 2019.

As of March 31, 2019, supplemental balance sheet information related to leases was as follows (in thousands):

	Operating Leases		
	Unrelated Parties	Related Parties	Total
Operating lease right-of-use assets	$962,186	$20,430	$982,616
Current operating lease liabilities	$200,420	$4,725	$205,145
Non-current operating lease liabilities	801,094	18,913	820,007
Total operating lease liabilities	$1,001,514	$23,638	$1,025,152

	Finance Leases		
	Unrelated Parties	Related Parties	Total
Property and equipment, gross	$2,813	$ —	$2,813
Accumulated depreciation	(36)	—	(36)
Property and equipment, net	$2,777	$ —	$2,777
Current portion of long-term debt and notes payable	$167	$ —	$167
Long-term debt, net of current portion	4,214	—	4,214
Total finance lease liabilities	$4,381	$ —	$4,381

As of March 31, 2019, the weighted average remaining lease terms and discount rates was as follows:

Weighted average remaining lease term (in years):	
Operating leases	8.1
Finance leases	13.7
Weighted average discount rate:	
Operating leases	5.9 %
Finance leases	9.0 %

As of March 31, 2019, maturities of lease liabilities were approximately as follows (in thousands):

	Operating Leases	Finance Leases	Total
2019	$196,381	$431	$196,812
2020	230,500	526	231,026
2021	192,525	537	193,062
2022	151,581	548	152,129
2023	111,167	558	111,725
Thereafter	501,279	5,075	506,354
Total undiscounted cash flows	1,383,433	7,675	1,391,108
Less: Imputed interest	358,281	3,294	361,575

Total discounted lease liabilities	$ 1,025,152	$ 4,381	$ 1,029,533

Table of Contents

In accordance with ASC Topic 840, *Leases*, and as disclosed in the Company's 2018 Annual Report on Form 10-K, the Company's future minimum lease obligations on long-term, non-cancelable operating leases with related and unrelated parties as of December 31, 2018, were approximately as follows (in thousands):

	Total
2019	$267,846
2020	231,711
2021	193,155
2022	150,155
2023	107,759
Thereafter	484,038
	$1,434,664

7. Intangible Assets

Goodwill

The following table shows changes in the carrying amounts of goodwill by reporting unit for the three months ended March 31, 2019:

	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Total
	(in thousands)				
Balance as of December 31, 2018	$1,045,220	$416,646	$642,422	$1,216,438	$3,320,726
Acquired	—	6,964	746	937	8,647
Sold	—	—	(5,624)	—	(5,624)
Balance as of March 31, 2019	$1,045,220	$423,610	$637,544	$1,217,375	$3,323,749

Identifiable Intangible Assets

The following table provides the gross carrying amounts, accumulated amortization, and net carrying amounts for the Company's identifiable intangible assets:

	December 31, 2018			March 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in thousands)					
Indefinite-lived intangible assets:						
Trademarks	$166,698	$—	$166,698	$166,698	$—	$166,698
Certificates of need	19,174	—	19,174	19,221	—	19,221
Accreditations	1,857	—	1,857	1,857	—	1,857
Finite-lived intangible assets:						
Trademarks	5,000	(4,583)	417	5,000	(5,000)	—
Customer relationships	280,710	(61,900)	218,810	283,090	(68,150)	214,940
Favorable leasehold interests[1]	13,553	(6,064)	7,489	—	—	—
Non-compete agreements	29,400	(6,152)	23,248	30,483	(6,771)	23,712
Total identifiable intangible assets	$516,392	$(78,699)	$437,693	$506,349	$(79,921)	$426,428

(1) Favorable leasehold interests are a component of the operating lease right-of-use assets upon adoption of ASC Topic 842, *Leases*.

The Company's accreditations and indefinite-lived trademarks have renewal terms and the costs to renew these intangible assets are expensed as incurred. At March 31, 2019, the accreditations and indefinite-lived trademarks have a weighted average time until next renewal of 1.5 years and 7.9 years, respectively.

Table of Contents

The Company's finite-lived intangible assets amortize over their estimated useful lives. Amortization expense was $6.4 million and $7.1 million for the three months ended March 31, 2018 and 2019, respectively.

8. Long-Term Debt and Notes Payable

For purposes of this indebtedness footnote, references to Select exclude Concentra because the Concentra credit facilities are non-recourse to Holdings and Select.

