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 March 31, 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 April 30, 2023, Select Medical Holdings Corporation had outstanding 127,126,909 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	March 31, 2023
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 97,906	$ 83,703
Accounts receivable	941,312	997,274
Prepaid income taxes	31,868	16,893
Current portion of interest rate cap contract	74,857	72,127
Other current assets	125,370	143,736
Total Current Assets	1,271,313	1,313,733
Operating lease right-of-use assets	1,169,740	1,186,534
Property and equipment, net	1,001,440	987,283
Goodwill	3,484,200	3,484,594
Identifiable intangible assets, net	351,662	346,606
Interest rate cap contract, net of current portion	45,200	26,994
Other assets	341,738	353,992
Total Assets	$ 7,665,293	$ 7,699,736
LIABILITIES AND EQUITY		
Current Liabilities:		
Overdrafts	$ 31,961	$ 31,237
Current operating lease liabilities	236,784	239,713
Current portion of long-term debt and notes payable	44,351	113,894
Accounts payable	186,729	174,101
Accrued payroll	209,789	171,815
Accrued vacation	150,695	156,433
Accrued interest	29,837	10,241
Accrued other	264,525	274,654
Income taxes payable	480	13,618
Total Current Liabilities	1,155,151	1,185,706
Non-current operating lease liabilities	1,008,394	1,024,676
Long-term debt, net of current portion	3,835,211	3,766,838
Non-current deferred tax liability	169,793	163,024
Other non-current liabilities	106,137	106,652
Total Liabilities	6,274,686	6,246,896
Commitments and contingencies (Note 13)		
Redeemable non-controlling interests	34,043	34,399
Stockholders' Equity:		
Common stock, $0.001 par value, 700,000,000 shares authorized, 127,173,871 and 127,176,279 shares issued and outstanding at 2022 and 2023, respectively	127	127
Capital in excess of par	452,183	462,185
Retained earnings	581,010	635,483
Accumulated other comprehensive income	88,602	72,654
Total Stockholders' Equity	1,121,922	1,170,449
Non-controlling interests	234,642	247,992
Total Equity	1,356,564	1,418,441
Total Liabilities and Equity	$ 7,665,293	$ 7,699,736

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 March 31,	
	2022	2023
Revenue	$ 1,599,547	$ 1,664,980
Costs and expenses:		
Cost of services, exclusive of depreciation and amortization	1,407,010	1,418,819
General and administrative	37,513	42,279
Depreciation and amortization	51,039	52,425
Total costs and expenses	1,495,562	1,513,523
Income from operations	103,985	151,457
Other income and expense:		
Equity in earnings of unconsolidated subsidiaries	5,397	8,556
Interest expense	(35,514)	(48,571)
Income before income taxes	73,868	111,442
Income tax expense	17,942	26,185
Net income	55,926	85,257
Less: Net income attributable to non-controlling interests	6,809	14,452
Net income attributable to Select Medical Holdings Corporation	$ 49,117	$ 70,805
Earnings per common share (Note 12):		
Basic and diluted	$ 0.37	$ 0.56

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 March 31,	
	2022	2023
Net income	$ 55,926	$ 85,257
Other comprehensive income (loss), net of tax:		
Gain (loss) on interest rate cap contract	39,814	(2,696)
Reclassification adjustment for losses (gains) included in net income	39	(13,252)
Net change, net of tax benefit (expense) of $(13,284) and $5,175	39,853	(15,948)
Comprehensive income	95,779	69,309
Less: Comprehensive income attributable to non-controlling interests	6,809	14,452
Comprehensive income attributable to Select Medical Holdings Corporation	$ 88,970	$ 54,857

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 Three Months Ended March 31, 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

	For the Three Months Ended March 31, 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

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 Three Months Ended March 31,	
	2022	2023
Operating activities		
Net income	$ 55,926	$ 85,257
Adjustments to reconcile net income to net cash provided by operating activities:		
Distributions from unconsolidated subsidiaries	7,486	2,566
Depreciation and amortization	51,039	52,425
Provision for expected credit losses	94	429
Equity in earnings of unconsolidated subsidiaries	(5,397)	(8,556)
Gain on sale or disposal of assets	(23)	(7)
Stock compensation expense	8,823	10,181
Amortization of debt discount, premium and issuance costs	558	565
Deferred income taxes	420	(2,601)
Changes in operating assets and liabilities, net of effects of business combinations:		
Accounts receivable	(52,225)	(55,397)
Other current assets	(1,819)	(11,742)
Other assets	2,686	3,659
Accounts payable	16,074	(4,564)
Accrued expenses	(14,377)	(20,775)
Government advances	(62,928)	—
Net cash provided by operating activities	6,337	51,440
Investing activities		
Business combinations, net of cash acquired	(5,186)	(397)
Purchases of property, equipment, and other assets	(46,845)	(58,885)
Investment in businesses	(3,337)	(9,800)
Proceeds from sale of assets	37	20
Net cash used in investing activities	(55,331)	(69,062)
Financing activities		
Borrowings on revolving facilities	280,000	225,000
Payments on revolving facilities	(100,000)	(210,000)
Borrowings of other debt	15,794	21,448
Principal payments on other debt	(9,188)	(11,170)
Dividends paid to common stockholders	(16,691)	(15,897)
Repurchase of common stock	(51,676)	—
Decrease in overdrafts	(7,608)	(724)
Proceeds from issuance of non-controlling interests	5,229	2,731
Distributions to and purchases of non-controlling interests	(10,295)	(7,969)
Net cash provided by financing activities	105,565	3,419
Net increase (decrease) in cash and cash equivalents	56,571	(14,203)
Cash and cash equivalents at beginning of period	74,310	97,906
Cash and cash equivalents at end of period	$ 130,881	$ 83,703
Supplemental information		
Cash paid for interest, excluding amounts received of $17,828 under the interest rate cap contract for the three months ended March 31, 2023	$ 53,517	$ 84,531
Cash paid for taxes	923	336

