UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file numbers: 001-34465

SELECT MEDICAL HOLDINGS CORPORATION

(Exact name of Registrant as specified in its Charter)

Delaware	**20-1764048**
(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
(Registrant's 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 Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods as such Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the Registrant has 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 Registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging Growth Company	☐

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of July 31, 2023, Select Medical Holdings Corporation had outstanding 127,143,417 shares of common stock.

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 Group Holdings Parent, LLC ("Concentra Group Holdings Parent") and its subsidiaries, including Concentra Inc. References to the "Company," "we," "us," and "our" refer collectively to Holdings, Select, and Concentra.

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ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Select Medical Holdings Corporation
Condensed Consolidated Balance Sheets
(unaudited)
(in thousands, except share and per share amounts)

	December 31, 2022	June 30, 2023
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 97,906	$ 101,167
Accounts receivable	941,312	964,680
Prepaid income taxes	31,868	16,513
Current portion of interest rate cap contract	74,857	83,938
Other current assets	125,370	138,186
Total Current Assets	1,271,313	1,304,484
Operating lease right-of-use assets	1,169,740	1,182,839
Property and equipment, net	1,001,440	1,004,430
Goodwill	3,484,200	3,486,050
Identifiable intangible assets, net	351,662	346,733
Interest rate cap contract, net of current portion	45,200	18,396
Other assets	341,738	358,937
Total Assets	$ 7,665,293	$ 7,701,869
LIABILITIES AND EQUITY		
Current Liabilities:		
Overdrafts	$ 31,961	$ 31,494
Current operating lease liabilities	236,784	241,517
Current portion of long-term debt and notes payable	44,351	57,205
Accounts payable	186,729	186,787
Accrued payroll	209,789	191,061
Accrued vacation	150,695	159,168
Accrued interest	29,837	29,514
Accrued other	264,525	283,257
Income taxes payable	480	8,209
Total Current Liabilities	1,155,151	1,188,212
Non-current operating lease liabilities	1,008,394	1,021,314
Long-term debt, net of current portion	3,835,211	3,695,341
Non-current deferred tax liability	169,793	155,925
Other non-current liabilities	106,137	105,123
Total Liabilities	6,274,686	6,165,915
Commitments and contingencies (Note 13)		
Redeemable non-controlling interests	34,043	34,375
Stockholders’ Equity:		
Common stock, $0.001 par value, 700,000,000 shares authorized, 127,173,871 and 127,387,869 shares issued and outstanding at 2022 and 2023, respectively	127	127
Capital in excess of par	452,183	473,942
Retained earnings	581,010	696,922
Accumulated other comprehensive income	88,602	75,047
Total Stockholders’ Equity	1,121,922	1,246,038
Non-controlling interests	234,642	255,541
Total Equity	1,356,564	1,501,579
Total Liabilities and Equity	$ 7,665,293	$ 7,701,869

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

Select Medical Holdings Corporation
Condensed Consolidated Statements of Operations
(unaudited)
(in thousands, except per share amounts)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2023	2022	2023
Revenue	$ 1,584,741	$ 1,674,528	$ 3,184,288	$ 3,339,508
Costs and expenses:				
Cost of services, exclusive of depreciation and amortization	1,390,550	1,423,603	2,797,560	2,842,422
General and administrative	37,268	42,508	74,781	84,787
Depreciation and amortization	51,081	49,939	102,120	102,364
Total costs and expenses	1,478,899	1,516,050	2,974,461	3,029,573
Other operating income	15,125	726	15,125	726
Income from operations	120,967	159,204	224,952	310,661
Other income and expense:				
Equity in earnings of unconsolidated subsidiaries	6,167	10,501	11,564	19,057
Interest expense	(41,052)	(48,997)	(76,566)	(97,568)
Income before income taxes	86,082	120,708	159,950	232,150
Income tax expense	19,820	28,848	37,762	55,033
Net income	66,262	91,860	122,188	177,117
Less: Net income attributable to non-controlling interests	11,055	13,623	17,864	28,075
Net income attributable to Select Medical Holdings Corporation	$ 55,207	$ 78,237	$ 104,324	$ 149,042
Earnings per common share (Note 12):				
Basic and diluted	$ 0.43	$ 0.61	$ 0.79	$ 1.17

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

Select Medical Holdings Corporation
Condensed Consolidated Statements of Comprehensive Income
(unaudited)
(in thousands)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2023	2022	2023
Net income	$ 66,262	$ 91,860	$ 122,188	$ 177,117
Other comprehensive income (loss), net of tax:				
Gain on interest rate cap contract	11,833	17,527	51,647	14,831
Reclassification adjustment for losses (gains) included in net income	(6)	(15,134)	33	(28,386)
Net change, net of tax benefit (expense) of $(3,942), $(777), $(17,227), and $4,398	11,827	2,393	51,680	(13,555)
Comprehensive income	78,089	94,253	173,868	163,562
Less: Comprehensive income attributable to non-controlling interests	11,055	13,623	17,864	28,075
Comprehensive income attributable to Select Medical Holdings Corporation	$ 67,034	$ 80,630	$ 156,004	$ 135,487

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

Select Medical Holdings Corporation
Condensed Consolidated Statements of Changes in Equity and Income
(unaudited)
(in thousands)

	For the Six Months Ended June 30, 2023							
		Total Stockholders' Equity						
	Common Stock Issued	Common Stock Par Value	Capital in Excess of Par	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2022	127,173	$ 127	$ 452,183	$ 581,010	$ 88,602	$ 1,121,922	$ 234,642	$ 1,356,564
Net income attributable to Select Medical Holdings Corporation				70,805		70,805		70,805
Net income attributable to non-controlling interests						—	12,811	12,811
Cash dividends declared for common stockholders ($0.125 per share)				(15,897)		(15,897)		(15,897)
Issuance of restricted stock	3	0	0			—		—
Vesting of restricted stock			10,003			10,003		10,003
Issuance of non-controlling interests						—	2,731	2,731
Non-controlling interests acquired in business combination						—	3,877	3,877
Distributions to and purchases of non-controlling interests						—	(6,069)	(6,069)
Redemption value adjustment on non-controlling interests				(436)		(436)		(436)
Other comprehensive income					(15,948)	(15,948)		(15,948)
Other			(1)	1		—		—
Balance at March 31, 2023	127,176	$ 127	$ 462,185	$ 635,483	$ 72,654	$ 1,170,449	$ 247,992	$ 1,418,441
Net income attributable to Select Medical Holdings Corporation				78,237		78,237		78,237
Net income attributable to non-controlling interests						—	11,539	11,539
Cash dividends declared for common stockholders ($0.125 per share)				(15,924)		(15,924)		(15,924)
Issuance of restricted stock	261	0	0			—		—
Vesting of restricted stock			10,326			10,326		10,326
Repurchase of common shares	(49)	0	(634)	(872)		(1,506)		(1,506)
Issuance of non-controlling interests			1,870			1,870	10,211	12,081
Distributions to and purchases of non-controlling interests			195			195	(14,201)	(14,006)
Redemption value adjustment on non-controlling interests				(2)		(2)		(2)
Other comprehensive income					2,393	2,393		2,393
Balance at June 30, 2023	127,388	$ 127	$ 473,942	$ 696,922	$ 75,047	$ 1,246,038	$ 255,541	$ 1,501,579

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

	For the Six Months Ended June 30, 2022							
		Total Stockholders' Equity						
	Common Stock Issued	Common Stock Par Value	Capital in Excess of Par	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2021	133,884	$ 134	$ 504,314	$ 593,251	$ 12,282	$ 1,109,981	$ 215,921	$ 1,325,902
Net income attributable to Select Medical Holdings Corporation				49,117		49,117		49,117
Net income attributable to non-controlling interests						—	4,891	4,891
Cash dividends declared for common stockholders ($0.125 per share)				(16,691)		(16,691)		(16,691)
Issuance of restricted stock	13	0	0			—		—
Vesting of restricted stock			8,288			8,288		8,288
Repurchase of common shares	(2,128)	(2)	(23,459)	(28,215)		(51,676)		(51,676)
Issuance of non-controlling interests			651			651	4,578	5,229
Non-controlling interests acquired in business combination, measurement period adjustment						—	12,463	12,463
Distributions to and purchases of non-controlling interests						—	(9,097)	(9,097)
Redemption value adjustment on non-controlling interests				(1,381)		(1,381)		(1,381)
Other comprehensive income					39,853	39,853		39,853
Other				(2)		(2)		(2)
Balance at March 31, 2022	131,769	$ 132	$ 489,794	$ 596,079	$ 52,135	$ 1,138,140	$ 228,756	$ 1,366,896
Net income attributable to Select Medical Holdings Corporation				55,207		55,207		55,207
Net income attributable to non-controlling interests						—	9,155	9,155
Cash dividends declared for common stockholders ($0.125 per share)				(16,108)		(16,108)		(16,108)
Issuance of restricted stock	211	0	0			—		—
Forfeitures of unvested restricted stock	(6)	0	0	3		3		3
Vesting of restricted stock			8,406			8,406		8,406
Repurchase of common shares	(5,483)	(6)	(56,965)	(69,976)		(126,947)		(126,947)
Issuance of non-controlling interests			—			—	1,725	1,725
Distributions to and purchases of non-controlling interests			534			534	(7,348)	(6,814)
Redemption value adjustment on non-controlling interests				355		355		355
Other comprehensive loss					11,827	11,827		11,827
Other				(4)		(4)	—	(4)
Balance at June 30, 2022	126,491	$ 126	$ 441,769	$ 565,556	$ 63,962	$ 1,071,413	$ 232,288	$ 1,303,701

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

Select Medical Holdings Corporation
Condensed Consolidated Statements of Cash Flows
(unaudited)
(in thousands)

	For the Six Months Ended June 30, 2022	For the Six Months Ended June 30, 2023
Operating activities		
Net income	$ 122,188	$ 177,117
Adjustments to reconcile net income to net cash provided by operating activities:		
Distributions from unconsolidated subsidiaries	11,140	8,841
Depreciation and amortization	102,120	102,364
Provision for expected credit losses	111	761
Equity in earnings of unconsolidated subsidiaries	(11,564)	(19,057)
Gain on sale or disposal of assets	(1,476)	(23)
Stock compensation expense	17,769	20,508
Amortization of debt discount, premium and issuance costs	1,123	1,174
Deferred income taxes	(1,965)	(10,876)
Changes in operating assets and liabilities, net of effects of business combinations:		
Accounts receivable	(32,431)	(23,135)
Other current assets	(2,128)	(5,997)
Other assets	1,275	5,472
Accounts payable	4,879	7,096
Accrued expenses	44,296	22,033
Government advances	(77,319)	—
Net cash provided by operating activities	178,018	286,278
Investing activities		
Business combinations, net of cash acquired	(19,241)	(7,732)
Purchases of property, equipment, and other assets	(93,177)	(118,399)
Investment in businesses	(6,990)	(9,800)
Proceeds from sale of assets	5,314	56
Net cash used in investing activities	(114,094)	(135,875)
Financing activities		
Borrowings on revolving facilities	565,000	435,000
Payments on revolving facilities	(375,000)	(535,000)
Borrowings of other debt	17,494	22,298
Principal payments on other debt	(16,874)	(26,373)
Dividends paid to common stockholders	(32,799)	(31,821)
Repurchase of common stock	(178,623)	(1,506)
Decrease in overdrafts	(11,055)	(467)
Proceeds from issuance of non-controlling interests	6,955	14,812
Distributions to and purchases of non-controlling interests	(18,663)	(24,085)
Net cash used in financing activities	(43,565)	(147,142)
Net increase in cash and cash equivalents	20,359	3,261
Cash and cash equivalents at beginning of period	74,310	97,906
Cash and cash equivalents at end of period	$ 94,669	$ 101,167
Supplemental information		
Cash paid for interest, excluding amounts received of $103 and $38,284 under the interest rate cap contract	$ 74,217	$ 133,581
Cash paid for taxes	16,423	42,755

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

SELECT MEDICAL HOLDINGS 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, Select, and Select's subsidiaries are collectively referred to as the "Company." The unaudited condensed consolidated financial statements of the Company as of June 30, 2023, and for the three and six month periods ended June 30, 2022 and 2023, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim reporting and the 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 the 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 and six months ended June 30, 2023, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2023. 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, 2022, contained in the Company's Annual Report on Form 10-K filed with the SEC on February 23, 2023.

2. Accounting Policies

Recent Accounting Guidance Not Yet Adopted

In March 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-01, *Leases (Topic 842): Common Control Arrangements*, which requires companies to amortize leasehold improvements associated with related party leases under common control over the useful life of the leasehold improvement to the common control group. The ASU is effective for annual reporting periods beginning on or after December 15, 2023; however, early adoption is permitted. The ASU can either be applied prospectively or retrospectively.

The Company is currently evaluating this ASU, but does not expect it to have a material impact on its consolidated financial statements upon adoption. The Company plans to adopt the ASU using the prospective method as of January 1, 2024.