As of March 31, 2019, the Company's long-term debt and notes payable were as follows (in thousands):

	Principal Outstanding	Unamortized Premium (Discount)	Unamortized Issuance Costs	Carrying Value	Fair Value
Select:					
6.375% senior notes	$ 710,000	$ 493	$ (4,162)	$ 706,331	$ 711,775
Credit facilities:					
Revolving facility	160,000	—	—	160,000	147,200
Term loan	1,031,068	(9,267)	(8,827)	1,012,974	1,024,624
Other	64,808	—	(464)	64,344	64,344
Total Select debt	1,965,876	(8,774)	(13,453)	1,943,649	1,947,943
Concentra:					
Credit facilities:					
Term loans	1,380,297	(2,555)	(16,877)	1,360,865	1,373,545
Other debt, including finance leases	6,918	—	—	6,918	6,918
Total Concentra debt	1,387,215	(2,555)	(16,877)	1,367,783	1,380,463
Total debt	$ 3,353,091	$ (11,329)	$ (30,330)	$ 3,311,432	$ 3,328,406

Principal maturities of the Company's long-term debt and notes payable were approximately as follows (in thousands):

	2019	2020	2021	2022	2023	Thereafter	Total
Select:							
6.375% senior notes	$—	$—	$ 710,000	$—	$—	$—	$ 710,000
Credit facilities:							
Revolving facility	—	—	—	160,000	—	—	160,000
Term loan	—	—	—	—	—	1,031,068	1,031,068
Other	9,262	27,211	1,781	—	—	26,554	64,808
Total Select debt	9,262	27,211	711,781	160,000	—	1,057,622	1,965,876
Concentra:							
Credit facilities:							
Term loans	—	—	—	1,140,298	239,999	—	1,380,297
Other debt, including finance leases	1,644	754	330	358	363	3,469	6,918
Total Concentra debt	1,644	754	330	1,140,656	240,362	3,469	1,387,215
Total debt	$ 10,906	$ 27,965	$ 712,111	$ 1,300,656	$ 240,362	$ 1,061,091	$ 3,353,091

Table of Contents

As of December 31, 2018, the Company's long-term debt and notes payable were as follows (in thousands):

	Principal Outstanding	Unamortized Premium (Discount)	Unamortized Issuance Costs	Carrying Value	Fair Value
Select:					
6.375% senior notes	$ 710,000	$ 550	$ (4,642)	$ 705,908	$ 706,450
Credit facilities:					
Revolving facility	20,000	—	—	20,000	18,400
Term loan	1,129,875	(9,690)	(9,321)	1,110,864	1,076,206
Other	56,415	—	(484)	55,931	55,931
Total Select debt	1,916,290	(9,140)	(14,447)	1,892,703	1,856,987
Concentra:					
Credit facilities:					
Term loans	1,414,175	(2,765)	(18,648)	1,392,762	1,357,802
Other debt, including finance leases	7,916	—	—	7,916	7,916
Total Concentra debt	1,422,091	(2,765)	(18,648)	1,400,678	1,365,718
Total debt	$ 3,338,381	$ (11,905)	$ (33,095)	$ 3,293,381	$ 3,222,705

Excess Cash Flow Payment

During the three months ended March 31, 2019, Select made a principal prepayment of approximately $98.8 million associated with its term loans in accordance with the provision in the Select credit facilities that requires mandatory prepayments of term loans as a result of annual excess cash flow, as defined in the Select credit facilities. The principal prepayment was applied against future payments sequentially; as a result, no further loan amortization payments will be required on the Select term loan until maturity on March 6, 2025.

During the three months ended March 31, 2019, Concentra made a principal prepayment of approximately $33.9 million associated with its term loans in accordance with the provision in the Concentra credit facilities that requires mandatory prepayments of term loans as a result of annual excess cash flow, as defined in the Concentra credit facilities. The principal prepayment was applied against future payments sequentially; as a result, no further loan amortization payments will be required on the terms loans outstanding under the Concentra first lien credit agreement until maturity on June 1, 2022.

Fair Value

The Company considers the inputs in the valuation process to be Level 2 in the fair value hierarchy for Select's 6.375% senior notes and for its credit facilities. 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.

The fair values of the Select credit facilities and the Concentra credit facilities were based on quoted market prices for this debt in the syndicated loan market. The fair value of Select's 6.375% senior notes was based on quoted market prices. The carrying amount of other debt, principally short-term notes payable, approximates fair value.

Table of Contents

9. Segment Information

The Company’s reportable segments include the critical illness recovery hospital segment, rehabilitation hospital segment, outpatient rehabilitation segment, and Concentra segment. Other activities include the Company’s corporate shared services and certain other non-consolidating joint ventures and minority investments in other healthcare related businesses.

The Company evaluates performance of the segments based on Adjusted EBITDA. Adjusted EBITDA is defined as earnings excluding interest, income taxes, depreciation and amortization, gain (loss) on early retirement of debt, stock compensation expense, acquisition costs associated with U.S. HealthWorks, non-operating gain (loss), and equity in earnings (losses) of unconsolidated subsidiaries. The Company has provided additional information regarding its reportable segments, such as total assets, which contributes to the understanding of the Company and provides useful information to the users of the consolidated financial statements.

The following tables summarize selected financial data for the Company’s reportable segments. The segment results of Holdings are identical to those of Select.