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 March 31, 2023, and for the three month periods ended March 31, 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 months ended March 31, 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 assessment of 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 that the intended cessation date of the one-, three-, six-, and 12-month tenors of USD LIBOR is June 30, 2023. Borrowings under the Company's credit agreement bear interest, at the election of Select, based on LIBOR or an alternate base rate. The Company currently elects for its term loan borrowings to bear interest at a rate that is indexed to one-month 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. The Company has not yet agreed upon a different reference rate with JPMorgan Chase Bank, N.A.

For the Company's cash flow hedge, which mitigates the Company's exposure to increases in the one-month LIBOR rate above 1.0% on $2.0 billion of principal outstanding under the term loan, the Company has elected to assert that the hedged forecasted transaction remains probable of occurring, regardless of a modification or expected modification that may replace one-month LIBOR with a different reference rate. The Company intends to modify the cash flow hedge's contractual terms related to the replacement of the reference rate, as necessary, to align with the reference rate specified for the Company's term loan. For the purpose of the assessment of hedge effectiveness, the Company assumes that the reference rate will not be replaced for the remainder of the hedging relationship, as outlined by Topic 848. The Company's cash flow hedge is described further in Note 8 – Interest Rate Cap.

These updates have not had, and the Company does not expect them to have in future periods, 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% and 20% of the Company's accounts receivable is due from Medicare at December 31, 2022 and March 31, 2023, respectively.

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:

	Three Months Ended March 31,	
	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

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 March 31, 2023, the total assets of the Company’s variable interest entities were $232.1 million and $254.1 million, respectively, and are principally comprised of accounts receivable. As of December 31, 2022, and March 31, 2023, the total liabilities of the Company’s variable interest entities were $78.8 million and $82.2 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 $178.4 million as of December 31, 2022, and March 31, 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 March 31, 2022			Three Months Ended March 31, 2023		
	Unrelated Parties	Related Parties	Total	Unrelated Parties	Related Parties	Total
	(in thousands)					
Operating lease cost	$ 73,962	$ 1,809	$ 75,771	$ 76,632	$ 1,834	$ 78,466
Finance lease cost:						
Amortization of right-of-use assets	347	—	347	394	—	394
Interest on lease liabilities	340	—	340	320	—	320
Short-term lease cost	35	—	35	—	—	—
Variable lease cost	13,655	39	13,694	15,761	84	15,845
Sublease income	(1,966)	—	(1,966)	(1,678)	—	(1,678)
Total lease cost	$ 86,373	$ 1,848	$ 88,221	$ 91,429	$ 1,918	$ 93,347

7. Long-Term Debt and Notes Payable

As of March 31, 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	$ 20,065	$ (10,206)	$ 1,234,859	$ 1,188,250
Credit facilities:					
Revolving facility	460,000	—	—	460,000	458,275
Term loan	2,103,437	(3,881)	(4,230)	2,095,326	2,095,549
Other debt, including finance leases	90,664	—	(117)	90,547	90,547
Total debt	$ 3,879,101	$ 16,184	$ (14,553)	$ 3,880,732	$ 3,832,621

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	—	84,923	375,077	—	—	—	460,000
Term loan	4,757	11,150	2,087,530	—	—	—	2,103,437
Other debt, including finance leases	19,928	56,356	1,408	1,308	823	10,841	90,664
Total debt	$ 24,685	$ 152,429	$ 2,464,015	$ 1,226,308	$ 823	$ 10,841	$ 3,879,101

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 February 21, 2023, Select entered into Amendment No. 6 to its senior secured credit agreement (the "Select credit agreement"). Amendment No. 6 extended the maturity date on $530.0 million of the total borrowing capacity of $650.0 million under its revolving credit facility (the "Select revolving facility") to March 6, 2025; however, in the event the Company's term loan is not refinanced by January 3, 2025, the maturity date for those revolving borrowings will be January 3, 2025.