Recently Adopted Accounting Guidance

Reference Rate Reform

In December 2022, FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848), Deferral of the Sunset Date of Topic 848*, which extended the relief provided under Topic 848 to contract modifications made and hedging relationships entered into on or before December 31, 2024. The FASB had previously issued ASU 2020-04, *Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting* in March 2020, which provided temporary relief from some of the existing accounting rules governing contract modifications when the modification is related to the replacement of the London Interbank Offered Rate ("LIBOR") or other reference rates discontinued as a result of reference rate reform.

For eligible contract modifications, the update generally allows an entity to account for and present modifications as an event that does not require contract remeasurement at the modification date or reassessment of a previous accounting determination. That is, the modified contract is accounted for as a continuation of the existing contract. For cash flow hedging relationships affected by reference rate reform, Topic 848 provides expedients that allow an entity to (i) change the reference rate of either the forecasted transaction or hedging instrument without requiring dedesignation of the hedging relationship; (ii) assert that changes to the hedged forecasted transaction will not impact whether it remains probable of occurring; and (iii) for the purposes of assessing hedge effectiveness, assume that the reference rate will not be replaced for the remainder of the hedging relationship if both the hedged forecasted transaction and hedging instrument are expected to be impacted by reference rate reform.

In March 2021, the Financial Conduct Authority announced June 30, 2023 as the intended cessation date of the one-, three-, six-, and 12-month tenors of USD LIBOR. Provisions within the credit agreement provide the Company with the ability to agree with JPMorgan Chase Bank, N.A., as administrative agent to the lenders, to replace LIBOR with a different reference rate in the event that LIBOR ceases to exist. On May 31, 2023, the Company replaced LIBOR with the forward looking Secured Overnight Financing Rate ("Adjusted Term SOFR") within the credit agreement. On May 31, 2023, the Company also modified the cash flow hedge's contractual terms to replace LIBOR with SOFR. The amendment to the credit agreement is described further in Note 7 -Long-term Debt and Notes Payable. The Company's cash flow hedge is described further in Note 8 – Interest Rate Cap.

These updates have not had a material impact on the Company's consolidated financial statements.

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, liabilities, revenues, and expenses. Actual results could differ from those estimates.

3. Credit Risk Concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash balances and accounts receivable. 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.

Because of the diversity in the Company's non-governmental third-party payor base, as well as their geographic dispersion, accounts receivable due from the Medicare program represent the Company's only significant concentration of credit risk. Approximately 19% of the Company's accounts receivable is due from Medicare at both December 31, 2022 and June 30, 2023.

4. Redeemable Non-Controlling Interests

The ownership interests held by outside parties in subsidiaries, which include 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 are as follows:

	Six Months Ended June 30,	
	2022	2023
	(in thousands)	
Balance as of January 1	$ 39,033	$ 34,043
Net income attributable to redeemable non-controlling interests	1,918	1,641
Distributions to redeemable non-controlling interests	(1,198)	(1,900)
Redemption value adjustment on redeemable non-controlling interests	1,381	436
Other	536	179
Balance as of March 31	$ 41,670	$ 34,399
Net income attributable to redeemable non-controlling interests	1,900	2,084
Distributions to and purchases of redeemable non-controlling interests	(1,553)	(2,110)
Redemption value adjustment on redeemable non-controlling interests	(355)	2
Other	535	—
Balance as of June 30	$ 42,197	$ 34,375

5. Variable Interest Entities

Certain states prohibit the "corporate practice of medicine," which restricts the Company from owning medical practices which directly employ physicians or therapists and from exercising control over medical decisions by physicians and therapists. In these states, the Company enters into long-term management agreements with medical practices that are owned by licensed physicians or therapists, which, in turn, employ or contract with physicians or therapists who provide professional medical services. The management agreements provide for the Company to direct the transfer of ownership of the medical practices. Based on the provisions of the management agreements, the medical practices are variable interest entities for which the Company is the primary beneficiary.

As of December 31, 2022, and June 30, 2023, the total assets of the Company's variable interest entities were $232.1 million and $263.6 million, respectively, and are principally comprised of accounts receivable. As of December 31, 2022, and June 30, 2023, the total liabilities of the Company's variable interest entities were $78.8 million and $84.1 million, respectively, and are principally comprised of accounts payable and accrued expenses. These variable interest entities have obligations payable for services received under their management agreements with the Company of $158.3 million and $186.7 million as of December 31, 2022, and June 30, 2023, respectively. These intercompany balances are eliminated in consolidation.

6. Leases

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

The Company's total lease cost is as follows:

	Three Months Ended June 30, 2022			Three Months Ended June 30, 2023		
	Unrelated Parties	Related Parties	Total	Unrelated Parties	Related Parties	Total
	(in thousands)					
Operating lease cost	$ 73,969	$ 1,809	$ 75,778	$ 76,892	$ 1,833	$ 78,725
Finance lease cost:						
Amortization of right-of-use assets	377	—	377	404	—	404
Interest on lease liabilities	336	—	336	387	—	387
Short-term lease cost	15	—	15	—	—	—
Variable lease cost	14,407	141	14,548	16,532	—	16,532
Sublease income	(1,940)	—	(1,940)	(1,716)	—	(1,716)
Total lease cost	$ 87,164	$ 1,950	$ 89,114	$ 92,499	$ 1,833	$ 94,332

	Six Months Ended June 30, 2022			Six Months Ended June 30, 2023		
	Unrelated Parties	Related Parties	Total	Unrelated Parties	Related Parties	Total
	(in thousands)					
Operating lease cost	$ 147,931	$ 3,618	$ 151,549	$ 153,524	$ 3,667	$ 157,191
Finance lease cost:						
Amortization of right-of-use assets	724	—	724	798	—	798
Interest on lease liabilities	676	—	676	707	—	707
Short-term lease cost	50	—	50	—	—	—
Variable lease cost	28,062	180	28,242	32,293	84	32,377
Sublease income	(3,906)	—	(3,906)	(3,394)	—	(3,394)
Total lease cost	$ 173,537	$ 3,798	$ 177,335	$ 183,928	$ 3,751	$ 187,679

7. Long-Term Debt and Notes Payable

As of June 30, 2023, the Company's long-term debt and notes payable are as follows:

	Principal Outstanding	Unamortized Premium (Discount)	Unamortized Issuance Costs	Carrying Value	Fair Value
			(in thousands)		
6.250% senior notes	$ 1,225,000	$ 18,562	$ (9,456)	$ 1,234,106	$ 1,204,175
Credit facilities:					
Revolving facility	345,000	—	—	345,000	343,706
Term loan	2,103,437	(3,379)	(3,684)	2,096,374	2,098,178
Other debt, including finance leases	77,164	—	(98)	77,066	77,066
Total debt	$ 3,750,601	$ 15,183	$ (13,238)	$ 3,752,546	$ 3,723,125

Principal maturities of the Company's long-term debt and notes payable are approximately as follows:

	2023	2024	2025	2026	2027	Thereafter	Total
				(in thousands)			
6.250% senior notes	$ —	$ —	$ —	$ 1,225,000	$ —	$ —	$ 1,225,000
Credit facilities:							
Revolving facility	—	31,846	313,154	—	—	—	345,000
Term loan	4,757	11,150	2,087,530	—	—	—	2,103,437
Other debt, including finance leases	11,738	51,046	1,408	1,309	823	10,840	77,164
Total debt	$ 16,495	$ 94,042	$ 2,402,092	$ 1,226,309	$ 823	$ 10,840	$ 3,750,601

As of December 31, 2022, the Company's long-term debt and notes payable are as follows:

	Principal Outstanding	Unamortized Premium (Discount)	Unamortized Issuance Costs	Carrying Value	Fair Value
			(in thousands)		
6.250% senior notes	$ 1,225,000	$ 21,555	$ (10,948)	$ 1,235,607	$ 1,163,689
Credit facilities:					
Revolving facility	445,000	—	—	445,000	443,331
Term loan	2,103,437	(4,376)	(4,771)	2,094,290	2,056,110
Other debt, including finance leases	104,800	—	(135)	104,665	104,665
Total debt	$ 3,878,237	$ 17,179	$ (15,854)	$ 3,879,562	$ 3,767,795

Select Credit Facilities

On May 31, 2023, Select entered into Amendment No. 7 to the Select credit agreement. Amendment No. 7 replaced the interest rate based on LIBOR and LIBOR-based mechanics applicable to borrowings under the Select credit agreement with an interest rate based on Adjusted Term SOFR (as defined in the credit agreement). The Adjusted Term SOFR Rate includes a credit spread adjustment of 0.10%.

On July 31, 2023, the Company entered into Amendment No. 8 to the Select credit agreement. Amendment No. 8 provides for a new tranche of refinancing term loan in an aggregate principal amount of $2,103.0 million to replace the existing term loans and a $710.0 million new revolving credit facility to replace the existing revolving credit facility. The refinancing term loan and the extended revolving credit facility will mature on March 6, 2027, with an early springing maturity 90 days prior to the senior notes maturity, triggered if more than $300.0 million of senior notes remain outstanding on May 15, 2026. The refinancing term loan has an interest rate of Term SOFR (without the 0.10% credit spread adjustment) plus 3.00% and the refinancing revolving credit facility has an interest rate of Adjusted Term SOFR plus 2.50%, in each case, subject to a leverage-based pricing grid.

8. Interest Rate Cap

The Company is subject to market risk exposure arising from changes in interest rates on its term loan. The term loan bears interest at a variable rate that is indexed to a benchmark which changed from LIBOR to SOFR on May 31, 2023. The Company's objective in using an interest rate derivative is to mitigate its exposure to increases in interest rates. The interest rate cap limits the Company's exposure to increases in the variable interest rate to 1.0% on $2.0 billion of principal outstanding under the term loan, as the interest rate cap provides for payments from the counterparty when interest rates rise above 1.0%. The interest rate cap has a $2.0 billion notional amount and is effective through September 30, 2024. The Company will pay a monthly premium for the interest rate cap over the term of the agreement. The annual premium is equal to 0.0916% of the notional amount, or approximately $1.8 million.

The interest rate cap has been designated as a cash flow hedge and is highly effective at offsetting the changes in cash outflows when the variable interest rate exceeds 1.0%. Changes in the fair value of the interest rate cap, net of tax, are recognized in other comprehensive income and are reclassified out of accumulated other comprehensive income and into interest expense when the hedged interest obligations affect earnings.

The following table outlines the changes in accumulated other comprehensive income (loss), net of tax, during the periods presented:

	Six Months Ended June 30,	
	2022	2023
	(in thousands)	
Balance as of January 1	$ 12,282	$ 88,602
Gain (loss) on interest rate cap cash flow hedge	39,814	(2,696)
Amounts reclassified from accumulated other comprehensive income	39	(13,252)
Balance as of March 31	$ 52,135	$ 72,654
Gain on interest rate cap cash flow hedge	11,833	17,527
Amounts reclassified from accumulated other comprehensive income	(6)	(15,134)
Balance as of June 30	$ 63,962	$ 75,047

The effects on net income of amounts reclassified from accumulated other comprehensive income are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Statement of Operations	2022	2023	2022	2023
	(in thousands)			
Gains (losses) included in interest expense	$ 8	$ 20,045	$ (43)	$ 37,597
Income tax benefit (expense)	(2)	(4,911)	10	(9,211)
Amounts reclassified from accumulated other comprehensive income	$ 6	$ 15,134	$ (33)	$ 28,386

The Company expects that approximately $82.1 million of estimated pre-tax gains will be reclassified from accumulated other comprehensive income into interest expense within the next twelve months.

Refer to Note 9 – Fair Value of Financial Instruments for information on the fair value of the Company's interest rate cap contract and its balance sheet classification.

9. Fair Value of Financial Instruments

Financial instruments which are measured at fair value, or for which a fair value is disclosed, are classified in the fair value hierarchy, as outlined below, on the basis of the observability of the inputs used in the fair value measurement:

- Level 1 – inputs are based upon quoted prices for identical instruments in active markets.
- Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant inputs are observable in the market or can be corroborated by observable market data.
- Level 3 – inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the instrument.

The Company's interest rate cap contract is recorded at its fair value in the condensed consolidated balance sheets on a recurring basis. The fair value of the interest rate cap contract is based upon a model-derived valuation using observable market inputs, such as interest rates and interest rate volatility, and the strike price.

Financial Instrument	Balance Sheet Classification	Level	December 31, 2022	June 30, 2023
Asset:			**(in thousands)**	
Interest rate cap contract, current portion	Current portion of interest rate cap contract	Level 2	$ 74,857	$ 83,938
Interest rate cap contract, non-current portion	Interest rate cap contract, net of current portion	Level 2	45,200	18,396

The Company does not measure its indebtedness at fair value in its condensed consolidated balance sheets. The fair value of the credit facilities is based on quoted market prices for this debt in the syndicated loan market. The fair value of the senior notes is based on quoted market prices. The carrying value of the Company's other debt, as disclosed in Note 7 – Long-Term Debt and Notes Payable, approximates fair value.