	Three Months Ended March 31,	
	2018	2019
	(in thousands)	
Net operating revenues:		
Critical illness recovery hospital	$464,676	$462,159
Rehabilitation hospital	174,774	188,954
Outpatient rehabilitation	257,381	277,197
Concentra	356,116	396,321
Other	17	—
Total Company	$1,252,964	$1,324,631
Adjusted EBITDA:		
Critical illness recovery hospital	$72,972	$72,998
Rehabilitation hospital	26,776	25,797
Outpatient rehabilitation	30,525	28,991
Concentra	57,797	66,258
Other	(24,838)	(23,927)
Total Company	$163,232	$170,117
Total assets:		
Critical illness recovery hospital	$1,862,791	$2,062,659
Rehabilitation hospital	877,750	1,089,391
Outpatient rehabilitation	973,122	1,250,015
Concentra	2,143,405	2,464,317
Other	111,575	155,110
Total Company	$5,968,643	$7,021,492
Purchases of property and equipment, net:		
Critical illness recovery hospital	$10,472	$10,160
Rehabilitation hospital	12,917	13,183
Outpatient rehabilitation	7,338	9,040
Concentra	6,621	15,698
Other	2,269	992
Total Company	$39,617	$49,073

Table of Contents

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

	Three Months Ended March 31, 2018					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Adjusted EBITDA	$72,972	$ 26,776	$ 30,525	$ 57,797	$(24,838)	
Depreciation and amortization	(11,058)	(5,722)	(6,637)	(21,147)	(2,207)	
Stock compensation expense	—	—	—	(211)	(4,716)	
U.S. HealthWorks acquisition costs	—	—	—	(2,936)	—	
Income (loss) from operations	$61,914	$ 21,054	$ 23,888	$ 33,503	$(31,761)	$108,598
Loss on early retirement of debt						(10,255)
Equity in earnings of unconsolidated subsidiaries						4,697
Non-operating gain						399
Interest expense						(47,163)
Income before income taxes						$56,276

	Three Months Ended March 31, 2019					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Adjusted EBITDA	$72,998	$ 25,797	$ 28,991	$ 66,258	$(23,927)	
Depreciation and amortization	(11,451)	(6,402)	(7,032)	(24,904)	(2,349)	
Stock compensation expense	—	—	—	(767)	(5,488)	
Income (loss) from operations	$61,547	$ 19,395	$ 21,959	$ 40,587	$(31,764)	$111,724
Equity in earnings of unconsolidated subsidiaries						4,366
Non-operating gain						6,532
Interest expense						(50,811)
Income before income taxes						$71,811

10. Revenue from Contracts with Customers

Net operating revenues consist primarily of patient service revenues generated from services provided to patients and other revenues for services provided to healthcare institutions under contractual arrangements. The following tables disaggregate the Company's net operating revenues for the three months ended March 31, 2018 and 2019:

	Three Months Ended March 31, 2018			
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra
	(in thousands)			
Patient service revenues:				
Medicare	$240,992	$ 72,841	$ 38,190	$ 628
Non-Medicare	220,006	61,902	188,900	353,252
Total patient services revenues	460,998	134,743	227,090	353,880
Other revenues	3,678	40,031	30,291	2,236
Total net operating revenues	$464,676	$ 174,774	$ 257,381	$ 356,116

Table of Contents

	Three Months Ended March 31, 2019			
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra
	(in thousands)			
Patient service revenues:				
Medicare	$238,169	$ 74,579	$ 40,278	$ 555
Non-Medicare	216,959	70,642	187,914	393,236
Total patient services revenues	455,128	145,221	228,192	393,791
Other revenues	7,031	43,733	49,005	2,530
Total net operating revenues	$462,159	$ 188,954	$ 277,197	$ 396,321

11. Earnings per Share

The Company’s capital structure includes common stock and unvested restricted stock awards. To compute earnings per share (“EPS”), the Company applies the two-class method because the Company’s unvested restricted stock awards are participating securities which are entitled to participate equally with the Company’s common stock in undistributed earnings. Application of the Company’s two-class method is as follows:

(i) Net income attributable to the Company is reduced by the amount of dividends declared and by the contractual amount of dividends that must be paid for the current period for each class of stock. There were no dividends declared or contractual dividends paid for the three months ended March 31, 2018 and 2019.

(ii) The remaining undistributed net income of the Company is then equally allocated to its common stock and unvested restricted stock awards, as if all of the earnings for the period had been distributed. The total net income allocated to each security is determined by adding both distributed and undistributed net income for the period.

(i) The net income allocated to each security is then divided by the weighted average number of outstanding shares for the period to determine the EPS for each security considered in the two-class method.

The following table sets forth the net income attributable to the Company, its common shares outstanding, and its participating securities outstanding.