8. Interest Rate Cap

The Company is subject to market risk exposure arising from changes in interest rates on its term loan, which bears interest at a rate that is indexed to one-month LIBOR. 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 one-month LIBOR 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 one-month LIBOR 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:

	Three Months Ended March 31,	
	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

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

	Three Months Ended March 31,	
Statement of Operations	2022	2023
	(in thousands)	
Gains (losses) included in interest expense	$ (51)	$ 17,552
Income tax benefit (expense)	12	(4,300)
Amounts reclassified from accumulated other comprehensive income	$ (39)	$ 13,252

The Company expects that approximately $71.1 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	March 31, 2023
Asset:			**(in thousands)**	
Interest rate cap contract, current portion	Current portion of interest rate cap contract	Level 2	$ 74,857	$ 72,127
Interest rate cap contract, non-current portion	Interest rate cap contract, net of current portion	Level 2	45,200	26,994

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		March 31, 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	$ 1,234,859	$ 1,188,250
Credit facilities:					
Revolving facility	Level 2	445,000	443,331	460,000	458,275
Term loan	Level 2	2,094,290	2,056,110	2,095,326	2,095,549

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 March 31,	
	2022	2023
	(in thousands)	
Revenue:		
Critical illness recovery hospital	$ 601,755	$ 593,926
Rehabilitation hospital	220,634	231,462
Outpatient rehabilitation	271,940	295,903
Concentra	423,423	456,298
Other	81,795	87,391
Total Company	$ 1,599,547	$ 1,664,980
Adjusted EBITDA:		
Critical illness recovery hospital	$ 35,967	$ 76,773
Rehabilitation hospital	42,379	47,216
Outpatient rehabilitation	26,596	30,199
Concentra	89,469	93,748
Other	(30,564)	(33,873)
Total Company	$ 163,847	$ 214,063
Total assets:		
Critical illness recovery hospital	$ 2,367,490	$ 2,507,265
Rehabilitation hospital	1,187,118	1,203,069
Outpatient rehabilitation	1,350,374	1,397,823
Concentra	2,339,940	2,300,632
Other	291,022	290,947
Total Company	$ 7,535,944	$ 7,699,736
Purchases of property, equipment, and other assets:		
Critical illness recovery hospital	$ 19,569	$ 23,658
Rehabilitation hospital	6,274	8,582
Outpatient rehabilitation	9,414	9,932
Concentra	10,240	14,400
Other	1,348	2,313
Total Company	$ 46,845	$ 58,885

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

	Three Months Ended March 31, 2022					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Adjusted EBITDA	$ 35,967	$ 42,379	$ 26,596	$ 89,469	$ (30,564)	
Depreciation and amortization	(14,618)	(6,802)	(8,029)	(18,812)	(2,778)	
Stock compensation expense	—	—	—	(535)	(8,288)	
Income (loss) from operations	$ 21,349	$ 35,577	$ 18,567	$ 70,122	$ (41,630)	$ 103,985
Equity in earnings of unconsolidated subsidiaries						5,397
Interest expense						(35,514)
Income before income taxes						$ 73,868

	Three Months Ended March 31, 2023					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Adjusted EBITDA	$ 76,773	$ 47,216	$ 30,199	$ 93,748	$ (33,873)	
Depreciation and amortization	(16,637)	(6,888)	(8,457)	(18,310)	(2,133)	
Stock compensation expense	—	—	—	(178)	(10,003)	
Income (loss) from operations	$ 60,136	$ 40,328	$ 21,742	$ 75,260	$ (46,009)	$ 151,457
Equity in earnings of unconsolidated subsidiaries						8,556
Interest expense						(48,571)
Income before income taxes						$ 111,442

11. Revenue from Contracts with Customers

The following tables disaggregate the Company’s revenue for the three months ended March 31, 2022 and 2023:

	Three Months Ended March 31, 2022					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Patient service revenue:						
Medicare	$ 218,987	$ 103,021	$ 41,904	$ 177	$ —	$ 364,089
Non-Medicare	380,986	107,142	214,113	422,046	—	1,124,287
Total patient services revenues	599,973	210,163	256,017	422,223	—	1,488,376
Other revenue	1,782	10,471	15,923	1,200	81,795	111,171
Total revenue	$ 601,755	$ 220,634	$ 271,940	$ 423,423	$ 81,795	$ 1,599,547

	Three Months Ended March 31, 2023					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Patient service revenue:						
Medicare	$ 229,383	$ 110,055	$ 45,801	$ 243	$ —	$ 385,482
Non-Medicare	363,305	109,925	231,985	454,598	—	1,159,813
Total patient services revenues	592,688	219,980	277,786	454,841	—	1,545,295
Other revenue	1,238	11,482	18,117	1,457	87,391	119,685
Total revenue	$ 593,926	$ 231,462	$ 295,903	$ 456,298	$ 87,391	$ 1,664,980

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 months ended March 31, 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 March 31,	
	2022	2023
	(in thousands)	
Net income	$ 55,926	$ 85,257
Less: net income attributable to non-controlling interests	6,809	14,452
Net income attributable to the Company	49,117	70,805
Less: Distributed and undistributed income attributable to participating securities	1,643	2,573
Distributed and undistributed income attributable to common shares	$ 47,474	$ 68,232

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

	Three Months Ended March 31,					
	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	$ 47,474	129,010	$ 0.37	$ 68,232	122,553	$ 0.56
Participating securities	1,643	4,464	$ 0.37	2,573	4,622	$ 0.56
Total Company	$ 49,117			$ 70,805		

(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 for most joint ventures. 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 which, 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 continues to produce 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 Event

On May 3, 2023, the Company's Board of Directors declared a cash dividend of $0.125 per share. The dividend will be payable on or about May 31, 2023, to stockholders of record as of the close of business on May 18, 2023.

