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 September 30, 2019

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 October 31, 2019, Select Medical Holdings Corporation had outstanding 134,326,112 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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Select Medical Holdings Corporation
Condensed Consolidated Balance Sheets
(unaudited)
(in thousands, except share and per share amounts)

	December 31, 2018	September 30, 2019
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 175,178	$ 135,963
Accounts receivable	706,676	798,805
Prepaid income taxes	20,539	18,804
Other current assets	90,131	96,721
Total Current Assets	992,524	1,050,293
Operating lease right-of-use assets	—	986,519
Property and equipment, net	979,810	997,467
Goodwill	3,320,726	3,382,656
Identifiable intangible assets, net	437,693	415,763
Other assets	233,512	322,058
Total Assets	$ 5,964,265	$ 7,154,756
LIABILITIES AND EQUITY		
Current Liabilities:		
Overdrafts	$ 25,083	$ —
Current operating lease liabilities	—	204,936
Current portion of long-term debt and notes payable	43,865	15,656
Accounts payable	146,693	136,801
Accrued payroll	172,386	170,294
Accrued vacation	110,660	119,286
Accrued interest	12,137	10,112
Accrued other	190,691	209,887
Income taxes payable	3,671	2,815
Total Current Liabilities	705,186	869,787
Non-current operating lease liabilities	—	836,205
Long-term debt, net of current portion	3,249,516	3,336,506
Non-current deferred tax liability	153,895	147,567
Other non-current liabilities	158,940	105,251
Total Liabilities	4,267,537	5,295,316
Commitments and contingencies (Note 13)		
Redeemable non-controlling interests	780,488	953,697
Stockholders’ Equity:		
Common stock, $0.001 par value, 700,000,000 shares authorized, 135,265,864 and 134,171,529 shares issued and outstanding at 2018 and 2019, respectively	135	134
Capital in excess of par	482,556	485,415
Retained earnings	320,351	269,169
Total Stockholders’ Equity	803,042	754,718
Non-controlling interests	113,198	151,025
Total Equity	916,240	905,743
Total Liabilities and Equity	$ 5,964,265	$ 7,154,756

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 September 30,	
	2018	2019
Net operating revenues	$ 1,267,401	$ 1,393,343
Costs and expenses:		
Cost of services, exclusive of depreciation and amortization	1,087,062	1,183,111
General and administrative	29,975	34,385
Depreciation and amortization	50,527	52,941
Total costs and expenses	1,167,564	1,270,437
Income from operations	99,837	122,906
Other income and expense:		
Loss on early retirement of debt	—	(18,643)
Equity in earnings of unconsolidated subsidiaries	5,432	6,950
Gain on sale of businesses (Note 5)	2,139	—
Interest expense	(50,669)	(54,336)
Income before income taxes	56,739	56,877
Income tax expense	14,060	12,847
Net income	42,679	44,030
Less: Net income attributable to non-controlling interests	9,762	13,298
Net income attributable to Select Medical Holdings Corporation	$ 32,917	$ 30,732
Earnings per common share (Note 12):		
Basic	$ 0.24	$ 0.23
Diluted	$ 0.24	$ 0.23

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 Nine Months Ended September 30,	
	2018	2019
Net operating revenues	$ 3,816,575	$ 4,079,338
Costs and expenses:		
Cost of services, exclusive of depreciation and amortization	3,247,606	3,465,353
General and administrative	90,951	94,401
Depreciation and amortization	149,022	160,072
Total costs and expenses	3,487,579	3,719,826
Income from operations	328,996	359,512
Other income and expense:		
Loss on early retirement of debt	(10,255)	(18,643)
Equity in earnings of unconsolidated subsidiaries	14,914	18,710
Gain on sale of businesses (Note 5)	9,016	6,532
Interest expense	(147,991)	(156,611)
Income before income taxes	194,680	209,500
Income tax expense	47,460	52,140
Net income	147,220	157,360
Less: Net income attributable to non-controlling interests	34,053	40,978
Net income attributable to Select Medical Holdings Corporation	$ 113,167	$ 116,382
Earnings per common share (Note 12):		
Basic	$ 0.84	$ 0.86
Diluted	$ 0.84	$ 0.86