	Basic EPS		Diluted EPS	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2018	2019	2018	2019
	(in thousands)			
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 the Company	33,739	40,834	33,739	40,834
Less: net income attributable to participating securities	1,111	1,343	1,110	1,343
Net income attributable to common shares	$32,628	$39,491	$32,629	$39,491

The following tables set forth the computation of EPS under the two-class method:

	Three Months Ended March 31, 2019					
	Net Income Allocation	Shares(1)	Basic EPS	Net Income Allocation	Shares(1)	Diluted EPS
	(in thousands, except for per share amounts)					
Common shares	$39,491	130,821	$0.30	$ 39,491	130,861	$ 0.30
Participating securities	1,343	4,449	$0.30	1,343	4,449	$ 0.30
Total Company	$40,834			$ 40,834		

Table of Contents

	Three Months Ended March 31, 2018					
	Net Income Allocation	Shares(1)	Basic EPS	Net Income Allocation	Shares(1)	Diluted EPS
	(in thousands, except for per share amounts)					
Common shares	$32,628	129,691	$0.25	$ 32,629	129,816	$ 0.25
Participating securities	1,111	4,416	$0.25	1,110	4,416	$ 0.25
Total Company	$33,739			$ 33,739		

(1) Represents the weighted average share count outstanding during the period.

12. 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 Company’s operations, the Company maintains professional malpractice liability insurance and general liability insurance coverages through a number of different programs that are dependent upon such factors as the state where the Company is operating and whether the operations are wholly owned or are operated through a joint venture. For the Company’s wholly owned operations, the Company currently maintains insurance coverages under a combination of policies with a total annual aggregate limit of up to $40.0 million. The Company’s insurance for the professional liability coverage is written on a “claims-made” basis, and its commercial general liability coverage is maintained on an “occurrence” basis. These coverages apply after a self-insured retention limit is exceeded. For the Company’s joint venture operations, the Company has numerous programs that are designed to respond to the risks of the specific joint venture. The annual aggregate limit under these programs ranges from $5.0 million to $20.0 million. The policies are generally written on a “claims-made” basis. Each of these programs has either a deductible or self-insured retention limit. The Company reviews its insurance program annually and may make adjustments to the amount of insurance coverage and self-insured retentions in future years. 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 is and 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.

Table of Contents

Evansville Litigation. On October 19, 2015, the plaintiff relators filed a Second Amended Complaint in United States of America, ex rel. Tracy Conroy, Pamela Schenk and Lisa Wilson v. Select Medical Corporation, Select Specialty Hospital-Evansville, LLC (“SSH Evansville”), Select Employment Services, Inc., and Dr. Richard Sloan. The case is a civil action filed in the United States District Court for the Southern District of Indiana by private plaintiff relators on behalf of the United States under the federal False Claims Act. The plaintiff relators are the former CEO and two former case managers at SSH Evansville, and the defendants currently include the Company, SSH Evansville, a subsidiary of the Company serving as common paymaster for its employees, and a physician who practices at SSH Evansville. The plaintiff relators allege that SSH Evansville discharged patients too early or held patients too long, improperly discharged patients to and readmitted them from short stay hospitals, up coded diagnoses at admission, and admitted patients for whom long term acute care was not medically necessary. They also allege that the defendants engaged in retaliation in violation of federal and state law. The Second Amended Complaint replaced a prior complaint that was filed under seal on September 28, 2012 and served on the Company on February 15, 2013, after a federal magistrate judge unsealed it on January 8, 2013. All deadlines in the case had been stayed after the seal was lifted in order to allow the government time to complete its investigation and to decide whether or not to intervene. On June 19, 2015, the United States Department of Justice notified the District Court of its decision not to intervene in the case.

In December 2015, the defendants filed a Motion to Dismiss the Second Amended Complaint on multiple grounds, including that the action is disallowed by the False Claims Act’s public disclosure bar, which disqualifies qui tam actions that are based on fraud already publicly disclosed through enumerated sources, unless the relator is an original source, and that the plaintiff relators did not plead their claims with sufficient particularity, as required by the Federal Rules of Civil Procedure.

Thereafter, the United States filed a notice asserting a veto of the defendants’ use of the public disclosure bar for claims arising from conduct from and after March 23, 2010, which was based on certain statutory changes to the public disclosure bar language included in the Affordable Care Act. On September 30, 2016, the District Court partially granted and partially denied the defendants’ Motion to Dismiss. It ruled that the plaintiff relators alleged substantially the same conduct as had been publicly disclosed and that the plaintiff relators are not original sources, so that the public disclosure bar requires dismissal of all non retaliation claims arising from conduct before March 23, 2010. The District Court also ruled that the statutory changes to the public disclosure bar gave the United States the power to veto its applicability to claims arising from conduct on and after March 23, 2010, and therefore did not dismiss those claims based on the public disclosure bar. However, the District Court ruled that the plaintiff relators did not plead certain of their claims relating to interrupted stay manipulation and premature discharging of patients with the requisite particularity, and dismissed those claims. The District Court declined to dismiss the plaintiff relators’ claims arising from conduct from and after March 23, 2010 relating to delayed discharging of patients and up-coding and the plaintiff relators’ retaliation claims. The plaintiff-relators then proposed a case management plan seeking nationwide discovery involving all of the Company’s LTCHs for the period from March 23, 2010 through the present and allowing discovery that would facilitate the use of statistical sampling to prove liability, which the defendants opposed. In April 2018, a U.S. magistrate judge ruled that plaintiff relators’ discovery will be limited to only SSH-Evansville for the period from March 23, 2010 through September 30, 2016, and that the plaintiff relators will be required to prove the fraud that they allege on a claim-by-claim basis, rather than using statistical sampling. The plaintiff-relators appealed this decision to the district judge who, in March 2019, affirmed the decision of the magistrate judge regarding the geographic and temporal scope of the case, but ruled that the question of statistical sampling is not ripe for review.