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 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 March 31, 2023, we had operations in 46 states and the District of Columbia. We operated 105 critical illness recovery hospitals in 28 states, 32 rehabilitation hospitals in 12 states, 1,936 outpatient rehabilitation clinics in 39 states and the District of Columbia, 539 occupational health centers in 41 states, and 140 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 $1,665.0 million for the three months ended March 31, 2023. Of this total, we earned approximately 36% 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 27% 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 March 31,	
	2022	2023
	(in thousands)	
Net income	$ 55,926	$ 85,257
Income tax expense	17,942	26,185
Interest expense	35,514	48,571
Equity in earnings of unconsolidated subsidiaries	(5,397)	(8,556)
Income from operations	103,985	151,457
Stock compensation expense:		
Included in general and administrative	6,949	8,405
Included in cost of services	1,874	1,776
Depreciation and amortization	51,039	52,425
Adjusted EBITDA	$ 163,847	$ 214,063

Other Significant Events

Dividend Payment

On February 16, 2023, our Board of Directors declared a cash dividend of $0.125 per share. On March 15, 2023, cash dividends totaling $15.9 million were paid.

Financing Transaction

On February 21, 2023, Select entered into Amendment No. 6 to the Select credit agreement. Amendment No. 6 extended the maturity date on $530.0 million of the total borrowing capacity of $650.0 million under the Select revolving facility to March 6, 2025; however, in the event the Company's term loan is not refinanced by January 3, 2025, the maturity date for those revolving borrowings will be January 3, 2025.

Summary Financial Results

Three Months Ended March 31, 2023

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

	Three Months Ended March 31, 2023					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Revenue	$ 593,926	$ 231,462	$ 295,903	$ 456,298	$ 87,391	$ 1,664,980
Operating expenses	(517,153)	(184,246)	(265,704)	(362,728)	(131,267)	(1,461,098)
Depreciation and amortization	(16,637)	(6,888)	(8,457)	(18,310)	(2,133)	(52,425)
Income (loss) from operations	$ 60,136	$ 40,328	$ 21,742	$ 75,260	$ (46,009)	$ 151,457
Depreciation and amortization	16,637	6,888	8,457	18,310	2,133	52,425
Stock compensation expense	—	—	—	178	10,003	10,181
Adjusted EBITDA	$ 76,773	$ 47,216	$ 30,199	$ 93,748	$ (33,873)	$ 214,063
Adjusted EBITDA margin	12.9 %	20.4 %	10.2 %	20.5 %	N/M	12.9 %

	Three Months Ended March 31, 2022					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Revenue	$ 601,755	$ 220,634	$ 271,940	$ 423,423	$ 81,795	$ 1,599,547
Operating expenses	(565,788)	(178,255)	(245,344)	(334,489)	(120,647)	(1,444,523)
Depreciation and amortization	(14,618)	(6,802)	(8,029)	(18,812)	(2,778)	(51,039)
Income (loss) from operations	$ 21,349	$ 35,577	$ 18,567	$ 70,122	$ (41,630)	$ 103,985
Depreciation and amortization	14,618	6,802	8,029	18,812	2,778	51,039
Stock compensation expense	—	—	—	535	8,288	8,823
Adjusted EBITDA	$ 35,967	$ 42,379	$ 26,596	$ 89,469	$ (30,564)	$ 163,847
Adjusted EBITDA margin	6.0 %	19.2 %	9.8 %	21.1 %	N/M	10.2 %

Net income was $85.3 million for the three months ended March 31, 2023, compared to $55.9 million for the three months ended March 31, 2022.

The following table summarizes the changes in our segment performance measures for the three months ended March 31, 2023, compared to the three months ended March 31, 2022:

	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
Change in revenue	(1.3)%	4.9 %	8.8 %	7.8 %	6.8 %	4.1 %
Change in income from operations	181.7 %	13.4 %	17.1 %	7.3 %	N/M	45.7 %
Change in Adjusted EBITDA	113.5 %	11.4 %	13.5 %	4.8 %	N/M	30.6 %

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 three months ended March 31, 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 and it is now scheduled to end on May 11, 2023. The COVID-19 national emergency that was declared by President Trump on March 13, 2020, which is 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 excuse 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"), are scheduled to end when the public health emergency expires 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, even when the public health emergency ends on May 11, 2023, LTCHs with cost reporting periods that started prior to May 11, 2023 will continue to be exempt for the remainder of that cost reporting year.