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 Nine Months Ended September 30, 2019						
		Total Stockholders' Equity					
	Common Stock Issued	Common Stock Par Value	Capital in Excess of Par	Retained Earnings	**Total Stockholders' Equity**	Non-controlling Interests	**Total Equity**
Balance at December 31, 2018	135,266	$ 135	$ 482,556	$ 320,351	$ 803,042	$ 113,198	$ 916,240
Net income attributable to Select Medical Holdings Corporation				40,834	40,834		40,834
Net income attributable to non-controlling interests					—	4,810	4,810
Issuance of restricted stock	21	0	0		—		—
Forfeitures of unvested restricted stock	(24)	0	0		—		—
Vesting of restricted stock			5,488		5,488		5,488
Issuance of non-controlling interests					—	6,837	6,837
Distributions to and purchases of non-controlling interests			259		259	(2,739)	(2,480)
Redemption adjustment on non-controlling interests				(47,470)	(47,470)		(47,470)
Other				(122)	(122)	413	291
Balance at March 31, 2019	135,263	$ 135	$ 488,303	$ 313,593	$ 802,031	$ 122,519	$ 924,550
Net income attributable to Select Medical Holdings Corporation				44,816	44,816		44,816
Net income attributable to non-controlling interests					—	3,663	3,663
Issuance of restricted stock	187	0	0		—		—
Vesting of restricted stock			5,591		5,591		5,591
Repurchase of common shares	(936)	0	(8,164)	(5,456)	(13,620)		(13,620)
Exercise of stock options	50	0	459		459		459
Issuance of non-controlling interests			6,366		6,366	24,761	31,127
Distributions to and purchases of non-controlling interests			14		14	(1,430)	(1,416)
Redemption adjustment on non-controlling interests				270	270		270
Other				82	82	428	510
Balance at June 30, 2019	134,564	$ 135	$ 492,569	$ 353,305	$ 846,009	$ 149,941	$ 995,950
Net income attributable to Select Medical Holdings Corporation				30,732	30,732		30,732
Net income attributable to non-controlling interests					—	7,202	7,202
Issuance of restricted stock	1,069	1	(1)		—		—
Forfeitures of unvested restricted stock	(12)	0	0		—		—
Vesting of restricted stock			6,050		6,050		6,050
Repurchase of common shares	(1,494)	(2)	(13,616)	(10,071)	(23,689)		(23,689)
Exercise of stock options	45	0	413		413		413
Distributions to and purchases of non-controlling interests					—	(6,538)	(6,538)
Redemption adjustment on non-controlling interests				(104,553)	(104,553)		(104,553)
Other				(244)	(244)	420	176
Balance at September 30, 2019	134,172	$ 134	$ 485,415	$ 269,169	$ 754,718	$ 151,025	$ 905,743

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 Nine Months Ended September 30, 2018						
		Total Stockholders' Equity					
	Common Stock Issued	Common Stock Par Value	Capital in Excess of Par	Retained Earnings	**Total Stockholders' Equity**	Non-controlling Interests	**Total Equity**
Balance at December 31, 2017	134,115	$ 134	$ 463,499	$ 359,735	$ 823,368	$ 109,236	$ 932,604
Net income attributable to Select Medical Holdings Corporation				33,739	33,739		33,739
Net income attributable to non-controlling interests					—	4,500	4,500
Issuance of restricted stock	4	0	0		—		—
Forfeitures of unvested restricted stock	(88)	0	0		—		—
Vesting of restricted stock			4,717		4,717		4,717
Repurchase of common shares	(7)	0	(69)	(53)	(122)		(122)
Exercise of stock options	80	0	738		738		738
Issuance and exchange of non-controlling interests				74,341	74,341		74,341
Distributions to and purchases of non-controlling interests				(83,233)	(83,233)	(1,094)	(84,327)
Redemption adjustment on non-controlling interests				(1,051)	(1,051)		(1,051)
Other				103	103	35	138
Balance at March 31, 2018	134,104	$ 134	$ 468,885	$ 383,581	$ 852,600	$ 112,677	$ 965,277
Net income attributable to Select Medical Holdings Corporation				46,511	46,511		46,511
Net income attributable to non-controlling interests					—	3,139	3,139
Issuance of restricted stock	170	0	0		—		—
Vesting of restricted stock			4,845		4,845		4,845
Repurchase of common shares	(42)	0	(421)	(346)	(767)		(767)
Exercise of stock options	95	0	882		882		882
Issuance and exchange of non-controlling interests			1,553		1,553	1,921	3,474
Distributions to and purchases of non-controlling interests			(932)	(384)	(1,316)	(1,958)	(3,274)
Redemption adjustment on non-controlling interests				(8,500)	(8,500)		(8,500)
Other				(337)	(337)	677	340
Balance at June 30, 2018	134,327	$ 134	$ 474,812	$ 420,525	$ 895,471	$ 116,456	$ 1,011,927
Net income attributable to Select Medical Holdings Corporation				32,917	32,917		32,917
Net income attributable to non-controlling interests					—	518	518
Issuance of restricted stock	1,048	1	(1)		—		—
Vesting of restricted stock			5,497		5,497		5,497
Repurchase of common shares	(236)	0	(2,499)	(2,252)	(4,751)		(4,751)
Exercise of stock options	1	0	13		13		13
Distributions to and purchases of non-controlling interests					—	(4,419)	(4,419)
Redemption adjustment on non-controlling interests				(154,514)	(154,514)		(154,514)
Other				(41)	(41)	421	380
Balance at September 30, 2018	135,140	$ 135	$ 477,822	$ 296,635	$ 774,592	$ 112,976	$ 887,568