The Company intends to vigorously defend this action, but at this time the Company is unable to predict the timing and outcome of this matter.

Wilmington Litigation. On January 19, 2017, the United States District Court for the District of Delaware unsealed a qui tam Complaint in United States of America and State of Delaware ex rel. Theresa Kelly v. Select Specialty Hospital-Wilmington, Inc. ("SSH Wilmington"), Select Specialty Hospitals, Inc., Select Employment Services, Inc., Select Medical Corporation, and Crystal Cheek, No. 16 347 LPS. The Complaint was initially filed under seal in May 2016 by a former chief nursing officer at SSH Wilmington and was unsealed after the United States filed a Notice of Election to Decline Intervention in January 2017. The corporate defendants were served in March 2017. In the complaint, the plaintiff relator alleges that the Select defendants and an individual defendant, who is a former health information manager at SSH Wilmington, violated the False Claims Act and the Delaware False Claims and Reporting Act based on allegedly falsifying medical practitioner signatures on medical records and failing to properly examine the credentials of medical practitioners at SSH Wilmington. In response to the Select defendants' motion to dismiss the Complaint, in May 2017 the plaintiff-relator filed an Amended Complaint asserting the same causes of action. The Select defendants filed a Motion to Dismiss the Amended Complaint based on numerous grounds, including that the Amended Complaint did not plead any alleged fraud with sufficient particularity, failed to plead that the alleged fraud was material to the government's payment decision, failed to plead sufficient facts to establish that the Select defendants knowingly submitted false claims or records, and failed to allege any reverse false claim. In March 2018, the District Court dismissed the plaintiff relator's claims related to the alleged failure to properly examine medical practitioners' credentials, her reverse false claims allegations, and her claim that defendants violated the Delaware False Claims and Reporting Act. It denied the defendants' motion to dismiss claims that the allegedly falsified medical practitioner signatures violated the False Claims Act. Separately, the District Court dismissed the individual defendant due to plaintiff-relator's failure to timely serve the amended complaint upon her.

In March 2017, the plaintiff-relator initiated a second action by filing a Complaint in the Superior Court of the State of Delaware in Theresa Kelly v. Select Medical Corporation, Select Employment Services, Inc., and SSH Wilmington, C.A. No. N17C-03-293 CLS. The Delaware Complaint alleges that the defendants retaliated against her in violation of the Delaware Whistleblowers' Protection Act for reporting the same alleged violations that are the subject of the federal Amended Complaint. The defendants filed a motion to dismiss, or alternatively to stay, the Delaware Complaint based on the pending federal Amended Complaint and the failure to allege facts to support a violation of the Delaware Whistleblowers' Protection Act. In January 2018, the Court stayed the Delaware Complaint pending the outcome of the federal case.

The Company intends to vigorously defend these actions, but at this time the Company is unable to predict the timing and outcome of this matter.

Contract Therapy Subpoena. On May 18, 2017, the Company received a subpoena from the U.S. Attorney's Office for the District of New Jersey seeking various documents principally relating to the Company's contract therapy division, which contracted to furnish rehabilitation therapy services to residents of skilled nursing facilities ("SNFs") and other providers. The Company operated its contract therapy division through a subsidiary until March 31, 2016, when the Company sold the stock of the subsidiary. The subpoena seeks documents that appear to be aimed at assessing whether therapy services were furnished and billed in compliance with Medicare SNF billing requirements, including whether therapy services were coded at inappropriate levels and whether excessive or unnecessary therapy was furnished to justify coding at higher paying levels. The Company does not know whether the subpoena has been issued in connection with a qui tam lawsuit or in connection with possible civil, criminal or administrative proceedings by the government. The Company is producing documents in response to the subpoena and intends to fully cooperate with this investigation. At this time, the Company is unable to predict the timing and outcome of this matter.

13. Condensed Consolidating Financial Information

Select's 6.375% senior notes are fully and unconditionally and jointly and severally guaranteed, except for customary limitations, on a senior basis by all of Select's wholly owned subsidiaries (the "Subsidiary Guarantors"). The Subsidiary Guarantors are defined as subsidiaries 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" and Concentra Group Holdings Parent and its subsidiaries, "Non-Guarantor Concentra").