		December 31, 2022		June 30, 2023	
Financial Instrument	**Level**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
		(in thousands)			
6.250% senior notes	Level 2	$ 1,235,607	$ 1,163,689	$ 1,234,106	$ 1,204,175
Credit facilities:					
Revolving facility	Level 2	445,000	443,331	345,000	343,706
Term loan	Level 2	2,094,290	2,056,110	2,096,374	2,098,178

The Company's other financial instruments, which primarily consist of cash and cash equivalents, accounts receivable, and accounts payable, approximate fair value because of the short-term maturities of these instruments.

10. Segment Information

The Company's reportable segments consist of the critical illness recovery hospital segment, rehabilitation hospital segment, outpatient rehabilitation segment, and Concentra segment. Other activities include the Company's corporate shared services, certain investments, and employee leasing services with non-consolidating subsidiaries.

The Company evaluates the performance of its 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, gain (loss) on sale of businesses, 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2023	2022	2023
	(in thousands)			
Revenue:				
Critical illness recovery hospital	$ 545,908	$ 575,091	$ 1,147,663	$ 1,169,017
Rehabilitation hospital	228,887	240,856	449,521	472,318
Outpatient rehabilitation	287,258	302,972	559,198	598,875
Concentra	441,357	467,079	864,780	923,377
Other	81,331	88,530	163,126	175,921
Total Company	$ 1,584,741	$ 1,674,528	$ 3,184,288	$ 3,339,508
Adjusted EBITDA:				
Critical illness recovery hospital	$ 20,019	$ 65,496	$ 55,986	$ 142,269
Rehabilitation hospital	49,845	54,689	92,224	101,905
Outpatient rehabilitation	33,601	32,850	60,197	63,049
Concentra	92,607	100,391	182,076	194,139
Other[(1)]	(15,078)	(33,957)	(45,642)	(67,830)
Total Company	$ 180,994	$ 219,469	$ 344,841	$ 433,532
Total assets:				
Critical illness recovery hospital	$ 2,387,516	$ 2,492,370	$ 2,387,516	$ 2,492,370
Rehabilitation hospital	1,194,739	1,209,737	1,194,739	1,209,737
Outpatient rehabilitation	1,360,600	1,399,782	1,360,600	1,399,782
Concentra	2,301,296	2,314,328	2,301,296	2,314,328
Other	307,507	285,652	307,507	285,652
Total Company	$ 7,551,658	$ 7,701,869	$ 7,551,658	$ 7,701,869
Purchases of property, equipment, and other assets:				
Critical illness recovery hospital	$ 19,528	$ 31,363	$ 39,097	$ 55,021
Rehabilitation hospital	4,821	1,903	11,095	10,485
Outpatient rehabilitation	9,314	10,476	18,728	20,408
Concentra	8,716	15,846	18,956	30,246
Other	3,953	(74)	5,301	2,239
Total Company	$ 46,332	$ 59,514	$ 93,177	$ 118,399

(1) For the three and six months ended June 30, 2022, Adjusted EBITDA included other operating income of $15.1 million. The other operating income is related to the recognition of payments received under the Provider Relief Fund for health care related expenses and loss of revenue attributable to COVID-19.

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

	Three Months Ended June 30, 2022					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Adjusted EBITDA	$ 20,019	$ 49,845	$ 33,601	$ 92,607	$ (15,078)	
Depreciation and amortization	(14,603)	(7,175)	(8,130)	(18,730)	(2,443)	
Stock compensation expense	—	—	—	(536)	(8,410)	
Income (loss) from operations	$ 5,416	$ 42,670	$ 25,471	$ 73,341	$ (25,931)	$ 120,967
Equity in earnings of unconsolidated subsidiaries						6,167
Interest expense						(41,052)
Income before income taxes						$ 86,082

	Three Months Ended June 30, 2023					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Adjusted EBITDA	$ 65,496	$ 54,689	$ 32,850	$ 100,391	$ (33,957)	
Depreciation and amortization	(13,886)	(6,887)	(8,779)	(18,283)	(2,104)	
Stock compensation expense	—	—	—	—	(10,326)	
Income (loss) from operations	$ 51,610	$ 47,802	$ 24,071	$ 82,108	$ (46,387)	$ 159,204
Equity in earnings of unconsolidated subsidiaries						10,501
Interest expense						(48,997)
Income before income taxes						$ 120,708

	Six Months Ended June 30, 2022					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Adjusted EBITDA	$ 55,986	$ 92,224	$ 60,197	$ 182,076	$ (45,642)	
Depreciation and amortization	(29,221)	(13,977)	(16,159)	(37,542)	(5,221)	
Stock compensation expense	—	—	—	(1,071)	(16,698)	
Income (loss) from operations	$ 26,765	$ 78,247	$ 44,038	$ 143,463	$ (67,561)	$ 224,952
Equity in earnings of unconsolidated subsidiaries						11,564
Interest expense						(76,566)
Income before income taxes						$ 159,950

	Six Months Ended June 30, 2023					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Adjusted EBITDA	$ 142,269	$ 101,905	$ 63,049	$ 194,139	$ (67,830)	
Depreciation and amortization	(30,523)	(13,775)	(17,236)	(36,593)	(4,237)	
Stock compensation expense	—	—	—	(178)	(20,329)	
Income (loss) from operations	$ 111,746	$ 88,130	$ 45,813	$ 157,368	$ (92,396)	$ 310,661
Equity in earnings of unconsolidated subsidiaries						19,057
Interest expense						(97,568)
Income before income taxes						$ 232,150

11. Revenue from Contracts with Customers

The following tables disaggregate the Company's revenue for the three and six months ended June 30, 2022 and 2023:

	Three Months Ended June 30, 2022					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Patient service revenue:						
Medicare	$ 213,680	$ 105,030	$ 44,433	$ 195	$ —	$ 363,338
Non-Medicare	329,118	113,001	224,957	439,779	—	1,106,855
Total patient services revenues	542,798	218,031	269,390	439,974	—	1,470,193
Other revenue	3,110	10,856	17,868	1,383	81,331	114,548
Total revenue	$ 545,908	$ 228,887	$ 287,258	$ 441,357	$ 81,331	$ 1,584,741

	Three Months Ended June 30, 2023					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Patient service revenue:						
Medicare	$ 207,743	$ 113,450	$ 46,647	$ 250	$ —	$ 368,090
Non-Medicare	366,498	115,436	236,246	465,367	—	1,183,547
Total patient services revenues	574,241	228,886	282,893	465,617	—	1,551,637
Other revenue	850	11,970	20,079	1,462	88,530	122,891
Total revenue	$ 575,091	$ 240,856	$ 302,972	$ 467,079	$ 88,530	$ 1,674,528

	Six Months Ended June 30, 2022					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Patient service revenue:						
Medicare	$ 432,667	$ 208,051	$ 86,337	$ 372	$ —	$ 727,427
Non-Medicare	710,104	220,143	439,070	861,825	—	2,231,142
Total patient services revenues	1,142,771	428,194	525,407	862,197	—	2,958,569
Other revenue	4,892	21,327	33,791	2,583	163,126	225,719
Total revenue	$ 1,147,663	$ 449,521	$ 559,198	$ 864,780	$ 163,126	$ 3,184,288

	Six Months Ended June 30, 2023					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Patient service revenue:						
Medicare	$ 437,126	$ 223,505	$ 92,448	$ 493	$ —	$ 753,572
Non-Medicare	729,803	225,361	468,231	919,965	—	2,343,360
Total patient services revenues	1,166,929	448,866	560,679	920,458	—	3,096,932
Other revenue	2,088	23,452	38,196	2,919	175,921	242,576
Total revenue	$ 1,169,017	$ 472,318	$ 598,875	$ 923,377	$ 175,921	$ 3,339,508

12. 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 contractual dividends paid for the three and six months ended June 30, 2022 and 2023.

(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.

(iii) 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 and Diluted EPS			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2023	2022	2023
	(in thousands)			
Net income	$ 66,262	$ 91,860	$ 122,188	$ 177,117
Less: net income attributable to non-controlling interests	11,055	13,623	17,864	28,075
Net income attributable to the Company	55,207	78,237	104,324	149,042
Less: Distributed and undistributed income attributable to participating securities	1,920	2,877	3,558	5,449
Distributed and undistributed income attributable to common shares	$ 53,287	$ 75,360	$ 100,766	$ 143,593

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

	Three Months Ended June 30,					
	2022			2023		
	Net Income Allocation	Shares(1)	Basic and Diluted EPS	Net Income Allocation	Shares(1)	Basic and Diluted EPS
	(in thousands, except for per share amounts)					
Common shares	$ 53,287	124,897	$ 0.43	$ 75,360	122,634	$ 0.61
Participating securities	1,920	4,500	$ 0.43	2,877	4,681	$ 0.61
Total Company	$ 55,207			$ 78,237		

	Six Months Ended June 30,					
	2022			2023		
	Net Income Allocation	Shares(1)	Basic and Diluted EPS	Net Income Allocation	Shares(1)	Basic and Diluted EPS
	(in thousands, except for per share amounts)					
Common shares	$ 100,766	126,942	$ 0.79	$ 143,593	122,594	$ 1.17
Participating securities	3,558	4,482	$ 0.79	5,449	4,652	$ 1.17
Total Company	$ 104,324			$ 149,042		

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

13. 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 hospital and outpatient clinic operations, the Company currently maintains insurance coverages under a combination of policies with a total annual aggregate limit of up to $37.0 million for professional malpractice liability insurance and $40.0 million for general liability insurance. For the Company's Concentra center operations, the Company currently maintains insurance coverages under a combination of policies with a total annual aggregate limit of up to $19.0 million for professional malpractice liability insurance and $19.0 million for general liability insurance. 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 designed a separate insurance program that responds to the risks of specific joint ventures. Most of the Company's joint ventures are insured under a master program with an annual aggregate limit of up to $80.0 million, subject to a sublimit aggregate ranging from $23.0 million to $33.0 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 also maintains additional types of liability insurance covering claims, that due to their nature or amount, are not covered by or not fully covered by the Company's professional and general liability insurance policies. These insurance policies also do not generally cover punitive damages and are subject to various deductibles and policy limits. The Company reviews its insurance program annually and may make adjustments to the amount of insurance coverage and self-insured retentions in future years. 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.

Oklahoma City Subpoena. On August 24, 2020, the Company and Select Specialty Hospital – Oklahoma City, Inc. ("SSH–Oklahoma City") received Civil Investigative Demands ("CIDs") from the U.S. Attorney's Office for the Western District of Oklahoma seeking responses to interrogatories and the production of various documents principally relating to the documentation, billing and reviews of medical services furnished to patients at SSH-Oklahoma City. The Company understands that the investigation arose from a qui tam lawsuit alleging billing fraud related to charges for respiratory therapy services at SSH-Oklahoma City and Select Specialty Hospital - Wichita, Inc. The Company has produced documents in response to the CIDs and is fully cooperating with this investigation. At this time, the Company is unable to predict the timing and outcome of this matter.

Physical Therapy Billing. On October 7, 2021, the Company received a letter from a Trial Attorney at the U.S. Department of Justice, Civil Division, Commercial Litigation Branch, Fraud Section ("DOJ") stating that the DOJ, in conjunction with the U.S. Department of Health and Human Services ("HHS"), is investigating the Company in connection with potential violations of the False Claims Act, 31 U.S.C. § 3729, *et seq*. The letter specified that the investigation relates to the Company's billing for physical therapy services, and indicated that the DOJ would be requesting certain records from the Company. In 2021, the DOJ requested, and the Company furnished, records relating to six of the Company's outpatient therapy clinics in Florida. In 2022, the DOJ requested certain data relating to all of the Company's outpatient therapy clinics nationwide, and sought information about the Company's ability to produce additional data relating to the physical therapy services furnished by the Company's outpatient therapy clinics and Concentra. The Company has produced data and other documents requested by the DOJ and is fully cooperating on this investigation. At this time, the Company is unable to predict the timing and outcome of this matter.

14. Subsequent Events

On August 2, 2023, the Company's Board of Directors declared a cash dividend of $0.125 per share. The dividend will be payable on or about September 1, 2023, to stockholders of record as of the close of business on August 15, 2023.

On July 31, 2023, the Company entered into Amendment No. 8 to the Select credit agreement. Amendment No. 8 provides for a new tranche of refinancing term loan in an aggregate principal amount of $2,103.0 million to replace the existing term loans and a $710.0 million new revolving credit facility to replace the existing revolving credit facility. The refinancing term loan and the extended revolving credit facility will mature on March 6, 2027, with an early springing maturity 90 days prior to the senior notes maturity, triggered if more than $300.0 million of senior notes remain outstanding on May 15, 2026. The refinancing term loan has an interest rate of Term SOFR (without the 0.10% credit spread adjustment) plus 3.00% and the refinancing revolving credit facility has an interest rate of Adjusted Term SOFR plus 2.50%, in each case, subject to a leverage-based pricing grid.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this discussion together with our unaudited condensed consolidated financial statements and accompanying notes.