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 Nine Months Ended September 30, 2018	For the Nine Months Ended September 30, 2019
Operating activities		
Net income	$ 147,220	$ 157,360
Adjustments to reconcile net income to net cash provided by operating activities:		
Distributions from unconsolidated subsidiaries	10,734	13,609
Depreciation and amortization	149,022	160,072
Provision for bad debts	(373)	2,344
Equity in earnings of unconsolidated subsidiaries	(14,914)	(18,710)
Loss on extinguishment of debt	484	10,160
Gain on sale of assets and businesses	(9,129)	(6,349)
Stock compensation expense	17,175	19,431
Amortization of debt discount, premium and issuance costs	9,845	9,469
Deferred income taxes	(2,092)	(7,247)
Changes in operating assets and liabilities, net of effects of business combinations:		
Accounts receivable	23,495	(93,425)
Other current assets	(10,274)	(6,016)
Other assets	4,828	1,259
Accounts payable	(3,507)	1,369
Accrued expenses	49,391	22,396
Income taxes	9,072	918
Net cash provided by operating activities	380,977	266,640
Investing activities		
Business combinations, net of cash acquired	(519,258)	(86,269)
Purchases of property and equipment	(121,039)	(123,956)
Investment in businesses	(12,936)	(60,668)
Proceeds from sale of assets and businesses	6,691	183
Net cash used in investing activities	(646,542)	(270,710)
Financing activities		
Borrowings on revolving facilities	420,000	700,000
Payments on revolving facilities	(585,000)	(720,000)
Proceeds from term loans	779,904	593,683
Payments on term loans	(8,625)	(375,084)
Proceeds from 6.250% senior notes	—	539,176
Payment on 6.375% senior notes	—	(710,000)
Revolving facility debt issuance costs	(1,333)	(310)
Borrowings of other debt	30,134	19,282
Principal payments on other debt	(17,971)	(22,628)
Repurchase of common stock	(5,640)	(37,309)
Proceeds from exercise of stock options	1,633	872
Decrease in overdrafts	(6,172)	(25,083)
Proceeds from issuance of non-controlling interests	2,926	18,288
Distributions to and purchases of non-controlling interests	(306,427)	(16,032)
Net cash provided by (used in) financing activities	303,429	(35,145)
Net increase (decrease) in cash and cash equivalents	37,864	(39,215)
Cash and cash equivalents at beginning of period	122,549	175,178
Cash and cash equivalents at end of period	$ 160,413	$ 135,963
Supplemental Information		
Cash paid for interest	$ 134,378	$ 149,090
Cash paid for taxes	40,460	58,472
Non-cash equity exchange for acquisition of U.S. HealthWorks	238,000	—

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 and Select and its subsidiaries are collectively referred to as the "Company." The unaudited condensed consolidated financial statements of the Company as of September 30, 2019, and for the three and nine month periods ended September 30, 2018 and 2019, have been prepared pursuant to the rules and regulations of the Securities Exchange Commission (the "SEC") for interim reporting and accounting principles generally accepted in the United States of America ("GAAP"). Accordingly, certain information and disclosures required by GAAP, which are normally included in the notes to consolidated financial statements, have been condensed or omitted pursuant to those rules and regulations, although the Company believes the disclosure is adequate to make the information presented not misleading. In the opinion of management, such information contains all adjustments, which are normal and recurring in nature, necessary for a fair statement of the financial position, results of operations and cash flow for such periods. All significant intercompany transactions and balances have been eliminated.

The results of operations for the three and nine months ended September 30, 2019, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2019. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2018, contained in the Company's Annual Report on Form 10-K filed with the SEC on February 21, 2019.

2. Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including disclosure of contingencies, at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Credit Risk Concentrations

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

Because of the geographic diversity of the Company's facilities and non-governmental third-party payors, Medicare represents the Company's only significant concentration of credit risk. Approximately 16% and 15% of the Company's accounts receivable is from Medicare at December 31, 2018, and September 30, 2019, respectively.

Leases

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

Balance Sheet

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

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

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

Statement of Operations

For the Company's operating leases, rent expense, a component of cost of services and general and administrative expenses on the consolidated statements of operations, is recognized on a straight-line basis over the lease term. The straight-line rent expense is reflective of the interest expense on the lease liability using the effective interest method and the amortization of the right-of-use asset. The Company may enter into arrangements to sublease portions of its facilities and the Company typically retains the obligation to the lessor under these arrangements. The Company's subleases are classified as operating leases; accordingly, the Company continues to account for the original leases as it did prior to commencement of the subleases. Sublease income, a component of cost of services on the consolidated statements of operations, is recognized on a straight-line basis, as a reduction to rent expense, over the term of the sublease.