Select conducts a significant portion of its business through its subsidiaries. Presented below is condensed consolidating financial information for Select, the Subsidiary Guarantors, the Non-Guarantor Subsidiaries, and Non-Guarantor Concentra.

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.

Certain reclassifications have been made to prior reported amounts in order to conform to the current year guarantor structure.

Table of Contents

Select Medical Corporation
Condensed Consolidating Balance Sheet
March 31, 2019
(unaudited)

	Select (Parent Company Only) (in thousands)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Consolidating and Eliminating Adjustments	Consolidated Select Medical Corporation
ASSETS						
Current Assets:						
Cash and cash equivalents	$78	$7,454	$ 3,353	$ 136,930	$ —	$ 147,815
Accounts receivable	—	444,580	132,312	202,969	—	779,861
Intercompany receivables	—	1,723,869	91,005	—	(1,814,874) (a)	—
Prepaid income taxes	399	5,132	—	2,833	(655) (f)	7,709
Other current assets	30,152	33,973	10,025	43,350	—	117,500
Total Current Assets	30,629	2,215,008	236,695	386,082	(1,815,529)	1,052,885
Operating lease right-of-use assets	34,992	451,905	496,144	305,795	(306,220) (a)	982,616
Property and equipment, net	28,774	622,323	107,147	214,563	—	972,807
Investment in affiliates	4,491,439	138,297	—	—	(4,629,736) (b)(c)	—
Goodwill	—	2,106,374	—	1,217,375	—	3,323,749
Identifiable intangible assets, net	3	99,884	5,108	321,433	—	426,428
Other assets	36,974	208,431	33,207	19,069	(34,674) (a)(e)	263,007
Total Assets	$4,622,811	$5,842,222	$ 878,301	$ 2,464,317	$ (6,786,159)	$ 7,021,492
LIABILITIES AND EQUITY						
Current Liabilities:						
Overdrafts	$31,133	$—	$ —	$ —	$ —	$ 31,133
Current operating lease liabilities	6,298	105,809	36,663	67,347	(10,972) (a)	205,145
Current portion of long-term debt and notes payable	8,656	498	896	2,279	—	12,329
Accounts payable	12,198	77,245	23,396	27,742	—	140,581
Intercompany payables	1,723,869	91,005	—	—	(1,814,874) (a)	—
Accrued payroll	4,080	87,957	2,744	47,508	—	142,289
Accrued vacation	4,855	64,878	14,953	31,989	—	116,675
Accrued interest	16,915	26	4	5,648	—	22,593
Accrued other	65,968	60,930	15,355	63,282	—	205,535
Income taxes payable	—	4,197	170	4,945	(655) (f)	8,657
Total Current Liabilities	1,873,972	492,545	94,181	250,740	(1,826,501)	884,937
Non-current operating lease liabilities	31,902	370,579	465,664	247,673	(295,811) (a)	820,007
Long-term debt, net of current portion	1,882,471	37	51,091	1,365,504	—	3,299,103
Non-current deferred tax liability	—	103,314	1,329	58,130	(8,910) (e)	153,863
Other non-current liabilities	32,435	60,464	2,959	35,134	(25,201) (a)	105,791
Total Liabilities	3,820,780	1,026,939	615,224	1,957,181	(2,156,423)	5,263,701
Redeemable non-controlling interests	—	—	—	17,283	815,958 (d)	833,241
Stockholders' Equity:						
Common stock	0	—	—	—	—	0
Capital in excess of par	975,903	—	—	—	—	975,903
Retained earnings (accumulated deficit)	(173,872)	1,575,968	(28,082)	24,837	(1,572,723) (c)(d)	(173,872)
Subsidiary investment	—	3,239,315	291,159	459,625	(3,990,099) (b)(d)	—
Total Select Medical Corporation Stockholders' Equity	802,031	4,815,283	263,077	484,462	(5,562,822)	802,031
Non-controlling interests	—	—	—	5,391	117,128 (d)	122,519

Total Equity	802,031	4,815,283	263,077	489,853	(5,445,694)	924,550
Total Liabilities and Equity	$ 4,622,811	$ 5,842,222	$ 878,301	$ 2,464,317	$ (6,786,159)	$ 7,021,492

(a) Elimination of intercompany balances.
(b) Elimination of investments in consolidated subsidiaries.
(c) Elimination of investments in consolidated subsidiaries' earnings.
(d) Reclassification of equity attributable to non-controlling interests.
(e) Reclassification to report net non-current deferred tax liability in consolidation.
(f) Reclassification to report prepaid income taxes and income taxes payable by tax jurisdiction in consolidation.