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. Once the public health emergency ends, which is expected to occur on May 11, 2023, CMS will return 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 April 10, 2023, CMS released a display copy of the proposed 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). CMS is expected to issue the final rule in August or shortly thereafter. The proposed standard federal rate for fiscal year 2024 is $47,948, an increase from the standard federal rate applicable during fiscal year 2023 of $46,433. The proposed update to the standard federal rate for fiscal year 2024 includes a market basket increase of 3.1%, less a productivity adjustment of 0.2%. The proposed standard federal rate also includes an area wage budget neutrality factor of 1.0035335. The proposed fixed-loss amount for high cost outlier cases paid under LTCH-PPS is $94,378, an increase from the fixed-loss amount in the 2023 fiscal year of $38,518. The proposed fixed-loss amount for high cost outlier cases paid under the site-neutral payment rate is $40,732, 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 April 7, 2023, CMS published a proposed 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 would be set at $18,471, an increase from the standard payment conversion factor applicable during fiscal year 2022 of $17,878. The update to the standard payment conversion factor for fiscal year 2024, if adopted, would include a market basket increase of 3.2%, less a productivity adjustment of 0.2%. CMS proposed to decrease the outlier threshold amount for fiscal year 2024 to $9,690 from $12,526 established in the final rule for fiscal year 2023.

Medicare Reimbursement of Outpatient Rehabilitation Clinic Services

Our Annual Report on Form 10-K for the year ended December 31, 2022 contains a detailed discussion of Medicare reimbursement regulations that affect our outpatient rehabilitation clinic operations 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.

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 March 31,	
	2022	2023
Critical illness recovery hospital data:		
Number of consolidated hospitals—start of period(1)	104	103
Number of hospitals acquired	—	—
Number of hospital start-ups	1	2
Number of hospitals closed/sold	—	—
Number of consolidated hospitals—end of period(1)	105	105
Available licensed beds(3)	4,524	4,440
Admissions(3)(4)	9,457	9,438
Patient days(3)(5)	289,217	286,746
Average length of stay (days)(3)(6)	30	30
Revenue per patient day(3)(7)	$ 2,075	$ 2,058
Occupancy rate(3)(8)	71 %	72 %
Percent patient days—Medicare(3)(9)	37 %	39 %
Rehabilitation hospital data:		
Number of consolidated hospitals—start of period(1)	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
Number of unconsolidated hospitals managed—end of period(2)	10	12
Total number of hospitals (all)—end of period	30	32
Available licensed beds(3)	1,391	1,413
Admissions(3)(4)	7,182	7,620
Patient days(3)(5)	103,802	107,910
Average length of stay (days)(3)(6)	15	14
Revenue per patient day(3)(7)	$ 1,943	$ 1,969
Occupancy rate(3)(8)	84 %	86 %
Percent patient days—Medicare(3)(9)	47 %	49 %
Outpatient rehabilitation data:		
Number of consolidated clinics—start of period	1,572	1,622
Number of clinics acquired	2	9
Number of clinic start-ups	12	12
Number of clinics closed/sold	(2)	(11)
Number of consolidated clinics—end of period	1,584	1,632
Number of unconsolidated clinics managed—end of period	317	304
Total number of clinics (all)—end of period	1,901	1,936
Number of visits(3)(10)	2,310,086	2,636,770
Revenue per visit(3)(11)	$ 102	$ 101

	Three Months Ended March 31,	
	2022	2023
Concentra data:		
Number of consolidated centers—start of period	518	540
Number of centers acquired	1	—
Number of center start-ups	—	—
Number of centers closed/sold	(1)	(1)
Number of consolidated centers—end of period	518	539
Number of onsite clinics operated—end of period	140	140
Number of visits(3)(10)	3,116,898	3,217,945
Revenue per visit(3)(11)	$ 125	$ 133

(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 March 31,	
	2022	2023
Revenue	100.0 %	100.0 %
Costs and expenses:		
Cost of services, exclusive of depreciation and amortization[1]	88.0	85.2
General and administrative	2.3	2.5
Depreciation and amortization	3.2	3.2
Total costs and expenses	93.5	90.9
Income from operations	6.5	9.1
Equity in earnings of unconsolidated subsidiaries	0.3	0.5
Interest expense	(2.2)	(2.9)
Income before income taxes	4.6	6.7
Income tax expense	1.1	1.6
Net income	3.5	5.1
Net income attributable to non-controlling interests	0.4	0.8
Net income attributable to Select Medical Holdings Corporation	3.1 %	4.3 %