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

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

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

Recent Accounting Pronouncements

Financial Instruments

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

The standard will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The guidance must be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the earliest comparative period in the financial statements. Given the very high rate of collectability of the Company's financial instruments, the impact of ASU 2016-13 will not be material to the Company's consolidated financial statements.

The Company's implementation efforts are focused on finalizing the accounting processes and related controls associated with accounting for its financial instruments under the new standard.

Recently Adopted Accounting Pronouncements

Leases

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

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

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

3. Redeemable Non-Controlling Interests

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

The changes in redeemable non-controlling interests are as follows (in thousands):

	Nine Months Ended September 30,	
	2018	**2019**
Balance as of January 1	$ 640,818	$ 780,488
Net income attributable to redeemable non-controlling interests	5,743	7,700
Issuance and exchange of redeemable non-controlling interests	163,659	—
Distributions to and purchases of redeemable non-controlling interests	(203,972)	(2,771)
Redemption adjustment on redeemable non-controlling interests	1,051	47,470
Other	175	354
Balance as of March 31	$ 607,474	$ 833,241
Net income attributable to redeemable non-controlling interests	10,909	11,507
Distributions to and purchases of redeemable non-controlling interests	(11,112)	(395)
Redemption adjustment on redeemable non-controlling interests	8,500	(270)
Other	461	339
Balance as of June 30	$ 616,232	$ 844,422
Net income attributable to redeemable non-controlling interests	9,244	6,096
Distributions to and purchases of redeemable non-controlling interests	(763)	(1,721)
Redemption adjustment on redeemable non-controlling interests	154,514	104,553
Other	347	347
Balance as of September 30	$ 779,574	$ 953,697

4. Acquisitions

U.S. HealthWorks Acquisition

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

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

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

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

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

For the three months ended September 30, 2018, U.S. HealthWorks contributed net operating revenues of $133.3 million which is reflected in the Company's consolidated statement of operations. For the period February 1, 2018 through September 30, 2018, U.S. HealthWorks contributed net operating revenues of $362.7 million which is reflected in the Company's consolidated statement of operations for the nine months ended September 30, 2018. Due to the integrated nature of the Company's operations, the Company believes that it is not practicable to separately identify earnings of U.S. HealthWorks on a stand-alone basis.

Pro Forma Results

The following pro forma unaudited results of operations have been prepared assuming the acquisition of U.S. HealthWorks occurred on January 1, 2017. These results are not necessarily indicative of the results of future operations nor of the results that would have occurred had the acquisition been consummated on the aforementioned date. For the three and nine months ended September 30, 2019, the Company's results of operations include U.S. HealthWorks for the entire period and no pro forma adjustments were made.

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	(in thousands)			
Net operating revenues	$	1,267,401	$	3,864,155
Net income attributable to Select Medical Holdings Corporation		34,441		116,135

The Company's pro forma results were adjusted to recognize U.S. HealthWorks acquisition costs as of January 1, 2017. Accordingly, for the nine months ended September 30, 2018, pro forma results were adjusted to exclude $2.9 million of U.S. HealthWorks acquisition costs.

5. Sale of Businesses

During the nine months ended September 30, 2019, the Company recognized a gain of $6.5 million which resulted from the sale of 22 wholly owned outpatient rehabilitation clinics to a non-consolidating subsidiary. During the nine months ended September 30, 2018, the Company recognized a gain of $9.0 million. The gain resulted principally from the sale of 41 wholly owned outpatient rehabilitation clinics to non-consolidating subsidiaries.

6. Variable Interest Entities

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

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

The total assets of Concentra’s variable interest entities, which are comprised principally of accounts receivable, were $166.2 million and $202.3 million at December 31, 2018, and September 30, 2019, respectively. The total liabilities of Concentra’s variable interest entities, which are comprised principally of accounts payable, accrued expenses, and obligations payable for services received under the aforementioned management agreements, were $164.4 million and $200.9 million at December 31, 2018, and September 30, 2019, respectively.

7. Leases

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

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

For the three and nine months ended September 30, 2019, the Company's total lease cost was as follows (in thousands):

	Three Months Ended September 30, 2019		
	Unrelated Parties	**Related Parties**	**Total**
Operating lease cost	$ 68,046	$ 1,342	$ 69,388
Finance lease cost:			
Amortization of right-of-use assets	73	—	73
Interest on lease liabilities	259	—	259
Short-term lease cost	592	—	592
Variable lease cost	11,789	156	11,945
Sublease income	(2,458)	—	(2,458)
Total lease cost	$ 78,301	$ 1,498	$ 79,799

	Nine Months Ended September 30, 2019		
	Unrelated Parties	**Related Parties**	**Total**
Operating lease cost	$ 202,600	$ 4,026	$ 206,626
Finance lease cost:			
Amortization of right-of-use assets	199	—	199
Interest on lease liabilities	555	—	555
Short-term lease cost	1,776	—	1,776
Variable lease cost	32,380	397	32,777
Sublease income	(7,388)	—	(7,388)
Total lease cost	$ 230,122	$ 4,423	$ 234,545