Table of Contents

Select Medical Corporation
Condensed Consolidating Statement of Operations
For the Three Months Ended March 31, 2019
(unaudited)

	Select (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Consolidating and Eliminating Adjustments	Consolidated Select Medical Corporation
	(in thousands)					
Net operating revenues	$—	$ 719,830	$ 208,480	$ 396,321	$ —	$ 1,324,631
Costs and expenses:						
Cost of services, exclusive of depreciation and amortization	739	624,475	176,048	330,830	—	1,132,092
General and administrative	28,697	(20)	—	—	—	28,677
Depreciation and amortization	2,231	20,534	4,469	24,904	—	52,138
Total costs and expenses	31,667	644,989	180,517	355,734	—	1,212,907
Income (loss) from operations	(31,667)	74,841	27,963	40,587	—	111,724
Other income and expense:						
Intercompany interest and royalty fees	4,108	(1,102)	(2,643)	(363)	—	—
Intercompany management fees	61,472	(48,770)	(12,702)	—	—	—
Equity in earnings of unconsolidated subsidiaries	—	4,343	23	—	—	4,366
Non-operating gain	—	6,532	—	—	—	6,532
Interest income (expense)	(28,200)	120	(221)	(22,510)	—	(50,811)
Income before income taxes	5,713	35,964	12,420	17,714	—	71,811
Income tax expense	57	14,225	407	3,778	—	18,467
Equity in earnings of consolidated subsidiaries	35,178	7,211	—	—	(42,389) (a)	—
Net income	40,834	28,950	12,013	13,936	(42,389)	53,344
Less: Net income attributable to non-controlling interests	—	—	4,802	7,708	—	12,510
Net income attributable to Select Medical Corporation	$ 40,834	$ 28,950	$ 7,211	$ 6,228	$ (42,389)	$ 40,834

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

Table of Contents

Select Medical Corporation
Condensed Consolidating Statement of Cash Flows
For the Three Months Ended March 31, 2019
(unaudited)

	Select (Parent Company Only) (in thousands)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Consolidating and Eliminating Adjustments		Consolidated Select Medical Corporation
Operating activities							
Net income	$40,834	$ 28,950	$ 12,013	$ 13,936	$ (42,389)	(a)	$ 53,344
Adjustments to reconcile net income to net cash provided by (used in) operating activities:							
Distributions from unconsolidated subsidiaries	—	7,865	7	—	—		7,872
Depreciation and amortization	2,231	20,534	4,469	24,904	—		52,138
Provision for bad debts	—	21	1,532	14	—		1,567
Equity in earnings of unconsolidated subsidiaries	—	(4,343)	(23)	—	—		(4,366)
Equity in earnings of consolidated subsidiaries	(35,178)	(7,211)	—	—	42,389	(a)	—
Loss (gain) on sale of assets and businesses	300	(6,533)	—	—	—		(6,233)
Stock compensation expense	5,488	—	—	767	—		6,255
Amortization of debt discount, premium and issuance costs	1,286	—	—	1,945	—		3,231
Deferred income taxes	(364)	2,190	335	(2,242)	—		(81)
Changes in operating assets and liabilities, net of effects of business combinations:							
Accounts receivable	—	(46,927)	(15,161)	(12,664)	—		(74,752)
Other current assets	(7,386)	(1,991)	2,219	(365)	—		(7,523)
Other assets	1,674	28,412	13,292	17,909	(3,968)	(b)	57,319
Accounts payable	(1,785)	926	2,745	2,438	—		4,324
Accrued expenses	(480)	(34,475)	(14,477)	(22,999)	3,268	(b)	(69,163)
Income taxes	9,819	2,410	(20)	5,621	—		17,830
Net cash provided by (used in) operating activities	16,439	(10,172)	6,931	29,264	(700)		41,762
Investing activities							
Business combinations, net of cash acquired	—	(3,905)	(410)	(1,805)	—		(6,120)
Purchases of property and equipment	(953)	(23,309)	(9,113)	(15,698)	—		(49,073)
Investment in businesses	—	(27,608)	—	—	—		(27,608)
Proceeds from sale of assets and businesses	—	2	—	—	—		2
Net cash used in investing activities	(953)	(54,820)	(9,523)	(17,503)	—		(82,799)
Financing activities							
Borrowings on revolving facilities	360,000	—	—	—	—		360,000
Payments on revolving facilities	(220,000)	—	—	—	—		(220,000)
Payments on term loans	(98,807)	—	—	(33,878)	—		(132,685)
Borrowings of other debt	5,612	—	2,678	—	—		8,290
Principal payments on other debt	(3,140)	(161)	(1,113)	(1,741)	—		(6,155)
Intercompany	(65,200)	67,956	(3,456)	—	700	(b)	—
Increase in overdrafts	6,050	—	—	—	—		6,050
Proceeds from issuance of non-controlling interests	—	—	3,425	—	—		3,425
Distributions to and purchases of non-controlling interests	—	(2,923)	—	(2,328)	—		(5,251)
Net cash provided by (used in) financing activities	(15,485)	64,872	1,534	(37,947)	700		13,674
Net increase (decrease) in cash and cash equivalents	1	(120)	(1,058)	(26,186)	—		(27,363)
Cash and cash equivalents at beginning of period	77	7,574	4,411	163,116	—		175,178
Cash and cash equivalents at end of period	$78	$ 7,454	$ 3,353	$ 136,930	$ —		$ 147,815

(a) Elimination of equity in earnings of consolidated subsidiaries.
(b) Elimination of intercompany balances.