Forward-Looking Statements

This report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words "may," "could," "would," "should," "believe," "expect," "anticipate," "plan," "target," "estimate," "project," "intend," and similar expressions. These statements include, among others, statements regarding our expected business outlook, anticipated financial and operating results, including the potential impact of the COVID-19 pandemic on those financial and operating results, our business strategy and means to implement our strategy, our objectives, the amount and timing of capital expenditures, the likelihood of our success in expanding our business, financing plans, budgets, working capital needs, and sources of liquidity.

Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on our management's beliefs and assumptions, which in turn are based on currently available information. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding our services, the expansion of our services, competitive conditions, and general economic conditions. These assumptions could prove inaccurate. Forward-looking statements also involve known and unknown risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. Many of these factors are beyond our ability to control or predict. Such factors include, but are not limited to, the following:

- adverse economic conditions including an inflationary environment could cause us to continue to experience increases in the prices of labor and other costs of doing business resulting in a negative impact on our business, operating results, cash flows, and financial condition;
- shortages in qualified nurses, therapists, physicians, or other licensed providers, and/or the inability to attract or retain qualified healthcare professionals could limit our ability to staff our facilities;
- shortages in qualified health professionals could cause us to increase our dependence on contract labor, increase our efforts to recruit and train new employees, and expand upon our initiatives to retain existing staff, which could increase our operating costs significantly;
- the continuing effects of the COVID-19 pandemic including, but not limited to, the prolonged disruption to the global financial markets, increased operational costs due to recessionary pressures and labor costs, additional measures taken by government authorities and the private sector to limit the spread of COVID-19, and further legislative and regulatory actions which impact healthcare providers, including actions that may impact the Medicare program;
- changes in government reimbursement for our services and/or new payment policies may result in a reduction in revenue, an increase in costs, and a reduction in profitability;
- the failure of our Medicare-certified long term care hospitals or inpatient rehabilitation facilities to maintain their Medicare certifications may cause our revenue and profitability to decline;
- the failure of our Medicare-certified long term care hospitals and inpatient rehabilitation facilities operated as "hospitals within hospitals" to qualify as hospitals separate from their host hospitals may cause our revenue and profitability to decline;
- a government investigation or assertion that we have violated applicable regulations may result in sanctions or reputational harm and increased costs;
- acquisitions or joint ventures may prove difficult or unsuccessful, use significant resources, or expose us to unforeseen liabilities;
- our plans and expectations related to our acquisitions and our ability to realize anticipated synergies;
- private third-party payors for our services may adopt payment policies that could limit our future revenue and profitability;
- the failure to maintain established relationships with the physicians in the areas we serve could reduce our revenue and profitability;

- competition may limit our ability to grow and result in a decrease in our revenue and profitability;
- the loss of key members of our management team could significantly disrupt our operations;
- the effect of claims asserted against us could subject us to substantial uninsured liabilities;
- a security breach of our or our third-party vendors' information technology systems may subject us to potential legal and reputational harm and may result in a violation of the Health Insurance Portability and Accountability Act of 1996 or the Health Information Technology for Economic and Clinical Health Act; and
- other factors discussed from time to time in our filings with the SEC, including factors discussed under the heading "Risk Factors" in our quarterly reports on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2022.

Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the SEC, we are under no obligation to publicly update or revise any forward-looking statements, whether as a result of any new information, future events, or otherwise. You should not place undue reliance on our forward-looking statements. Although we believe that the expectations reflected in forward-looking statements are reasonable, we cannot guarantee future results or performance.

Investors should also be aware that while we do, from time to time, communicate with securities analysts, it is against our policy to disclose to securities analysts any material non-public information or other confidential commercial information. Accordingly, stockholders should not assume that we agree with any statement or report issued by any securities analyst irrespective of the content of the statement or report. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of the Company.

Overview

We began operations in 1997 and, based on number of facilities, are one of the largest operators of critical illness recovery hospitals, rehabilitation hospitals, outpatient rehabilitation clinics, and occupational health centers in the United States. As of June 30, 2023, we had operations in 46 states and the District of Columbia. We operated 108 critical illness recovery hospitals in 28 states, 32 rehabilitation hospitals in 12 states, 1,944 outpatient rehabilitation clinics in 39 states and the District of Columbia, 540 occupational health centers in 41 states, and 141 onsite clinics at employer worksites.

Our reportable segments include the critical illness recovery hospital segment, the rehabilitation hospital segment, the outpatient rehabilitation segment, and the Concentra segment. We had revenue of $3,339.5 million for the six months ended June 30, 2023. Of this total, we earned approximately 35% of our revenue from our critical illness recovery hospital segment, approximately 14% from our rehabilitation hospital segment, approximately 18% from our outpatient rehabilitation segment, and approximately 28% from our Concentra segment. Our critical illness recovery hospital segment consists of hospitals designed to serve the needs of patients recovering from critical illnesses, often with complex medical needs, and our rehabilitation hospital segment consists of hospitals designed to serve patients that require intensive physical rehabilitation care. Patients are typically admitted to our critical illness recovery hospitals and rehabilitation hospitals from general acute care hospitals. Our outpatient rehabilitation segment consists of clinics that provide physical, occupational, and speech rehabilitation services. Our Concentra segment consists of occupational health centers that provide workers' compensation injury care, physical therapy, and consumer health services as well as onsite clinics located at employer worksites that deliver occupational medicine services.

Non-GAAP Measure

We believe that the presentation of Adjusted EBITDA, as defined below, is important to investors because Adjusted EBITDA is commonly used as an analytical indicator of performance by investors within the healthcare industry. Adjusted EBITDA is used by management to evaluate financial performance and determine resource allocation for each of our segments. Adjusted EBITDA is not a measure of financial performance under GAAP. Items excluded from Adjusted EBITDA are significant components in understanding and assessing financial performance. Adjusted EBITDA should not be considered in isolation or as an alternative to, or substitute for, net income, income from operations, cash flows generated by operations, investing or financing activities, or other financial statement data presented in the consolidated financial statements as indicators of financial performance or liquidity. Because Adjusted EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying definitions, Adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies.

We define Adjusted EBITDA as earnings excluding interest, income taxes, depreciation and amortization, gain (loss) on early retirement of debt, stock compensation expense, gain (loss) on sale of businesses, and equity in earnings (losses) of unconsolidated subsidiaries. We will refer to Adjusted EBITDA throughout the remainder of Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following table reconciles net income and income from operations to Adjusted EBITDA and should be referenced when we discuss Adjusted EBITDA:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2023	2022	2023
	(in thousands)			
Net income	$ 66,262	$ 91,860	$ 122,188	$ 177,117
Income tax expense	19,820	28,848	37,762	55,033
Interest expense	41,052	48,997	76,566	97,568
Equity in earnings of unconsolidated subsidiaries	(6,167)	(10,501)	(11,564)	(19,057)
Income from operations	120,967	159,204	224,952	310,661
Stock compensation expense:				
Included in general and administrative	7,046	8,553	13,995	16,958
Included in cost of services	1,900	1,773	3,774	3,549
Depreciation and amortization	51,081	49,939	102,120	102,364
Adjusted EBITDA	$ 180,994	$ 219,469	$ 344,841	$ 433,532

Other Significant Events

Dividend Payment

On February 16, 2023, and May 3, 2023, our Board of Directors declared a cash dividend of $0.125 per share. On both March 15, 2023, and May 31, 2023, cash dividends for both dividend payments totaling $15.9 million were paid.

Financing Transaction

On May 31, 2023, Select entered into Amendment No. 7 to the Select credit agreement. Amendment No. 7 replaced the interest rate based on LIBOR and LIBOR-based mechanics applicable to borrowings under the Select credit agreement with an interest rate based on Adjusted Term SOFR (as defined in the credit agreement). The Adjusted Term SOFR Rate includes a credit spread adjustment of 0.10%.

On July 31, 2023, the Company entered into Amendment No. 8 to the Select credit agreement. Amendment No. 8 provides for a new tranche of refinancing term loan in an aggregate principal amount of $2,103.0 million to replace the existing term loans and a $710.0 million new revolving credit facility to replace the existing revolving credit facility. The refinancing term loan and the extended revolving credit facility will mature on March 6, 2027, with an early springing maturity 90 days prior to the senior notes maturity, triggered if more than $300.0 million of senior notes remain outstanding on May 15, 2026. The refinancing term loan has an interest rate of Term SOFR (without the 0.10% credit spread adjustment) plus 3.00% and the refinancing revolving credit facility has an interest rate of Adjusted Term SOFR plus 2.50%, in each case, subject to a leverage-based pricing grid.

Summary Financial Results

Three Months Ended June 30, 2023

The following tables reconcile our segment performance measures to our consolidated operating results:

	Three Months Ended June 30, 2023					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Revenue	$ 575,091	$ 240,856	$ 302,972	$ 467,079	$ 88,530	$ 1,674,528
Operating expenses	(509,595)	(186,503)	(270,361)	(366,839)	(132,813)	(1,466,111)
Depreciation and amortization	(13,886)	(6,887)	(8,779)	(18,283)	(2,104)	(49,939)
Other operating income	—	336	239	151	—	726
Income (loss) from operations	$ 51,610	$ 47,802	$ 24,071	$ 82,108	$ (46,387)	$ 159,204
Depreciation and amortization	13,886	6,887	8,779	18,283	2,104	49,939
Stock compensation expense	—	—	—	—	10,326	10,326
Adjusted EBITDA	$ 65,496	$ 54,689	$ 32,850	$ 100,391	$ (33,957)	$ 219,469
Adjusted EBITDA margin	11.4 %	22.7 %	10.8 %	21.5 %	N/M	13.1 %

	Three Months Ended June 30, 2022					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Revenue	$ 545,908	$ 228,887	$ 287,258	$ 441,357	$ 81,331	$ 1,584,741
Operating expenses	(525,889)	(179,042)	(253,657)	(349,267)	(119,963)	(1,427,818)
Depreciation and amortization	(14,603)	(7,175)	(8,130)	(18,730)	(2,443)	(51,081)
Other operating income (expense)	—	—	—	(19)	15,144	15,125
Income (loss) from operations	$ 5,416	$ 42,670	$ 25,471	$ 73,341	$ (25,931)	$ 120,967
Depreciation and amortization	14,603	7,175	8,130	18,730	2,443	51,081
Stock compensation expense	—	—	—	536	8,410	8,946
Adjusted EBITDA	$ 20,019	$ 49,845	$ 33,601	$ 92,607	$ (15,078)	$ 180,994
Adjusted EBITDA margin	3.7 %	21.8 %	11.7 %	21.0 %	N/M	11.4 %

Net income was $91.9 million for the three months ended June 30, 2023, compared to $66.3 million for the three months ended June 30, 2022.

The following table summarizes changes in segment performance measures for the three months ended June 30, 2023, compared to the three months ended June 30, 2022:

	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
Change in revenue	5.3 %	5.2 %	5.5 %	5.8 %	8.9 %	5.7 %
Change in income from operations	852.9 %	12.0 %	(5.5)%	12.0 %	N/M	31.6 %
Change in Adjusted EBITDA	227.2 %	9.7 %	(2.2)%	8.4 %	N/M	21.3 %

N/M — Not meaningful.

Six Months Ended June 30, 2023

The following tables reconcile our segment performance measures to our consolidated operating results:

	Six Months Ended June 30, 2023					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Revenue	$ 1,169,017	$ 472,318	$ 598,875	$ 923,377	$ 175,921	$ 3,339,508
Operating expenses	(1,026,748)	(370,749)	(536,065)	(729,567)	(264,080)	(2,927,209)
Depreciation and amortization	(30,523)	(13,775)	(17,236)	(36,593)	(4,237)	(102,364)
Other operating income	—	336	239	151	—	726
Income (loss) from operations	$ 111,746	$ 88,130	$ 45,813	$ 157,368	$ (92,396)	$ 310,661
Depreciation and amortization	30,523	13,775	17,236	36,593	4,237	102,364
Stock compensation expense	—	—	—	178	20,329	20,507
Adjusted EBITDA	$ 142,269	$ 101,905	$ 63,049	$ 194,139	$ (67,830)	$ 433,532
Adjusted EBITDA margin	12.2 %	21.6 %	10.5 %	21.0 %	N/M	13.0 %

	Six Months Ended June 30, 2022					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Revenue	$ 1,147,663	$ 449,521	$ 559,198	$ 864,780	$ 163,126	$ 3,184,288
Operating expenses	(1,091,677)	(357,297)	(499,001)	(683,756)	(240,610)	(2,872,341)
Depreciation and amortization	(29,221)	(13,977)	(16,159)	(37,542)	(5,221)	(102,120)
Other operating income (expense)	—	—	—	(19)	15,144	15,125
Income (loss) from operations	$ 26,765	$ 78,247	$ 44,038	$ 143,463	$ (67,561)	$ 224,952
Depreciation and amortization	29,221	13,977	16,159	37,542	5,221	102,120
Stock compensation expense	—	—	—	1,071	16,698	17,769
Adjusted EBITDA	$ 55,986	$ 92,224	$ 60,197	$ 182,076	$ (45,642)	$ 344,841
Adjusted EBITDA margin	4.9 %	20.5 %	10.8 %	21.1 %	N/M	10.8 %

Net income was $177.1 million for the six months ended June 30, 2023, compared to $122.2 million for the six months ended June 30, 2022.