(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 March 31,		
	2022	2023	% Change
	(in thousands, except percentages)		
Revenue:			
Critical illness recovery hospital	$ 601,755	$ 593,926	(1.3)%
Rehabilitation hospital	220,634	231,462	4.9
Outpatient rehabilitation	271,940	295,903	8.8
Concentra	423,423	456,298	7.8
Other[(1)]	81,795	87,391	6.8
Total Company	$ 1,599,547	$ 1,664,980	4.1 %
Income (loss) from operations:			
Critical illness recovery hospital	$ 21,349	$ 60,136	181.7 %
Rehabilitation hospital	35,577	40,328	13.4
Outpatient rehabilitation	18,567	21,742	17.1
Concentra	70,122	75,260	7.3
Other[(1)]	(41,630)	(46,009)	N/M
Total Company	$ 103,985	$ 151,457	45.7 %
Adjusted EBITDA:			
Critical illness recovery hospital	$ 35,967	$ 76,773	113.5 %
Rehabilitation hospital	42,379	47,216	11.4
Outpatient rehabilitation	26,596	30,199	13.5
Concentra	89,469	93,748	4.8
Other[(1)]	(30,564)	(33,873)	N/M
Total Company	$ 163,847	$ 214,063	30.6 %
Adjusted EBITDA margins:			
Critical illness recovery hospital	6.0 %	12.9 %	
Rehabilitation hospital	19.2	20.4	
Outpatient rehabilitation	9.8	10.2	
Concentra	21.1	20.5	
Other[(1)]	N/M	N/M	
Total Company	10.2 %	12.9 %	
Total assets:			
Critical illness recovery hospital	$ 2,367,490	$ 2,507,265	
Rehabilitation hospital	1,187,118	1,203,069	
Outpatient rehabilitation	1,350,374	1,397,823	
Concentra	2,339,940	2,300,632	
Other[(1)]	291,022	290,947	
Total Company	$ 7,535,944	$ 7,699,736	
Purchases of property, equipment, and other assets:			
Critical illness recovery hospital	$ 19,569	$ 23,658	
Rehabilitation hospital	6,274	8,582	
Outpatient rehabilitation	9,414	9,932	
Concentra	10,240	14,400	
Other[(1)]	1,348	2,313	
Total Company	$ 46,845	$ 58,885	

(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 March 31, 2023, Compared to Three Months Ended March 31, 2022

For the three months ended March 31, 2023, we had revenue of $1,665.0 million and income from operations of $151.5 million, as compared to revenue of $1,599.5 million and income from operations of $104.0 million for the three months ended March 31, 2022. For the three months ended March 31, 2023, Adjusted EBITDA was $214.1 million, with an Adjusted EBITDA margin of 12.9%, as compared to Adjusted EBITDA of $163.8 million and an Adjusted EBITDA margin of 10.2% for the three months ended March 31, 2022.

The most significant contributor to the improvement in our financial performance for the three months ended March 31, 2023, compared to the three months ended March 31, 2022, was a decrease in labor costs in our critical illness recovery hospital segment as the investments 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 March 31, 2023, is indicative of a more stabilized labor environment.

Revenue

Critical Illness Recovery Hospital Segment. Revenue was $593.9 million for the three months ended March 31, 2023, compared to $601.8 million for the three months ended March 31, 2022. Our patient days were 286,746 for the three months ended March 31, 2023, compared to 289,217 days for the three months ended March 31, 2022. Occupancy in our critical illness recovery hospitals was 72% and 71% for the three months ended March 31, 2023 and 2022, respectively. Revenue per patient day was $2,058 for the three months ended March 31, 2023, compared to $2,075 for the three months ended March 31, 2022. Our Medicare revenue per patient day decreased during the three months ended March 31, 2023 primarily due to reinstatement of the 2.0% cut to Medicare payments due to sequestration.

Rehabilitation Hospital Segment. Revenue increased 4.9% to $231.5 million for the three months ended March 31, 2023, compared to $220.6 million for the three months ended March 31, 2022. The increase in revenue was principally due to an increase in patient days. Our patient days increased 4.0% to 107,910 days for the three months ended March 31, 2023, compared to 103,802 days for the three months ended March 31, 2022. Occupancy in our rehabilitation hospitals was 86% and 84% for the three months ended March 31, 2023 and 2022, respectively. Our revenue per patient day increased 1.3% to $1,969 for the three months ended March 31, 2023, compared to $1,943 for the three months ended March 31, 2022. We experienced increases in both our Medicare and non-Medicare revenue per patient day during the three months ended March 31, 2023, compared to the three months ended March 31, 2022.

Outpatient Rehabilitation Segment. Revenue increased 8.8% to $295.9 million for the three months ended March 31, 2023, compared to $271.9 million for the three months ended March 31, 2022. The increase in revenue was primarily attributable to patient visits, which increased 14.1% to 2,636,770 visits for the three months ended March 31, 2023, compared to 2,310,086 visits for the three months ended March 31, 2022. Our revenue per visit decreased to $101 for the three months ended March 31, 2023, compared to $102 for the three months ended March 31, 2022, primarily due to a decrease in Medicare reimbursement rates along with the impact of the reinstatement of the 2.0% cut to Medicare payments due to sequestration.

Concentra Segment. Revenue increased 7.8% to $456.3 million for the three months ended March 31, 2023, compared to $423.4 million for the three months ended March 31, 2022. The increase in revenue was due to increases in both revenue per visit and patient visits. Our revenue per visit increased 6.4% to $133 for the three months ended March 31, 2023, compared to $125 for the three months ended March 31, 2022. Our patient visits increased 3.2% to 3,217,945 for the three months ended March 31, 2023, compared to 3,116,898 visits for the three months ended March 31, 2022. COVID-19 screening and testing services did not contribute to the Concentra segment's revenue for the three months ended March 31, 2023, compared to $9.1 million of revenue from these services during the three months ended March 31, 2022.