Table of Contents

Select Medical Corporation
Condensed Consolidating Balance Sheet
December 31, 2018
(unaudited)

	Select (Parent Company Only) (in thousands)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Consolidating and Eliminating Adjustments		Consolidated Select Medical Corporation
ASSETS							
Current Assets:							
Cash and cash equivalents	$77	$7,574	$ 4,411	$ 163,116	$ —		$ 175,178
Accounts receivable	—	397,674	118,683	190,319	—		706,676
Intercompany receivables	—	1,787,184	83,230	—	(1,870,414)	(a)	—
Prepaid income taxes	10,205	5,711	—	4,623	—		20,539
Other current assets	17,866	31,181	14,048	27,036	—		90,131
Total Current Assets	28,148	2,229,324	220,372	385,094	(1,870,414)		992,524
Property and equipment, net	30,103	625,947	103,006	220,754	—		979,810
Investment in affiliates	4,497,167	127,036	—	—	(4,624,203)	(b)(c)	—
Goodwill	—	2,104,288	—	1,216,438	—		3,320,726
Identifiable intangible assets, net	3	102,120	5,020	330,550	—		437,693
Other assets	37,281	145,467	33,417	26,032	(8,685)	(e)	233,512
Total Assets	$4,592,702	$5,334,182	$ 361,815	$ 2,178,868	$ (6,503,302)		$ 5,964,265
LIABILITIES AND EQUITY							
Current Liabilities:							
Overdrafts	$25,083	$—	$ —	$ —	$ —		$ 25,083
Current portion of long-term debt and notes payable	4,363	248	2,001	37,253	—		43,865
Accounts payable	14,033	84,343	20,956	27,361	—		146,693
Intercompany payables	1,787,184	83,230	—	—	(1,870,414)	(a)	—
Accrued payroll	15,533	99,803	5,936	51,114	—		172,386
Accrued vacation	4,613	60,989	13,942	31,116	—		110,660
Accrued interest	5,996	22	3	6,116	—		12,137
Accrued other	60,056	61,226	17,098	52,311	—		190,691
Income taxes payable	—	2,366	190	1,115	—		3,671
Total Current Liabilities	1,916,861	392,227	60,126	206,386	(1,870,414)		705,186
Long-term debt, net of current portion	1,837,241	448	48,402	1,363,425	—		3,249,516
Non-current deferred tax liability	—	101,214	994	60,372	(8,685)	(e)	153,895
Other non-current liabilities	35,558	59,901	9,194	54,287	—		158,940
Total Liabilities	3,789,660	553,790	118,716	1,684,470	(1,879,099)		4,267,537
Redeemable non-controlling interests	—	—	—	18,525	761,963	(d)	780,488
Stockholders' Equity:							
Common stock	0	—	—	—	—		0
Capital in excess of par	970,156	—	—	—	—		970,156
Retained earnings (accumulated deficit)	(167,114)	1,547,018	(29,553)	12,355	(1,529,820)	(c)(d)	(167,114)
Subsidiary investment	—	3,233,374	272,652	457,974	(3,964,000)	(b)(d)	—
Total Select Medical Corporation Stockholders' Equity	803,042	4,780,392	243,099	470,329	(5,493,820)		803,042
Non-controlling interests	—	—	—	5,544	107,654	(d)	113,198
Total Equity	803,042	4,780,392	243,099	475,873	(5,386,166)		916,240
Total Liabilities and Equity	$4,592,702	$5,334,182	$ 361,815	$ 2,178,868	$ (6,503,302)		$ 5,964,265

(a) Elimination of intercompany balances.
(b) Elimination of investments in consolidated subsidiaries.

(c) Elimination of investments in consolidated subsidiaries' earnings.
(d) Reclassification of equity attributable to non-controlling interests.
(e) Reclassification to report net non-current deferred tax liability in consolidation.

Table of Contents

Select Medical Corporation
Condensed Consolidating Statement of Operations
For the Three Months Ended March 31, 2018
(unaudited)

	Select (Parent Company Only)	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Non-Guarantor Concentra	Consolidating and Eliminating Adjustments	Consolidated Select Medical Corporation
	(in thousands)					
Net operating revenues	$ 17	$ 706,412	$ 190,419	$ 356,116	$ —	$ 1,252,964
Costs and expenses:						
Cost of services, exclusive of depreciation and amortization	726	608,026	158,531	298,530	—	