The following table summarizes the changes in our segment performance measures for the six months ended June 30, 2023, compared to the six months ended June 30, 2022:

	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
Change in revenue	1.9 %	5.1 %	7.1 %	6.8 %	7.8 %	4.9 %
Change in income from operations	317.5 %	12.6 %	4.0 %	9.7 %	N/M	38.1 %
Change in Adjusted EBITDA	154.1 %	10.5 %	4.7 %	6.6 %	N/M	25.7 %

N/M — Not meaningful.

Regulatory Changes

Our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on February 23, 2023, contains a detailed discussion of the regulations that affect our business in Part I — Business — Government Regulations. The following is a discussion of some of the more significant healthcare regulatory changes that have affected our financial performance in the periods covered by this report, or are likely to affect our financial performance and financial condition in the future. The information below should be read in conjunction with the more detailed discussion of regulations contained in our Form 10-K.

Medicare Reimbursement

The Medicare program reimburses healthcare providers for services furnished to Medicare beneficiaries, which are generally persons age 65 and older, those who are chronically disabled, and those suffering from end stage renal disease. The program is governed by the Social Security Act of 1965 and is administered primarily by the Department of Health and Human Services ("HHS") and CMS. Revenue generated directly from the Medicare program represented approximately 23% of our revenue for the six months ended June 30, 2023, and for the year ended December 31, 2022.

Federal Health Care Program Changes in Response to the COVID-19 Pandemic

On January 31, 2020, HHS declared a public health emergency under section 319 of the Public Health Service Act, 42 U.S.C. § 247d, in response to the COVID-19 outbreak in the United States. The HHS Secretary renewed the public health emergency determination for subsequent 90-day periods until February 9, 2023. On February 9, 2023, the HHS Secretary signed the final renewal and the public health emergency ended on May 11, 2023. The COVID-19 national emergency that was declared by President Trump on March 13, 2020, which was separate from the public health emergency, ended on April 10, 2023 when H.R.J. Res. 7 was signed into law.

As a result of the COVID-19 national emergency, the HHS Secretary authorized the waiver or modification of certain requirements under Medicare, Medicaid, and the Children's Health Insurance Program ("CHIP") pursuant to section 1135 of the Social Security Act. Under this authority, CMS issued a number of blanket waivers that excused health care providers or suppliers from specific program requirements. Our Annual Report on Form 10-K for the year ended December 31, 2022 contains a detailed discussion of the federal health care program changes made in response to the COVID-19 pandemic, including these COVID-19 waivers, in Part II — Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Changes. Most of these COVID-19 waivers, including the waiver of the IRF 60% Rule and the waiver of Medicare statutory requirements regarding site neutral payments to long-term care hospitals ("LTCHs"), ended when the public health emergency expired on May 11, 2023. However, LTCHs are exempt from the greater-than-25-day average length of stay requirement for all cost reporting periods that include the COVID-19 public health emergency period. As a result, LTCH cost reporting periods that started prior to May 11, 2023 will continue to be exempt for the remainder of that cost reporting year. However, LTCH cost reporting periods that begin on or after May 11, 2023 must comply with the greater-than-25-day average length of stay requirement.

In addition, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act and related legislation temporarily suspended the 2% cut to Medicare payments due to sequestration from May 1, 2020 through March 31, 2022 and reduced the sequestration adjustment from 2% to 1% from April 1 through June 30, 2022. The full 2% reduction resumed on July 1, 2022. To pay for this relief, Congress increased the sequestration cut to Medicare payments to 2.25% for the first six months of fiscal year 2030 and to 3% for the final six months of fiscal year 2030. Additionally, an across-the-board 4% payment cut required to take effect in January 2022 due to the American Rescue Plan from the FY 2022 Statutory Pay-As-You-Go ("PAYGO") scorecard was deferred by Congress until 2025.

The CARES Act and related legislation also provided more than $178 billion in appropriations for the Public Health and Social Services Emergency Fund, also known as the Provider Relief Fund, to be used for preventing, preparing, and responding to COVID-19 and for reimbursing "eligible health care providers for health care related expenses or lost revenues that are attributable to coronavirus." HHS began distributing these funds to providers in April 2020. Recipients of payments were required to report data to HHS on the use of the funds via an online portal by specific deadlines established by HHS based on the date of the payment. All recipients of funds are subject to audit by HHS, the HHS OIG, or the Pandemic Response Accountability Committee. Audits may include examination of the accuracy of the data providers submitted to HHS in their applications for payments. Additional distributions are not expected and as a result, the Company does not expect to recognize additional income associated with these funds in the future.

Medicare Reimbursement of LTCH Services

The following is a summary of significant regulatory changes to the Medicare prospective payment system for our critical illness recovery hospitals, which are certified by Medicare as LTCHs, which have affected our results of operations, as well as the policies and payment rates that may affect our future results of operations. Medicare payments to our critical illness recovery hospitals are made in accordance with the long-term care hospital prospective payment system ("LTCH-PPS").

Fiscal Year 2022. On August 13, 2021, CMS published the final rule updating policies and payment rates for the LTCH-PPS for fiscal year 2022 (affecting discharges and cost reporting periods beginning on or after October 1, 2021, through September 30, 2022). The standard federal rate was set at $44,714, an increase from the standard federal rate applicable during fiscal year 2021 of $43,755. The update to the standard federal rate for fiscal year 2022 included a market basket increase of 2.6%, less a productivity adjustment of 0.7%. The standard federal rate also included an area wage budget neutrality factor of 1.002848. The fixed-loss amount for high cost outlier cases paid under LTCH-PPS was set at $33,015, an increase from the fixed-loss amount in the 2021 fiscal year of $27,195. The fixed-loss amount for high cost outlier cases paid under the site-neutral payment rate was set at $30,988, an increase from the fixed-loss amount in the 2021 fiscal year of $29,064.

Fiscal Year 2023. On August 10, 2022, CMS published the final rule updating policies and payment rates for the LTCH-PPS for fiscal year 2023 (affecting discharges and cost reporting periods beginning on or after October 1, 2022, through September 30, 2023). Certain errors in the final rule were corrected in documents published November 4, 2022, and December 13, 2022. The standard federal rate for fiscal year 2023 is $46,433, an increase from the standard federal rate applicable during fiscal year 2022 of $44,714. The update to the standard federal rate for fiscal year 2023 includes a market basket increase of 4.1%, less a productivity adjustment of 0.3%. The standard federal rate also includes an area wage budget neutrality factor of 1.0004304. As a result of the CARES Act, all LTCH cases are paid at the standard federal rate during the public health emergency. When the public health emergency ended on May 11, 2023, CMS returned to using the site-neutral payment rate for reimbursement of cases that do not meet the LTCH patient criteria. The fixed-loss amount for high cost outlier cases paid under LTCH-PPS is $38,518, an increase from the fixed-loss amount in the 2022 fiscal year of $33,015. The fixed-loss amount for high cost outlier cases paid under the site-neutral payment rate is $38,788, an increase from the fixed-loss amount in the 2022 fiscal year of $30,988.

Fiscal Year 2024. On August 1, 2023, CMS published a display copy of the final rule to update policies and payment rates for the LTCH-PPS for fiscal year 2024 (affecting discharges and cost reporting periods beginning on or after October 1, 2023 through September 30, 2024). The standard federal rate for fiscal year 2024 is $48,117, an increase from the standard federal rate applicable during fiscal year 2023 of $46,433. The update to the standard federal rate for fiscal year 2024 includes a market basket increase of 3.5%, less a productivity adjustment of 0.2%. The standard federal rate also includes an area wage budget neutrality factor of 1.0031599. The fixed-loss amount for high cost outlier cases paid under LTCH-PPS is $59,873, an increase from the fixed-loss amount in the 2023 fiscal year of $38,518. The fixed-loss amount for high cost outlier cases paid under the site-neutral payment rate is $42,750, an increase from the fixed-loss amount in the 2023 fiscal year of $38,788.

Medicare Reimbursement of IRF Services

The following is a summary of significant regulatory changes to the Medicare prospective payment system for our rehabilitation hospitals, which are certified by Medicare as IRFs, which have affected our results of operations, as well as the policies and payment rates that may affect our future results of operations. Medicare payments to our rehabilitation hospitals are made in accordance with the inpatient rehabilitation facility prospective payment system ("IRF-PPS").

Fiscal Year 2022. On August 4, 2021, CMS published the final rule updating policies and payment rates for the IRF-PPS for fiscal year 2022 (affecting discharges and cost reporting periods beginning on or after October 1, 2021, through September 30, 2022). The standard payment conversion factor for discharges for fiscal year 2022 was set at $17,240, an increase from the standard payment conversion factor applicable during fiscal year 2021 of $16,856. The update to the standard payment conversion factor for fiscal year 2022 included a market basket increase of 2.6%, less a productivity adjustment of 0.7%. CMS increased the outlier threshold amount for fiscal year 2022 to $9,491 from $7,906 established in the final rule for fiscal year 2021.

Fiscal Year 2023. On August 1, 2022, CMS published the final rule updating policies and payment rates for the IRF-PPS for fiscal year 2023 (affecting discharges and cost reporting periods beginning on or after October 1, 2022, through September 30, 2023). The standard payment conversion factor for discharges for fiscal year 2023 was set at $17,878, an increase from the standard payment conversion factor applicable during fiscal year 2022 of $17,240. The update to the standard payment conversion factor for fiscal year 2023 included a market basket increase of 4.2%, less a productivity adjustment of 0.3%. CMS increased the outlier threshold amount for fiscal year 2023 to $12,526 from $9,491 established in the final rule for fiscal year 2022.

Fiscal Year 2024. On August 2, 2023, CMS published the final rule to update policies and payment rates for the IRF-PPS for fiscal year 2024 (affecting discharges and cost reporting periods beginning on or after October 1, 2023 through September 30, 2024). The standard payment conversion factor for discharges for fiscal year 2024 was set at $18,541, an increase from the standard payment conversion factor applicable during fiscal year 2023 of $17,878. The update to the standard payment conversion factor for fiscal year 2024 included a market basket increase of 3.6%, less a productivity adjustment of 0.2%. CMS decreased the outlier threshold amount for fiscal year 2024 to $10,423 from $12,526 established in the final rule for fiscal year 2023.

Medicare Reimbursement of Outpatient Rehabilitation Clinic Services

Outpatient rehabilitation providers enroll in Medicare as a rehabilitation agency, a clinic, or a public health agency. The Medicare program reimburses outpatient rehabilitation providers based on the Medicare physician fee schedule. In the display copy of the calendar year 2024 physician fee schedule proposed rule, CMS calculated the payment rates without the 2.5% payment increase to calendar year 2023 rates from the Consolidated Appropriations Act of 2023, but with 1.25% payment increase to calendar year 2024 rates from that legislation. As a result of the lower statutory payment increase for calendar year 2024 and a negative 2.17% budget neutrality adjustment associated with changes to the relative value units, physician fee schedule payments are expected to decrease in 2024. CMS expects that its proposed policies for 2024 would result in a 2% decrease in Medicare payments for the therapy specialty. CMS also proposes changes to the quality payment program, including a transition from the Merit-Based Incentive Payment System (“MIPS”) to the MIPS Value Pathways (“MVPs”). First, CMS proposes revisions to the existing set of 12 MVPs that it previously adopted in the calendar year 2022 and 2023 final rules. CMS would remove certain improvement activities from these MVPs and add other quality measures for MVP participants to choose from for data reporting. CMS also proposes to consolidate two of the existing MVPs into a single primary care MVP. Finally, CMS proposed to add five new MVPs. According to CMS, the proposed Rehabilitation Support of Musculoskeletal Care MVP will be most applicable to clinicians who specialize in rehabilitation support for musculoskeletal care, including physical therapists and occupational therapists. If finalized, these new MVPs would be available for voluntary reporting for the calendar year 2024 performance period.

Modifiers to Identify Services of Physical Therapy Assistants or Occupational Therapy Assistants

Our Annual Report on Form 10-K for the year ended December 31, 2022 contains a detailed discussion of Medicare regulations concerning services provided by physical therapy assistants and occupational therapy assistants in Part I — Business — Government Regulations and in Part II — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Changes. There have been no significant updates to these regulations subsequently.