Operating Expenses

Our operating expenses consist principally of cost of services and general and administrative expenses. Our operating expenses were $1,461.1 million, or 87.7% of revenue, for the three months ended March 31, 2023, compared to $1,444.5 million, or 90.3% of revenue, for the three months ended March 31, 2022. Our cost of services, a major component of which is labor expense, was $1,418.8 million, or 85.2% of revenue, for the three months ended March 31, 2023, compared to $1,407.0 million, or 88.0% of revenue, for the three months ended March 31, 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 $42.3 million, or 2.5% of revenue, for the three months ended March 31, 2023, compared to $37.5 million, or 2.3% of revenue, for the three months ended March 31, 2022.

Adjusted EBITDA

Critical Illness Recovery Hospital Segment. Adjusted EBITDA increased 113.5% to $76.8 million for the three months ended March 31, 2023, compared to $36.0 million for the three months ended March 31, 2022. Our Adjusted EBITDA margin for the critical illness recovery hospital segment was 12.9% for the three months ended March 31, 2023, compared to 6.0% for the three months ended March 31, 2022. The increases in our Adjusted EBITDA and Adjusted EBITDA margin during the three months ended March 31, 2023, as compared to the three months ended March 31, 2022, were principally due to lower labor costs resulting from our efforts in 2022 to hire additional full-time nursing staff, improve retention among our employees, and decrease our reliance on contract labor, and lower contract labor rates due to reduced demand in the marketplace. Our total contract labor costs decreased by approximately 76.0% during the three months ended March 31, 2023, as compared to the three months ended March 31, 2022, which was driven by a 53.1% decrease in the utilization of contract registered nurses and a 42.0% decrease in the rate per hour for contract registered nurses.

Rehabilitation Hospital Segment. Adjusted EBITDA increased 11.4% to $47.2 million for the three months ended March 31, 2023, compared to $42.4 million for the three months ended March 31, 2022. Our Adjusted EBITDA margin for the rehabilitation hospital segment was 20.4% for the three months ended March 31, 2023, compared to 19.2% for the three months ended March 31, 2022. The increase in Adjusted EBITDA for the three months ended March 31, 2023, as compared to the three months ended March 31, 2022, was primarily attributable to an increase in revenue, which was partially offset by additional labor costs associated with the increase in patient days.

Outpatient Rehabilitation Segment. Adjusted EBITDA increased 13.5% to $30.2 million for the three months ended March 31, 2023, compared to $26.6 million for the three months ended March 31, 2022. Our Adjusted EBITDA margin for the outpatient rehabilitation segment was 10.2% for the three months ended March 31, 2023, compared to 9.8% for the three months ended March 31, 2022. The increase in our Adjusted EBITDA was primarily due to an increase in patient visits, partially offset by increases in labor costs for the three months ended March 31, 2023, as compared to the three months ended March 31, 2022.

Concentra Segment. Adjusted EBITDA increased 4.8% to $93.7 million for the three months ended March 31, 2023, compared to $89.5 million for the three months ended March 31, 2022. Our Adjusted EBITDA margin for the Concentra segment was 20.5% for the three months ended March 31, 2023, compared to 21.1% for the three months ended March 31, 2022. The increase in Adjusted EBITDA was primarily due to an increase in revenue, partially offset by increases in labor costs for the three months ended March 31, 2023, as compared to the three months ended March 31, 2022.

Depreciation and Amortization

Depreciation and amortization expense was $52.4 million for the three months ended March 31, 2023, compared to $51.0 million for the three months ended March 31, 2022.

Income from Operations

For the three months ended March 31, 2023, we had income from operations of $151.5 million, compared to $104.0 million for the three months ended March 31, 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*."

Equity in Earnings of Unconsolidated Subsidiaries

For the three months ended March 31, 2023, we had equity in earnings of unconsolidated subsidiaries of $8.6 million, compared to $5.4 million for the three months ended March 31, 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 one-month LIBOR rate to 1.0% on $2.0 billion of principal outstanding under the term loan. The one-month LIBOR rate was 4.86% at March 31, 2023, compared to 0.45% at March 31, 2022. Accordingly, the interest rate cap mitigated our exposure to increases in one-month LIBOR in excess of 1.0% during the three months ended March 31, 2023. Interest expense was $48.6 million for the three months ended March 31, 2023, compared to $35.5 million for the three months ended March 31, 2022. The increase in interest expense was caused by the borrowings we made under our revolving facility, as well an increase in the one-month LIBOR rate, as described further above.

Income Taxes

We recorded income tax expense of $26.2 million for the three months ended March 31, 2023, which represented an effective tax rate of 23.5%. We recorded income tax expense of $17.9 million for the three months ended March 31, 2022, which represented an effective tax rate of 24.3%.