For the nine months ended September 30, 2019, supplemental cash flow information related to leases was as follows (in thousands):

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	$ 204,909
Operating cash flows for finance leases	526
Financing cash flows for finance leases	183
Right-of-use assets obtained in exchange for lease liabilities:	
Operating leases[(1)]	$ 1,202,165
Finance leases	9,102

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

As of September 30, 2019, supplemental balance sheet information related to leases was as follows (in thousands):

	Operating Leases		
	Unrelated Parties	Related Parties	Total
Operating lease right-of-use assets	$ 968,181	$ 18,338	$ 986,519
Current operating lease liabilities	$ 200,012	$ 4,924	$ 204,936
Non-current operating lease liabilities	819,808	16,397	836,205
Total operating lease liabilities	$ 1,019,820	$ 21,321	$ 1,041,141

	Finance Leases		
	Unrelated Parties	Related Parties	Total
Property and equipment, net	$ 5,027	$ —	$ 5,027
Current portion of long-term debt and notes payable	$ 210	$ —	$ 210
Long-term debt, net of current portion	13,137	—	13,137
Total finance lease liabilities	$ 13,347	$ —	$ 13,347

As of September 30, 2019, the weighted average remaining lease terms and discount rates were as follows:

Weighted average remaining lease term (in years):	
Operating leases	8.1
Finance leases	34.9
Weighted average discount rate:	
Operating leases	5.9%
Finance leases	7.4%

As of September 30, 2019, maturities of lease liabilities were approximately as follows (in thousands):

	Operating Leases	Finance Leases	Total
2019 (remainder of year)	$ 67,567	$ 294	$ 67,861
2020	250,778	1,182	251,960
2021	213,486	1,193	214,679
2022	173,399	1,203	174,602
2023	131,550	1,214	132,764
Thereafter	556,103	31,630	587,733
Total undiscounted cash flows	1,392,883	36,716	1,429,599
Less: Imputed interest	351,742	23,369	375,111
Total discounted lease liabilities	$ 1,041,141	$ 13,347	$ 1,054,488

As disclosed in the Company’s 2018 Annual Report on Form 10-K, the Company’s undiscounted future minimum lease obligations on long-term, non-cancelable operating leases with related and unrelated parties were approximately as follows as of December 31, 2018 (in thousands):

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

8. Intangible Assets

Goodwill

The following table shows changes in the carrying amounts of goodwill by reporting unit for the nine months ended September 30, 2019:

	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Total
			(in thousands)		
Balance as of December 31, 2018	$ 1,045,220	$ 416,646	$ 642,422	$ 1,216,438	$ 3,320,726
Acquired	30,028	14,254	7,996	18,299	70,577
Sold	—	—	(5,629)	—	(5,629)
Measurement period adjustment	421	—	—	(3,439)	(3,018)
Balance as of September 30, 2019	$ 1,075,669	$ 430,900	$ 644,789	$ 1,231,298	$ 3,382,656

Identifiable Intangible Assets

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

	December 31, 2018			September 30, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
			(in thousands)			
Indefinite-lived intangible assets:						
Trademarks	$ 166,698	$ —	$ 166,698	$ 166,698	$ —	$ 166,698
Certificates of need	19,174	—	19,174	17,166	—	17,166
Accreditations	1,857	—	1,857	1,874	—	1,874
Finite-lived intangible assets:						
Trademarks	5,000	(4,583)	417	5,000	(5,000)	—
Customer relationships	280,710	(61,900)	218,810	287,880	(81,010)	206,870
Favorable leasehold interests(1)	13,553	(6,064)	7,489	—	—	—
Non-compete agreements	29,400	(6,152)	23,248	31,255	(8,100)	23,155
Total identifiable intangible assets	$ 516,392	$ (78,699)	$ 437,693	$ 509,873	$ (94,110)	$ 415,763

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

The Company's accreditations and indefinite-lived trademarks have renewal terms and the costs to renew these intangible assets are expensed as incurred. At September 30, 2019, the accreditations and indefinite-lived trademarks have a weighted average time until next renewal of 1.5 years and 7.4 years, respectively.

The Company's finite-lived intangible assets amortize over their estimated useful lives. Amortization expense was $7.9 million and $6.9 million for the three months ended September 30, 2018 and 2019, respectively. Amortization expense was $22.1 million and $22.9 million for the nine months ended September 30, 2018 and 2019, respectively.