Operating Statistics

The following table sets forth operating statistics for each of our segments for the periods presented. The operating statistics reflect data for the period of time we managed these operations. Our operating statistics include metrics we believe provide relevant insight about the number of facilities we operate, volume of services we provide to our patients, and average payment rates for services we provide. These metrics are utilized by management to monitor trends and performance in our businesses and therefore may be important to investors because management may assess our performance based in part on such metrics. Other healthcare providers may present similar statistics, and these statistics are susceptible to varying definitions. Our statistics as presented may not be comparable to other similarly titled statistics of other companies.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2023	2022	2023
Critical illness recovery hospital data:				
Number of consolidated hospitals—start of period[1]	105	105	104	103
Number of hospitals acquired	2	1	2	1
Number of hospital start-ups	—	2	1	4
Number of hospitals closed/sold	(2)	—	(2)	—
Number of consolidated hospitals—end of period[1]	105	108	105	108
Available licensed beds[3]	4,509	4,547	4,509	4,547
Admissions[3][4]	8,806	8,925	18,263	18,363
Patient days[3][5]	273,133	276,366	562,350	563,112
Average length of stay (days)[3][6]	30	30	30	30
Revenue per patient day[3][7]	$ 1,987	$ 2,076	$ 2,032	$ 2,067
Occupancy rate[3][8]	67 %	68 %	69 %	70 %
Percent patient days—Medicare[3][9]	41 %	37 %	39 %	38 %
Rehabilitation hospital data:				
Number of consolidated hospitals—start of period[1]	20	20	20	20
Number of hospitals acquired	—	—	—	—
Number of hospital start-ups	—	—	—	—
Number of hospitals closed/sold	—	—	—	—
Number of consolidated hospitals—end of period[1]	20	20	20	20
Number of unconsolidated hospitals managed—end of period[2]	11	12	11	12
Total number of hospitals (all)—end of period	31	32	31	32
Available licensed beds[3]	1,391	1,443	1,391	1,443
Admissions[3][4]	7,450	7,865	14,632	15,523
Patient days[3][5]	108,812	109,680	212,614	218,047
Average length of stay (days)[3][6]	15	14	15	14
Revenue per patient day[3][7]	$ 1,928	$ 2,008	$ 1,935	$ 1,989
Occupancy rate[3][8]	86 %	84 %	85 %	85 %
Percent patient days—Medicare[3][9]	47 %	48 %	47 %	49 %
Outpatient rehabilitation data:				
Number of consolidated clinics—start of period	1,584	1,632	1,572	1,622
Number of clinics acquired	8	4	10	13
Number of clinic start-ups	13	9	25	21
Number of clinics closed/sold	(6)	(7)	(8)	(18)
Number of consolidated clinics—end of period	1,599	1,638	1,599	1,638
Number of unconsolidated clinics managed—end of period	321	306	321	306
Total number of clinics (all)—end of period	1,920	1,944	1,920	1,944
Number of visits[3][10]	2,450,912	2,720,490	4,760,998	5,357,260
Revenue per visit[3][11]	$ 103	$ 100	$ 103	$ 100

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2023	2022	2023
Concentra data:				
Number of consolidated centers—start of period	518	539	518	540
Number of centers acquired	2	1	3	1
Number of center start-ups	—	—	—	—
Number of centers closed/sold	(2)	—	(3)	(1)
Number of consolidated centers—end of period	518	540	518	540
Number of onsite clinics operated—end of period	148	141	148	141
Number of visits(3)(10)	3,214,512	3,267,894	6,331,410	6,485,839
Revenue per visit(3)(11)	$ 127	$ 134	$ 126	$ 134

(1) Represents the number of hospitals included in our consolidated financial results at the end of each period presented.

(2) Represents the number of hospitals which are managed by us at the end of each period presented. We have minority ownership interests in these businesses.

(3) Data excludes locations managed by the Company. For purposes of our Concentra segment, onsite clinics are excluded.

(4) Represents the number of patients admitted to our hospitals during the periods presented.

(5) Each patient day represents one patient occupying one bed for one day during the periods presented.

(6) Represents the average number of days in which patients were admitted to our hospitals. Average length of stay is calculated by dividing the number of patient days, as presented above, by the number of patients discharged from our hospitals during the periods presented.

(7) Represents the average amount of revenue recognized for each patient day. Revenue per patient day is calculated by dividing patient service revenues, excluding revenues from certain other ancillary and outpatient services provided at our hospitals, by the total number of patient days.

(8) Represents the portion of our hospitals being utilized for patient care during the periods presented. Occupancy rate is calculated using the number of patient days, as presented above, divided by the total number of bed days available during the period. Bed days available is derived by adding the daily number of available licensed beds for each of the periods presented.

(9) Represents the portion of our patient days which are paid by Medicare. The Medicare patient day percentage is calculated by dividing the total number of patient days which are paid by Medicare by the total number of patient days, as presented above.

(10) Represents the number of visits in which patients were treated at our outpatient rehabilitation clinics and Concentra centers during the periods presented. COVID-19 screening and testing services provided by our Concentra segment are not included in these figures.

(11) Represents the average amount of revenue recognized for each patient visit. Revenue per visit is calculated by dividing patient service revenue, excluding revenues from certain other ancillary services, by the total number of visits. For purposes of this computation for our Concentra segment, patient service revenue does not include onsite clinics or revenues generated from COVID-19 screening and testing services.

Results of Operations

The following table outlines selected operating data as a percentage of revenue for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2023	2022	2023
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Costs and expenses:				
Cost of services, exclusive of depreciation and amortization[1]	87.7	85.0	87.9	85.1
General and administrative	2.4	2.5	2.3	2.5
Depreciation and amortization	3.3	3.0	3.2	3.1
Total costs and expenses	93.4	90.5	93.4	90.7
Other operating income	1.0	—	0.5	—
Income from operations	7.6	9.5	7.1	9.3
Equity in earnings of unconsolidated subsidiaries	0.4	0.6	0.4	0.6
Interest expense	(2.6)	(2.9)	(2.5)	(2.9)
Income before income taxes	5.4	7.2	5.0	7.0
Income tax expense	1.2	1.7	1.2	1.7
Net income	4.2	5.5	3.8	5.3
Net income attributable to non-controlling interests	0.7	0.8	0.5	0.8
Net income attributable to Select Medical Holdings Corporation	3.5 %	4.7 %	3.3 %	4.5 %

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(1) Cost of services includes salaries, wages and benefits, operating supplies, lease and rent expense, and other operating costs.

The following table summarizes selected financial data by segment for the periods indicated:

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2023	% Change	Six Months Ended June 30, 2022	Six Months Ended June 30, 2023	% Change
	(in thousands, except percentages)					
Revenue:						
Critical illness recovery hospital	$ 545,908	$ 575,091	5.3 %	$ 1,147,663	$ 1,169,017	1.9 %
Rehabilitation hospital	228,887	240,856	5.2	449,521	472,318	5.1
Outpatient rehabilitation	287,258	302,972	5.5	559,198	598,875	7.1
Concentra	441,357	467,079	5.8	864,780	923,377	6.8
Other[1]	81,331	88,530	8.9	163,126	175,921	7.8
Total Company	$ 1,584,741	$ 1,674,528	5.7 %	$ 3,184,288	$ 3,339,508	4.9 %
Income (loss) from operations:						
Critical illness recovery hospital	$ 5,416	$ 51,610	852.9 %	$ 26,765	$ 111,746	317.5 %
Rehabilitation hospital	42,670	47,802	12.0	78,247	88,130	12.6
Outpatient rehabilitation	25,471	24,071	(5.5)	44,038	45,813	4.0
Concentra	73,341	82,108	12.0	143,463	157,368	9.7
Other[1]	(25,931)	(46,387)	N/M	(67,561)	(92,396)	N/M
Total Company	$ 120,967	$ 159,204	31.6 %	$ 224,952	$ 310,661	38.1 %
Adjusted EBITDA:						
Critical illness recovery hospital	$ 20,019	$ 65,496	227.2 %	$ 55,986	$ 142,269	154.1 %
Rehabilitation hospital	49,845	54,689	9.7	92,224	101,905	10.5
Outpatient rehabilitation	33,601	32,850	(2.2)	60,197	63,049	4.7
Concentra	92,607	100,391	8.4	182,076	194,139	6.6
Other[1]	(15,078)	(33,957)	N/M	(45,642)	(67,830)	N/M
Total Company	$ 180,994	$ 219,469	21.3 %	$ 344,841	$ 433,532	25.7 %
Adjusted EBITDA margins:						
Critical illness recovery hospital	3.7 %	11.4 %		4.9 %	12.2 %	
Rehabilitation hospital	21.8	22.7		20.5	21.6	
Outpatient rehabilitation	11.7	10.8		10.8	10.5	
Concentra	21.0	21.5		21.1	21.0	
Other[1]	N/M	N/M		N/M	N/M	
Total Company	11.4 %	13.1 %		10.8 %	13.0 %	
Total assets:						
Critical illness recovery hospital	$ 2,387,516	$ 2,492,370		$ 2,387,516	$ 2,492,370	
Rehabilitation hospital	1,194,739	1,209,737		1,194,739	1,209,737	
Outpatient rehabilitation	1,360,600	1,399,782		1,360,600	1,399,782	
Concentra	2,301,296	2,314,328		2,301,296	2,314,328	
Other[1]	307,507	285,652		307,507	285,652	
Total Company	$ 7,551,658	$ 7,701,869		$ 7,551,658	$ 7,701,869	
Purchases of property, equipment, and other assets:						
Critical illness recovery hospital	$ 19,528	$ 31,363		$ 39,097	$ 55,021	
Rehabilitation hospital	4,821	1,903		11,095	10,485	
Outpatient rehabilitation	9,314	10,476		18,728	20,408	
Concentra	8,716	15,846		18,956	30,246	
Other[1]	3,953	(74)		5,301	2,239	
Total Company	$ 46,332	$ 59,514		$ 93,177	$ 118,399	

(1) Other includes our corporate administration and shared services, as well as employee leasing services with our non-consolidating subsidiaries. Total assets include certain non-consolidating joint ventures and minority investments in other healthcare related businesses.

N/M — Not meaningful.

Three Months Ended June 30, 2023, Compared to Three Months Ended June 30, 2022

For the three months ended June 30, 2023, we had revenue of $1,674.5 million and income from operations of $159.2 million, as compared to revenue of $1,584.7 million and income from operations of $121.0 million for the three months ended June 30, 2022. For the three months ended June 30, 2023, Adjusted EBITDA was $219.5 million, with an Adjusted EBITDA margin of 13.1%, as compared to Adjusted EBITDA of $181.0 million and an Adjusted EBITDA margin of 11.4% for the three months ended June 30, 2022.

The most significant contributor to the improvement in our financial performance for the three months ended June 30, 2023, compared to the three months ended June 30, 2022, was a decrease in labor costs in our critical illness recovery hospital segment as the investments we made in the recruitment, hiring, and retention of full-time staff in 2022 resulted in a significant decrease in contract labor utilization. Additionally, reduced demand in the marketplace resulted in lower contract labor rates, which further contributed to the decrease in total contract labor costs. We believe the ratio of personnel expense to net revenue for the critical illness recovery hospital segment for the three months ended June 30, 2023, is indicative of a more stabilized labor environment. Other operating income during the three months ended June 30, 2022 included $15.1 million primarily related to the recognition of payments received under the Provider Relief Fund for health care related expenses and lost revenues attributable to COVID-19. There was no Provider Relief Fund related revenue recognized in other operating income during the three months ended June 30, 2023.

Revenue

Critical Illness Recovery Hospital Segment. Revenue increased 5.3% to $575.1 million for the three months ended June 30, 2023, compared to $545.9 million for the three months ended June 30, 2022. The increase in revenue was principally due to an increase in revenue per patient day. Revenue per patient day increased 4.5% to $2,076 for the three months ended June 30, 2023, compared to $1,987 for the three months ended June 30, 2022. Our patient days increased 1.2% to 276,366 days for the three months ended June 30, 2023, compared to 273,133 days for the three months ended June 30, 2022. Occupancy in our critical illness recovery hospitals was 68% and 67% for the three months ended June 30, 2023 and 2022, respectively.

Rehabilitation Hospital Segment. Revenue increased 5.2% to $240.9 million for the three months ended June 30, 2023, compared to $228.9 million for the three months ended June 30, 2022. The increase in revenue was principally due to an increase in revenue per patient day. Revenue per patient day increased 4.1% to $2,008 for the three months ended June 30, 2023, compared to $1,928 for the three months ended June 30, 2022. Our patient days increased 0.8% to 109,680 days for the three months ended June 30, 2023, compared to 108,812 days for the three months ended June 30, 2022. Occupancy in our rehabilitation hospitals was 84% and 86% for the three months ended June 30, 2023 and 2022, respectively.

Outpatient Rehabilitation Segment. Revenue increased 5.5% to $303.0 million for the three months ended June 30, 2023, compared to $287.3 million for the three months ended June 30, 2022. The increase in revenue was attributable to patient visits, which increased 11.0% to 2,720,490 visits for the three months ended June 30, 2023, compared to 2,450,912 visits for the three months ended June 30, 2022. Our revenue per visit was $100 for the three months ended June 30, 2023, compared to $103 for the three months ended June 30, 2022. The decrease in revenue per visit was primarily attributable to a decrease in Medicare reimbursement, including the impact of sequestration as discussed above under "*Regulatory Changes*", changes in payor mix, and an increase in variable discounts.

Concentra Segment. Revenue increased 5.8% to $467.1 million for the three months ended June 30, 2023, compared to $441.4 million for the three months ended June 30, 2022. The increase in revenue was primarily due to an increase in revenue per visit. Our revenue per visit increased 5.5% to $134 for the three months ended June 30, 2023, compared to $127 for the three months ended June 30, 2022. Our patient visits increased 1.7% to 3,267,894 visits for the three months ended June 30, 2023, compared to 3,214,512 visits for the three months ended June 30, 2022. COVID-19 screening and testing services did not contribute to the Concentra segment's revenue for the three months ended June 30, 2023, compared to $7.7 million of revenue from these services during the three months ended June 30, 2022.