The reduction in our effective tax rate resulted principally from an increase in our income before income taxes generated from our less than wholly owned subsidiaries taxed as partnerships. For these subsidiaries, we only incur income tax expense on our share of the earnings, however the full earnings of these subsidiaries are reflected in income before income taxes on the Condensed Consolidated Statement of Operations. The downward effect of the untaxed income allocated to non-controlling interests on the effective tax rate was 3.5% for the three months ended March 31, 2023, compared to 2.5% for the three months ended March 31, 2022.

Net Income Attributable to Non-Controlling Interests

Net income attributable to non-controlling interests was $14.5 million for the three months ended March 31, 2023, compared to $6.8 million for the three months ended March 31, 2022. The increase in net income attributable to non-controlling interests was principally due an increase in the net income of our less than wholly owned subsidiaries. Many of these subsidiaries benefited from lower labor costs during the three months ended March 31, 2023, as compared to the three months ended March 31, 2022.

Liquidity and Capital Resources

Cash Flows for the Three Months Ended March 31, 2023 and Three Months Ended March 31, 2022

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

	Three Months Ended March 31,	
	2022	2023
	(in thousands)	
Cash flows provided by operating activities	$ 6,337	$ 51,440
Cash flows used in investing activities	(55,331)	(69,062)
Cash flows provided by financing activities	105,565	3,419
Net increase (decrease) in cash and cash equivalents	56,571	(14,203)
Cash and cash equivalents at beginning of period	74,310	97,906
Cash and cash equivalents at end of period	$ 130,881	$ 83,703

Operating activities provided $51.4 million of cash flows for the three months ended March 31, 2023, compared to $6.3 million of cash flows for the three months ended March 31, 2022. The cash flows from operating activities during the three months ended March 31, 2022 included the repayment of $62.9 million of Medicare advance payments. The remaining change in cash flows provided by operating activities year over year is attributable to routine changes in net working capital, partially offset by an increase in net income.

Our days sales outstanding was 54 days at March 31, 2023, compared to 55 days at December 31, 2022. Our days sales outstanding was 53 days at March 31, 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 $69.1 million of cash flows for the three months ended March 31, 2023. The principal uses of cash were $58.9 million for purchases of property, equipment, and other assets, and $10.2 million for investments in and acquisitions of businesses. Investing activities used $55.3 million of cash flows for the three months ended March 31, 2022. The principal uses of cash were $46.8 million for purchases of property and equipment and $8.5 million for investments in and acquisitions of businesses.

Financing activities provided $3.4 million of cash flows for the three months ended March 31, 2023. The principal source of cash was net borrowings under our revolving facility of $15.0 million and net borrowings on our other debt of $10.3 million. The principal uses of cash were $15.9 million of dividend payments to common stockholders and $8.0 million for distributions to and purchases of non-controlling interests. Financing activities provided $105.6 million of cash flows for the three months ended March 31, 2022. The principal source of cash was net borrowings under our revolving facility of $180.0 million. The principal uses of cash were $51.7 million for repurchases of common stock, $16.7 million of dividend payments to common stockholders and $10.3 million for distributions to and purchases of non-controlling interests.

Capital Resources

Working capital. We had net working capital of $128.0 million at March 31, 2023, compared to $116.2 million at December 31, 2022. The increase in working capital was primarily due to an increase in accounts receivable and a decrease in our accrued expenses. This was partially offset by an increase in the current portion of our long-term debt.

Credit facilities. On February 21, 2023, Select entered into Amendment No. 6 to the Select credit agreement. Amendment No. 6 extended the maturity date on $530.0 million of the total borrowing capacity of $650.0 million under the Select revolving facility to March 6, 2025; however, in the event the Company's term loan is not refinanced by January 3, 2025, the maturity date for those revolving borrowings will be January 3, 2025.

At March 31, 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 $8.1 million) and borrowings of $460.0 million under its revolving facility. At March 31, 2023, Select had $133.8 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 during the three months ended March 31, 2023. Since the inception of the program through March 31, 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 March 31, 2023, we had cash and cash equivalents of $83.7 million and $133.8 million of availability under the revolving facility after giving effect to $460.0 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 May 3, 2023, our Board of Directors declared a cash dividend of $0.125 per share. The dividend will be payable on or about May 31, 2023 to stockholders of record as of the close of business on May 18, 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 LIBOR.

At March 31, 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 $8.1 million) and $460.0 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 one-month LIBOR 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 March 31, 2023, the one-month LIBOR rate was 4.86%. As of March 31, 2023, $103.4 million of our term loan borrowings are subject to variable interest rates.

As of March 31, 2023, each 0.25% increase in market interest rates will impact the annual interest expense on our variable rate debt by $1.4 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 March 31, 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 first quarter ended March 31, 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.

During the three months ended March 31, 2023, Holdings did not repurchase shares under the authorized common stock repurchase program. The common stock repurchase program has an available capacity of $399.7 million as of March 31, 2023.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Number	Description
10.1	Amendment No 6, dated as of February 21, 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, and Amendment No. 5, dated as of June 2, 2021 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K (file No. 001-34465) filed on February 22, 2023).
10.2	Offer Letter, by and between Select Medical Corporation and Christopher S. Weigl, dated April 22, 2022 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K (file No. 001-34465), filed on March 1, 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: May 4, 2023