9. Long-Term Debt and Notes Payable

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

As of September 30, 2019, the Company's long-term debt and notes payable were as follows (in thousands):

	Principal Outstanding	Unamortized Discount	Unamortized Issuance Costs	Carrying Value	Fair Value
Select:					
6.250% senior notes	$ 550,000	$ —	$ (10,582)	$ 539,418	$ 576,125
Credit facilities:					
Term loan	1,531,068	(10,915)	(11,302)	1,508,851	1,532,982
Other debt, including finance leases	70,816	—	(420)	70,396	70,396
Total Select debt	2,151,884	(10,915)	(22,304)	2,118,665	2,179,503
Concentra Inc.:					
Credit facilities:					
Term loan	1,240,298	(2,643)	(10,008)	1,227,647	1,246,499
Other debt, including finance leases	5,850	—	—	5,850	5,850
Total Concentra Inc. debt	1,246,148	(2,643)	(10,008)	1,233,497	1,252,349
Total debt	$ 3,398,032	$ (13,558)	$ (32,312)	$ 3,352,162	$ 3,431,852

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

	2019	2020	2021	2022	2023	Thereafter	Total
Select:							
6.250% senior notes	$ —	$ —	$ —	$ —	$ —	$ 550,000	$ 550,000
Credit facilities:							
Term loan	1,250	5,000	5,000	5,000	5,000	1,509,818	1,531,068
Other debt, including finance leases	3,541	5,502	1,814	18,036	38	41,885	70,816
Total Select debt	4,791	10,502	6,814	23,036	5,038	2,101,703	2,151,884
Concentra Inc.:							
Credit facilities:							
Term loan	250	1,000	1,000	1,238,048	—	—	1,240,298
Other debt, including finance leases	136	1,194	330	358	363	3,469	5,850
Total Concentra Inc. debt	386	2,194	1,330	1,238,406	363	3,469	1,246,148
Total debt	$ 5,177	$ 12,696	$ 8,144	$ 1,261,442	$ 5,401	$ 2,105,172	$ 3,398,032

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

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

Concentra Credit Facilities

On April 8, 2019, Concentra Inc. entered into Amendment No. 5 to the Concentra first lien credit agreement. Amendment No. 5, among other things, (i) extended the maturity date of the Concentra revolving facility from June 1, 2020 to June 1, 2021 and (ii) increased the aggregate commitments available under the Concentra revolving facility from $75.0 million to $100.0 million.

On September 20, 2019, Concentra Inc. entered into Amendment No. 6 to the Concentra first lien credit agreement. Amendment No. 6, among other things, (i) provided for an additional $100.0 million in term loans that, along with the existing Concentra first lien term loans, have a maturity date of June 1, 2022 and (ii) extended the maturity date of the revolving facility from June 1, 2021 to March 1, 2022. Concentra Inc. used the incremental borrowings under the Concentra first lien credit agreement to prepay in full all of its term loans outstanding under the Concentra second lien credit agreement on September 20, 2019.

Select Credit Facilities

On August 1, 2019, Select entered into Amendment No. 3 to the Select credit agreement dated March 6, 2017. Amendment No. 3, among other things, (i) provided for an additional $500.0 million in term loans that, along with the existing term loans, have a maturity date of March 6, 2025, (ii) extended the maturity date of Select's revolving facility from March 6, 2022 to March 6, 2024, and (iii) increased the total net leverage ratio permitted under the Select credit agreement.

Select 6.250% Senior Notes

On August 1, 2019, Select issued and sold $550.0 million aggregate principal amount of 6.250% senior notes due August 15, 2026. Select used a portion of the net proceeds of the 6.250% senior notes, together with a portion of the proceeds from the incremental term loan borrowings under the Select credit facilities (as described above), in part to (i) redeem in full the $710.0 million aggregate principal amount of the 6.375% senior notes on August 30, 2019 at the redemption price of 100.000% of the principal amount plus accrued and unpaid interest, (ii) repay in full the outstanding borrowings under Select's revolving facility, and (iii) pay related fees and expenses associated with the financing.

Interest on the senior notes accrues at the rate of 6.250% per annum and is payable semi-annually in arrears on February 15 and August 15 of each year, commencing on February 15, 2020. The senior notes are Select's senior unsecured obligations which are subordinated to all of Select's existing and future secured indebtedness, including the Select credit facilities. The senior notes rank equally in right of payment with all of Select's other existing and future senior unsecured indebtedness and senior in right of payment to all of Select's existing and future subordinated indebtedness. The senior notes are unconditionally guaranteed on a joint and several basis by each of Select's direct or indirect existing and future domestic restricted subsidiaries, other than certain non-guarantor subsidiaries.

Select may redeem some or all of the senior notes prior to August 15, 2022 by paying a "make-whole" premium. Select may redeem some or all of the senior notes on or after August 15, 2022 at specified redemption prices. In addition, prior to August 15, 2022, Select may redeem up to 40% of the principal amount of the senior notes with the net proceeds of certain equity offerings at a price of 106.250% plus accrued and unpaid interest, if any. Select is obligated to offer to repurchase the senior notes at a price of 101% of their principal amount plus accrued and unpaid interest, if any, as a result of certain change of control events. These restrictions and prohibitions are subject to certain qualifications and exceptions.