Operating Expenses

Our operating expenses consist principally of cost of services and general and administrative expenses. Our operating expenses were $1,466.1 million, or 87.5% of revenue, for the three months ended June 30, 2023, compared to $1,427.8 million, or 90.1% of revenue, for the three months ended June 30, 2022. Our cost of services, a major component of which is labor expense, was $1,423.6 million, or 85.0% of revenue, for the three months ended June 30, 2023, compared to $1,390.6 million, or 87.7% of revenue, for the three months ended June 30, 2022. The decrease in our operating expenses relative to our revenue was principally attributable to the decreased labor costs within our critical illness recovery hospital segment, as explained further within the "*Adjusted EBITDA*" discussion. General and administrative expenses were $42.5 million, or 2.5% of revenue, for the three months ended June 30, 2023, compared to $37.3 million, or 2.4% of revenue, for the three months ended June 30, 2022.

Other Operating Income

For the three months ended June 30, 2023, we had other operating income of $0.7 million, compared to $15.1 million for the three months ended June 30, 2022. The other operating income for the three months ended June 30, 2022 is included within the operating results of our other activities, and is primarily related to the recognition of payments received under the Provider Relief Fund for health care related expenses and lost revenues attributable to COVID-19.

Adjusted EBITDA

Critical Illness Recovery Hospital Segment. Adjusted EBITDA increased 227.2% to $65.5 million for the three months ended June 30, 2023, compared to $20.0 million for the three months ended June 30, 2022. Our Adjusted EBITDA margin for the critical illness recovery hospital segment was 11.4% for the three months ended June 30, 2023, compared to 3.7% for the three months ended June 30, 2022. The increases in our Adjusted EBITDA and Adjusted EBITDA margin during the three months ended June 30, 2023, as compared to the three months ended June 30, 2022, were principally due to an increase in net revenue as well as a decrease in labor costs. The decrease in labor costs resulted from our efforts in 2022 to hire additional full-time nursing staff, improve retention among our employees, and decrease our reliance on contract labor, as well as the lower contract labor rates due to reduced demand in the marketplace. Our total contract labor costs decreased by approximately 62% during the three months ended June 30, 2023, as compared to the three months ended June 30, 2022, which was driven by an approximate 44% decrease in the utilization of contract registered nurses and an approximate 31% decrease in the rate per hour for contract registered nurses.

Rehabilitation Hospital Segment. Adjusted EBITDA increased 9.7% to $54.7 million for the three months ended June 30, 2023, compared to $49.8 million for the three months ended June 30, 2022. Our Adjusted EBITDA margin for the rehabilitation hospital segment was 22.7% for the three months ended June 30, 2023, compared to 21.8% for the three months ended June 30, 2022. The increases in Adjusted EBITDA and Adjusted EBITDA margin were primarily driven by an increase in revenue.

Outpatient Rehabilitation Segment. Adjusted EBITDA was $32.9 million for the three months ended June 30, 2023, compared to $33.6 million for the three months ended June 30, 2022. Our Adjusted EBITDA margin for the outpatient rehabilitation segment was 10.8% for the three months ended June 30, 2023, compared to 11.7% for the three months ended June 30, 2022. The decrease in our Adjusted EBITDA and Adjusted EBITDA margin were primarily due to an increase in labor costs and a decrease in revenue per visit during the three months ended June 30, 2023, as compared to the three months ended June 30, 2022.

Concentra Segment. Adjusted EBITDA increased 8.4% to $100.4 million for the three months ended June 30, 2023, compared to $92.6 million for the three months ended June 30, 2022. Our Adjusted EBITDA margin for the Concentra segment was 21.5% for the three months ended June 30, 2023, compared to 21.0% for the three months ended June 30, 2022. The increases in Adjusted EBITDA and Adjusted EBITDA margin during the three months ended June 30, 2023, as compared to the three months ended June 30, 2022, were primarily due to an increase in revenue.

Depreciation and Amortization

Depreciation and amortization expense was $49.9 million for the three months ended June 30, 2023, compared to $51.1 million for the three months ended June 30, 2022.

Income from Operations

For the three months ended June 30, 2023, we had income from operations of $159.2 million, compared to $121.0 million for the three months ended June 30, 2022. The decline in labor costs experienced within our critical illness recovery hospital segment was the primary cause of the increase in income from operations, as discussed above under "*Adjusted EBITDA*." Other operating income during the three months ended June 30, 2022 included $15.1 million primarily related to the recognition of payments received under the Provider Relief Fund for health care related expenses and lost revenues attributable to COVID-19. There was no Provider Relief Fund related revenue recognized in other operating income during the three months ended June 30, 2023.

Equity in Earnings of Unconsolidated Subsidiaries

For the three months ended June 30, 2023, we had equity in earnings of unconsolidated subsidiaries of $10.5 million, compared to $6.2 million for the three months ended June 30, 2022. The increase in equity in earnings is principally due to the improved operating performance of our rehabilitation businesses in which we are a minority owner.

Interest

Our term loan is subject to an interest rate cap, which limits the variable interest rate to 1.0% on $2.0 billion of principal outstanding under the term loan. The Adjusted Term SOFR rate was 5.20% at June 30, 2023, compared to 1.79% at June 30, 2022. Interest expense was $49.0 million for the three months ended June 30, 2023, compared to $41.1 million for the three months ended June 30, 2022. The increase in interest expense was caused by an increase in the borrowings made under the revolving facility, as well as an increase in the variable interest rate to the extent not mitigated by the interest rate cap.

Income Taxes

We recorded income tax expense of $28.8 million for the three months ended June 30, 2023, which represented an effective tax rate of 23.9%. We recorded income tax expense of $19.8 million for the three months ended June 30, 2022, which represented an effective tax rate of 23.0%. Our income tax expense is computed based on annual estimates which we allocate throughout the year based on our income. This intra-period tax allocation may cause our effective tax rate to reflect variances when compared to the prior year as estimates of our annual income and the components of our income tax expense change throughout the year.

Six Months Ended June 30, 2023, Compared to Six Months Ended June 30, 2022

For the six months ended June 30, 2023, we had revenue of $3,339.5 million and income from operations of $310.7 million, respectively, as compared to revenue of $3,184.3 million and income from operations of $225.0 million for the six months ended June 30, 2022. For the six months ended June 30, 2023, Adjusted EBITDA was $433.5 million, with an Adjusted EBITDA margin of 13.0%, as compared to Adjusted EBITDA of $344.8 million and an Adjusted EBITDA margin of 10.8% for the six months ended June 30, 2022, respectively.

The most significant contributor to the improvement in our financial performance for the six months ended June 30, 2023, compared to the six months ended June 30, 2022, was a decrease in labor costs in our critical illness recovery hospital segment as the investments we made in the recruitment, hiring, and retention of full-time staff in 2022 resulted in a significant decrease in contract labor utilization. Additionally, reduced demand in the marketplace resulted in lower contract labor rates, which further contributed to the decrease in total contract labor costs. We believe the ratio of personnel expense to net revenue for the critical illness recovery hospital segment for the six months ended June 30, 2023, is indicative of a more stabilized labor environment. Other operating income during the six months ended June 30, 2022 included $15.1 million primarily related to the recognition of payments received under the Provider Relief Fund for health care related expenses and lost revenues attributable to COVID-19. There was no Provider Relief Fund related revenue recognized in other operating income during the six months ended June 30, 2023.

Revenue

Critical Illness Recovery Hospital Segment. Revenue increased 1.9% to $1,169.0 million for the six months ended June 30, 2023, compared to $1,147.7 million for the six months ended June 30, 2022. Revenue per patient day increased 1.7% to $2,067 for the six months ended June 30, 2023, compared to $2,032 for the six months ended June 30, 2022. The increase in revenue per patient day is inclusive of the reinstatement of the 2.0% cut to Medicare payments due to sequestration. Our patient days were 563,112 for the six months ended June 30, 2023, compared to 562,350 days for the six months ended June 30, 2022. Occupancy in our critical illness recovery hospitals was 70% and 69% for the six months ended June 30, 2023 and 2022, respectively.

Rehabilitation Hospital Segment. Revenue increased 5.1% to $472.3 million for the six months ended June 30, 2023, compared to $449.5 million for the six months ended June 30, 2022. Revenue per patient day increased 2.8% to $1,989 for the six months ended June 30, 2023, compared to $1,935 for the six months ended June 30, 2022. Our patient days increased 2.6% to 218,047 days for the six months ended June 30, 2023, compared to 212,614 days for the six months ended June 30, 2022. Occupancy in our rehabilitation hospitals was 85% for both the six months ended June 30, 2023 and 2022.

Outpatient Rehabilitation Segment. Revenue increased 7.1% to $598.9 million for the six months ended June 30, 2023, compared to $559.2 million for the six months ended June 30, 2022. The increase in revenue was attributable to patient visits, which increased 12.5% to 5,357,260 visits for the six months ended June 30, 2023, compared to 4,760,998 visits for the six months ended June 30, 2022. Our revenue per visit decreased to $100 for the six months ended June 30, 2023, compared to $103 for the six months ended June 30, 2022, primarily due to a decrease in Medicare reimbursement, including the impact of sequestration, changes in payor mix, and an increase in variable discounts.

Concentra Segment. Revenue increased 6.8% to $923.4 million for the six months ended June 30, 2023, compared to $864.8 million for the six months ended June 30, 2022. The increase in revenue was due to increases in both revenue per visit and patient visits. Our revenue per visit increased 6.3% to $134 for the six months ended June 30, 2023, compared to $126 for the six months ended June 30, 2022. Our patient visits increased 2.4% to 6,485,839 for the six months ended June 30, 2023, compared to 6,331,410 visits for the six months ended June 30, 2022. COVID-19 screening and testing services did not contribute to the Concentra segment's revenue for the six months ended June 30, 2023, compared to $16.7 million of revenue from these services during the six months ended June 30, 2022.

Operating Expenses

Our operating expenses consist principally of cost of services and general and administrative expenses. Our operating expenses were $2,927.2 million, or 87.6% of revenue, for the six months ended June 30, 2023, compared to $2,872.3 million, or 90.2% of revenue, for the six months ended June 30, 2022. Our cost of services, a major component of which is labor expense, was $2,842.4 million, or 85.1% of revenue, for the six months ended June 30, 2023, compared to $2,797.6 million, or 87.9% of revenue, for the six months ended June 30, 2022. The decrease in our operating expenses relative to our revenue was principally attributable to the decreased labor costs within our critical illness recovery hospital segment, as explained further within the "*Adjusted EBITDA*" discussion. General and administrative expenses were $84.8 million, or 2.5% of revenue, for the six months ended June 30, 2023, compared to $74.8 million, or 2.3% of revenue, for the six months ended June 30, 2022.

Other Operating Income

For the six months ended June 30, 2023, we had other operating income of $0.7 million, compared to $15.1 million for the six months ended June 30, 2022. The other operating income for the six months ended June 30, 2022 is included within the operating results of our other activities, and is primarily related to the recognition of payments received under the Provider Relief Fund for health care related expenses and lost revenues attributable to COVID-19.

Adjusted EBITDA

Critical Illness Recovery Hospital Segment. Adjusted EBITDA increased 154.1% to $142.3 million for the six months ended June 30, 2023, compared to $56.0 million for the six months ended June 30, 2022. Our Adjusted EBITDA margin for the critical illness recovery hospital segment was 12.2% for the six months ended June 30, 2023, compared to 4.9% for the six months ended June 30, 2022. The increases in our Adjusted EBITDA and Adjusted EBITDA margin during the six months ended June 30, 2023, as compared to the six months ended June 30, 2022, were principally due to lower labor costs as well as an increase in net revenue. The decrease in labor costs resulted from our efforts in 2022 to hire additional full-time nursing staff, improve retention among our employees, and decrease our reliance on contract labor, as well as the lower contract labor rates due to reduced demand in the marketplace. Our total contract labor costs decreased by approximately 71% during the six months ended June 30, 2023, as compared to the six months ended June 30, 2022, which was driven by an approximate 49% decrease in the utilization of contract registered nurses and an approximate 38% decrease in the rate per hour for contract registered nurses.

Rehabilitation Hospital Segment. Adjusted EBITDA increased 10.5% to $101.9 million for the six months ended June 30, 2023, compared to $92.2 million for the six months ended June 30, 2022. Our Adjusted EBITDA margin for the rehabilitation hospital segment was 21.6% for the six months ended June 30, 2023, compared to 20.5% for the six months ended June 30, 2022. The increase in Adjusted EBITDA and Adjusted EBITDA margin for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022, was primarily attributable to an increase in revenue.