The terms of the senior notes contains covenants that, among other things, limit Select's ability and the ability of certain of Select's subsidiaries to (i) grant liens on its assets, (ii) make dividend payments, other distributions or other restricted payments, (iii) incur restrictions on the ability of Select's restricted subsidiaries to pay dividends or make other payments, (iv) enter into sale and leaseback transactions, (v) merge, consolidate, transfer or dispose of substantially all of their assets, (vi) incur additional indebtedness, (vii) make investments, (viii) sell assets, including capital stock of subsidiaries, (ix) use the proceeds from sales of assets, including capital stock of restricted subsidiaries, and (x) enter into transactions with affiliates. These covenants are subject to a number of exceptions, limitations and qualifications.

Loss on Early Retirement of Debt

The Company incurred losses on early retirement of debt totaling $18.6 million for the nine months ended September 30, 2019.

Excess Cash Flow Payment

In February 2019, Select made a principal prepayment of approximately $98.8 million associated with its term loans in accordance with the provision in the Select credit facilities that requires mandatory prepayments of term loans as a result of annual excess cash flow, as defined in the Select credit facilities.

In February 2019, Concentra Inc. made a principal prepayment of approximately $33.9 million associated with its term loans in accordance with the provision in the Concentra credit facilities that requires mandatory prepayments of term loans as a result of annual excess cash flow, as defined in the Concentra credit facilities.

Fair Value

The Company considers the inputs in the valuation process to be Level 2 in the fair value hierarchy for Select's 6.250% senior notes and for the Select and Concentra credit facilities. Level 2 in the fair value hierarchy is defined as inputs that are observable for the asset or liability, either directly or indirectly, which includes quoted prices for identical assets or liabilities in markets that are not active.

The fair values of the Select credit facilities and the Concentra credit facilities were based on quoted market prices for this debt in the syndicated loan market. The fair value of Select's 6.250% senior notes was based on quoted market prices. The carrying amount of other debt, principally short-term notes payable, approximates fair value.

10. Segment Information

The Company’s reportable segments include the critical illness recovery hospital segment, rehabilitation hospital segment, outpatient rehabilitation segment, and Concentra segment. Other activities include the Company’s corporate shared services, certain investments, and employee leasing services with non-consolidating subsidiaries. Prior to 2019, these employee leasing services were reflected in the financial results of the Company’s reportable segments. Net operating revenues have been conformed to the current presentation for the three and nine months ended September 30, 2018.

The Company evaluates performance of the segments based on Adjusted EBITDA. Adjusted EBITDA is defined as earnings excluding interest, income taxes, depreciation and amortization, gain (loss) on early retirement of debt, stock compensation expense, acquisition costs associated with U.S. HealthWorks, 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. Prior year results presented herein have been changed to conform to the current presentation.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2019	2018	2019
	(in thousands)			
Net operating revenues:				
Critical illness recovery hospital	$ 420,108	$ 462,892	$ 1,327,236	$ 1,381,569
Rehabilitation hospital	144,588	173,369	432,675	488,301
Outpatient rehabilitation	245,234	265,330	743,379	774,126
Concentra	404,481	421,900	1,173,420	1,231,672
Other	52,990	69,852	139,865	203,670
Total Company	$ 1,267,401	$ 1,393,343	$ 3,816,575	$ 4,079,338
Adjusted EBITDA:				
Critical illness recovery hospital	$ 53,292	$ 57,247	$ 186,989	$ 194,383
Rehabilitation hospital	25,343	36,780	80,314	92,545
Outpatient rehabilitation	34,531	40,040	107,003	111,615
Concentra	68,754	77,679	199,119	220,024
Other	(25,292)	(29,081)	(75,337)	(79,552)
Total Company	$ 156,628	$ 182,665	$ 498,088	$ 539,015
Total assets:				
Critical illness recovery hospital	$ 1,785,336	$ 2,116,512	$ 1,785,336	$ 2,116,512
Rehabilitation hospital	888,342	1,121,260	888,342	1,121,260
Outpatient rehabilitation	991,105	1,280,712	991,105	1,280,712
Concentra	2,201,869	2,366,227	2,201,869	2,366,227
Other	113,529	270,045	113,529	270,045
Total Company	$ 5,980,181	$ 7,154,756	$ 5,980,181	$ 7,154,756
Purchases of property and equipment:				
Critical illness recovery hospital	$ 8,134	$ 12,254	$ 31,455	$ 36,902
Rehabilitation hospital	8,769	5,293	29,766	23,832
Outpatient rehabilitation	7,209	7,476	22,565	23,221
Concentra	12,539	8,240	29,281	36,178
Other	2,740	1,408	7,972	3,823
Total Company	$ 39,391	$ 34,671	$ 121,039	$ 123,956