Outpatient Rehabilitation Segment. Adjusted EBITDA increased 4.7% to $63.0 million for the six months ended June 30, 2023, compared to $60.2 million for the six months ended June 30, 2022. Our Adjusted EBITDA margin for the outpatient rehabilitation segment was 10.5% for the six months ended June 30, 2023, compared to 10.8% for the six months ended June 30, 2022. The increase in our Adjusted EBITDA was primarily due to an increase in patient visits, partially offset by increases in labor costs and a decrease in revenue per visit for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022.

Concentra Segment. Adjusted EBITDA increased 6.6% to $194.1 million for the six months ended June 30, 2023, compared to $182.1 million for the six months ended June 30, 2022. Our Adjusted EBITDA margin for the Concentra segment was 21.0% for the six months ended June 30, 2023, compared to 21.1% for the six months ended June 30, 2022. The increase in Adjusted EBITDA was primarily due to an increase in revenue, partially offset by increases in labor costs for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022.

Depreciation and Amortization

Depreciation and amortization expense was $102.4 million for the six months ended June 30, 2023, compared to $102.1 million for the six months ended June 30, 2022.

Income from Operations

For the six months ended June 30, 2023, we had income from operations of $310.7 million, compared to $225.0 million for the six months ended June 30, 2022. The decline in labor costs experienced within our critical illness recovery hospital segment was the primary cause of the increase in income from operations, as discussed above under "*Adjusted EBITDA*." Other operating income during the six months ended June 30, 2022 included $15.1 million primarily related to the recognition of payments received under the Provider Relief Fund for health care related expenses and lost revenues attributable to COVID-19. There was no Provider Relief Fund related revenue recognized in other operating income during the six months ended June 30, 2023.

Equity in Earnings of Unconsolidated Subsidiaries

For the six months ended June 30, 2023, we had equity in earnings of unconsolidated subsidiaries of $19.1 million, compared to $11.6 million for the six months ended June 30, 2022. The increase in equity in earnings is principally due to the improved operating performance of our rehabilitation businesses in which we are a minority owner.

Interest

Our term loan is subject to an interest rate cap, which limits the variable interest rate to 1.0% on $2.0 billion of principal outstanding under the term loan. The Adjusted Term SOFR rate was 5.20% at June 30, 2023, compared to 1.79% at June 30, 2022. Interest expense was $97.6 million for the six months ended June 30, 2023, compared to $76.6 million for the six months ended June 30, 2022. The increase in interest expense was caused by an increase in the borrowings made under the revolving facility, as well as an increase in the variable interest rate to the extent not mitigated by the interest rate cap.

Income Taxes

We recorded income tax expense of $55.0 million for the six months ended June 30, 2023, which represented an effective tax rate of 23.7%. We recorded income tax expense of $37.8 million for the six months ended June 30, 2022, which represented an effective tax rate of 23.6%.

Liquidity and Capital Resources

Cash Flows for the Six Months Ended June 30, 2023 and Six Months Ended June 30, 2022

In the following, we discuss cash flows from operating activities, investing activities, and financing activities.

	Six Months Ended June 30,	
	2022	2023
	(in thousands)	
Cash flows provided by operating activities	$ 178,018	$ 286,278
Cash flows used in investing activities	(114,094)	(135,875)
Cash flows used in financing activities	(43,565)	(147,142)
Net increase in cash and cash equivalents	20,359	3,261
Cash and cash equivalents at beginning of period	74,310	97,906
Cash and cash equivalents at end of period	$ 94,669	$ 101,167

Operating activities provided $286.3 million of cash flows for the six months ended June 30, 2023, compared to $178.0 million of cash flows for the six months ended June 30, 2022. The cash flows from operating activities during the six months ended June 30, 2022 included the repayment of $77.3 million of Medicare advance payments. The remaining change in cash flows provided by operating activities year over year is principally due to an increase in net income.

Our days sales outstanding was 52 days at June 30, 2023, compared to 55 days at December 31, 2022. Our days sales outstanding was 53 days at June 30, 2022, compared to 52 days at December 31, 2021. Our days sales outstanding will fluctuate based upon variability in our collection cycles and patient volumes.

Investing activities used $135.9 million of cash flows for the six months ended June 30, 2023. The principal uses of cash were $118.4 million for purchases of property, equipment, and other assets, and $17.5 million for investments in and acquisitions of businesses. Investing activities used $114.1 million of cash flows for the six months ended June 30, 2022. The principal uses of cash were $93.2 million for purchases of property and equipment and $26.2 million for investments in and acquisitions of businesses.

Financing activities used $147.1 million of cash flows for the six months ended June 30, 2023. The principal uses of cash were net repayments under our revolving facility of $100.0 million, $31.8 million of dividend payments to common stockholders, and $24.1 million for distributions to and purchases of non-controlling interests. Financing activities used $43.6 million of cash flows for the six months ended June 30, 2022. The principal uses of cash were $178.6 million for repurchases of common stock, $32.8 million of dividend payments to common stockholders and $18.7 million for distributions to and purchases of non-controlling interests. The principal source of cash was net borrowings under our revolving facility of $190.0 million.

Capital Resources

Working capital. We had net working capital of $116.3 million at June 30, 2023, compared to $116.2 million at December 31, 2022.

Credit facilities. On May 31, 2023, Select entered into Amendment No. 7 to the Select credit agreement. Amendment No. 7 replaced the interest rate based on LIBOR and LIBOR-based mechanics applicable to borrowings under the Select credit agreement with an interest rate based on Adjusted Term SOFR (as defined in the credit agreement). The Adjusted Term SOFR Rate includes a credit spread adjustment of 0.10%.

On July 31, 2023, the Company entered into Amendment No. 8 to the Select credit agreement. Amendment No. 8 provides for a new tranche of refinancing term loan in an aggregate principal amount of $2,103.0 million to replace the existing term loans and a $710.0 million new revolving credit facility to replace the existing revolving credit facility. The refinancing term loan and the extended revolving credit facility will mature on March 6, 2027, with an early springing maturity 90 days prior to the senior notes maturity, triggered if more than $300.0 million of senior notes remain outstanding on May 15, 2026. The refinancing term loan has an interest rate of Term SOFR (without the 0.10% credit spread adjustment) plus 3.00% and the refinancing revolving credit facility has an interest rate of Adjusted Term SOFR plus 2.50%, in each case, subject to a leverage-based pricing grid.

At June 30, 2023, Select had outstanding borrowings under its credit facilities consisting of a $2,103.4 million term loan (excluding unamortized original issue discounts and debt issuance costs of $7.1 million) and borrowings of $345.0 million under its revolving facility. At June 30, 2023, Select had $248.8 million of availability under its revolving facility after giving effect to $56.2 million of outstanding letters of credit.

Stock Repurchase Program. Holdings' Board of Directors has authorized a common stock repurchase program to repurchase up to $1.0 billion worth of shares of its common stock. The common stock repurchase program will remain in effect until December 31, 2023, unless further extended or earlier terminated by the Board of Directors. Stock repurchases under this program may be made in the open market or through privately negotiated transactions, and at times and in such amounts as Holdings deems appropriate. Holdings funds this program with cash on hand and borrowings under its revolving facility. Holdings did not repurchase shares under the program during the six months ended June 30, 2023. Since the inception of the program through June 30, 2023, Holdings has repurchased 48,234,823 shares at a cost of approximately $600.3 million, or $12.45 per share, which includes transaction costs. The Inflation Reduction Act of 2022, which enacted a 1% excise tax on stock repurchases that exceed $1.0 million, became effective January 1, 2023.

Use of Capital Resources. We may from time to time pursue opportunities to develop new joint venture relationships with large, regional health systems and other healthcare providers. We also intend to open new outpatient rehabilitation clinics and occupational health centers in local areas that we currently serve where we can benefit from existing referral relationships and brand awareness to produce incremental growth. In addition to our development activities, we may grow through opportunistic acquisitions.

Liquidity

We believe our internally generated cash flows and borrowing capacity under our revolving facility will allow us to finance our operations in both the short and long term. As of June 30, 2023, we had cash and cash equivalents of $101.2 million and $248.8 million of availability under the revolving facility after giving effect to $345.0 million of outstanding borrowings and $56.2 million of outstanding letters of credit.

We may from time to time seek to retire or purchase our outstanding debt through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions, tender offers or otherwise. Such repurchases or exchanges, if any, may be funded from operating cash flows or other sources and will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Dividend

On August 2, 2023, our Board of Directors declared a cash dividend of $0.125 per share. The dividend will be payable on or about September 1, 2023 to stockholders of record as of the close of business on August 15, 2023.

There is no assurance that future dividends will be declared. The declaration and payment of dividends in the future are at the discretion of our Board of Directors after taking into account various factors, including, but not limited to, our financial condition, operating results, available cash and current and anticipated cash needs, the terms of our indebtedness, and other factors our Board of Directors may deem to be relevant.

Effects of Inflation

The healthcare industry is labor intensive and our largest expenses are labor related costs. Wage and other expenses increase during periods of inflation and when labor shortages occur in the marketplace. We have recently experienced higher labor costs related to the current inflationary environment and competitive labor market. In addition, suppliers have passed along rising costs to us in the form of higher prices. We cannot predict our ability to pass along cost increases to our customers.

Recent Accounting Pronouncements

Refer to Note 2 – Accounting Policies of the notes to our condensed consolidated financial statements included herein for information regarding recent accounting pronouncements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to interest rate risk in connection with our variable rate long-term indebtedness. Our principal interest rate exposure relates to the loans outstanding under our credit facilities, which bear interest rates that are indexed against SOFR.

At June 30, 2023, Select had outstanding borrowings under its credit facilities consisting of a $2,103.4 million term loan (excluding unamortized original issue discounts and debt issuance costs of $7.1 million) and $345.0 million of borrowings under its revolving facility.

In order to mitigate our exposure to rising interest rates, we entered into an interest rate cap transaction to limit our variable interest rate to 1.0% on $2.0 billion of principal outstanding under our term loan. The agreement applies to interest payments through September 30, 2024. As of June 30, 2023, the Adjusted Term SOFR rate was 5.20%. As of June 30, 2023, $103.4 million of our term loan borrowings are subject to variable interest rates.

As of June 30, 2023, each 0.25% increase in market interest rates will impact the annual interest expense on our variable rate debt by $1.1 million.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered in this report. Based on this evaluation, as of June 30, 2023, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures, including the accumulation and communication of disclosure to our principal executive officer and principal financial officer as appropriate to allow timely decisions regarding disclosure, are effective to provide reasonable assurance that material information required to be included in our periodic SEC reports is recorded, processed, summarized, and reported within the time periods specified in the relevant SEC rules and forms.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) identified in connection with the evaluation required by Rule 13a-15(d) of the Securities Exchange Act of 1934 that occurred during the second quarter ended June 30, 2023, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there is only reasonable assurance that our controls will succeed in achieving their goals under all potential future conditions.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to the "*Litigation*" section contained within Note 13 – Commitments and Contingencies of the notes to our condensed consolidated financial statements included herein.

ITEM 1A. RISK FACTORS

There have been no material changes from our risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2022.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of Equity Securities by the Issuer

Holdings' Board of Directors authorized a common stock repurchase program to repurchase up to $1.0 billion worth of shares of its common stock. The program will remain in effect until December 31, 2023, unless further extended or earlier terminated by the Board of Directors. Stock repurchases under this program may be made in the open market or through privately negotiated transactions, and at times and in such amounts as Holdings deems appropriate.

The following table provides information regarding repurchases of our common stock during the three months ended June 30, 2023.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under Plans or Programs
April 1 - April 30, 2023[1]	49,370	$ 30.50	—	$ 399,677,961
May 1 - May 31, 2023	—	—	—	399,677,961
June 1 - June 30, 2023	—	—	—	399,677,961
Total	49,370	$ 30.50	—	$ 399,677,961

(1) The shares purchased represent common stock surrendered to us to satisfy tax withholding obligations associated with the vesting of restricted shares issued to employees, pursuant to the provisions of our equity incentive plans.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Rule 10b5-1 Trading Plans

During the three months ended June 30, 2023, none of our directors or executive officers adopted or terminated any contract, instruction, or written plan for the purchase or sale of our securities to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any non-Rule 10b5-1 trading arrangement.

ITEM 6. EXHIBITS

Number	Description
10.1	Amendment No. 7 dated as of May 31, 2023, to the Credit Agreement dated as of March 6, 2017, by and among Select Medical Holdings Corporation, Select Medical Corporation, JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent, and the other lenders and issuing banks party thereto, as amended by Amendment No. 1, dated as of March 22, 2018, Amendment No. 2, dated as of October 26, 2018, Amendment No. 3, dated as of August 1, 2019, Amendment No. 4, dated as of December 10, 2019, Amendment No. 5, dated as of June 2, 2021, and Amendment No. 6, dated as of February 21, 2023 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K (file No. 001-34465) filed on May 31, 2023).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Executive Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer, and Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

SELECT MEDICAL HOLDINGS CORPORATION

By: /s/ Martin F. Jackson

Martin F. Jackson
Executive Vice President and Chief Financial Officer
(Duly Authorized Officer)

By: /s/ Christopher S. Weigl

Christopher S. Weigl
Senior Vice President, Controller & Chief Accounting Officer
(Principal Accounting Officer)

Dated: August 3, 2023