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

	Three Months Ended September 30, 2018					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Adjusted EBITDA	$ 53,292	$ 25,343	$ 34,531	$ 68,754	$ (25,292)	
Depreciation and amortization	(11,136)	(6,079)	(6,597)	(24,488)	(2,227)	
Stock compensation expense	—	—	—	(767)	(5,497)	
Income (loss) from operations	$ 42,156	$ 19,264	$ 27,934	$ 43,499	$ (33,016)	$ 99,837
Equity in earnings of unconsolidated subsidiaries						5,432
Gain on sale of businesses						2,139
Interest expense						(50,669)
Income before income taxes						$ 56,739

	Three Months Ended September 30, 2019					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Adjusted EBITDA	$ 57,247	$ 36,780	$ 40,040	$ 77,679	$ (29,081)	
Depreciation and amortization	(12,484)	(7,234)	(6,887)	(23,989)	(2,347)	
Stock compensation expense	—	—	—	(768)	(6,050)	
Income (loss) from operations	$ 44,763	$ 29,546	$ 33,153	$ 52,922	$ (37,478)	$ 122,906
Loss on early retirement of debt						(18,643)
Equity in earnings of unconsolidated subsidiaries						6,950
Interest expense						(54,336)
Income before income taxes						$ 56,877

	Nine Months Ended September 30, 2018					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Adjusted EBITDA	$ 186,989	$ 80,314	$ 107,003	$ 199,119	$ (75,337)	
Depreciation and amortization	(34,146)	(17,816)	(19,938)	(70,332)	(6,790)	
Stock compensation expense	—	—	—	(2,116)	(15,059)	
U.S. HealthWorks acquisition costs	—	—	—	(2,895)	—	
Income (loss) from operations	$ 152,843	$ 62,498	$ 87,065	$ 123,776	$ (97,186)	$ 328,996
Loss on early retirement of debt						(10,255)
Equity in earnings of unconsolidated subsidiaries						14,914
Gain on sale of businesses						9,016
Interest expense						(147,991)
Income before income taxes						$ 194,680

	Nine Months Ended September 30, 2019					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Adjusted EBITDA	$ 194,383	$ 92,545	$ 111,615	$ 220,024	$ (79,552)	
Depreciation and amortization	(38,430)	(20,332)	(20,910)	(73,372)	(7,028)	
Stock compensation expense	—	—	—	(2,302)	(17,129)	
Income (loss) from operations	$ 155,953	$ 72,213	$ 90,705	$ 144,350	$ (103,709)	$ 359,512
Loss on early retirement of debt						(18,643)
Equity in earnings of unconsolidated subsidiaries						18,710
Gain on sale of businesses						6,532
Interest expense						(156,611)
Income before income taxes						$ 209,500

11. Revenue from Contracts with Customers

Net operating revenues consist primarily of revenues generated from services provided to patients and other revenues for services provided to healthcare institutions under contractual arrangements. The following tables disaggregate the Company's net operating revenues for the three and nine months ended September 30, 2018 and 2019:

	Three Months Ended September 30, 2018					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Patient service revenues:						
Medicare	$ 210,101	$ 71,564	$ 40,563	$ 455	$ —	$ 322,683
Non-Medicare	206,629	64,322	185,787	401,537	—	858,275
Total patient services revenues	416,730	135,886	226,350	401,992	—	1,180,958
Other revenues(1)	3,378	8,702	18,884	2,489	52,990	86,443
Total net operating revenues	$ 420,108	$ 144,588	$ 245,234	$ 404,481	$ 52,990	$ 1,267,401

	Three Months Ended September 30, 2019					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Patient service revenues:						
Medicare	$ 218,096	$ 86,495	$ 44,230	$ 451	$ —	$ 349,272
Non-Medicare	240,603	76,957	200,093	418,380	—	936,033
Total patient services revenues	458,699	163,452	244,323	418,831	—	1,285,305
Other revenues	4,193	9,917	21,007	3,069	69,852	108,038
Total net operating revenues	$ 462,892	$ 173,369	$ 265,330	$ 421,900	$ 69,852	$ 1,393,343

	Nine Months Ended September 30, 2018					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Patient service revenues:						
Medicare	$ 676,950	$ 217,459	$ 120,228	$ 1,600	$ —	$ 1,016,237
Non-Medicare	639,718	188,611	569,298	1,164,711	—	2,562,338
Total patient services revenues	1,316,668	406,070	689,526	1,166,311	—	3,578,575
Other revenues(1)	10,568	26,605	53,853	7,109	139,865	238,000
Total net operating revenues	$ 1,327,236	$ 432,675	$ 743,379	$ 1,173,420	$ 139,865	$ 3,816,575

	Nine Months Ended September 30, 2019					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Patient service revenues:						
Medicare	$ 679,953	$ 238,334	$ 128,377	$ 1,480	$ —	$ 1,048,144
Non-Medicare	692,178	221,571	586,248	1,221,893	—	2,721,890
Total patient services revenues	1,372,131	459,905	714,625	1,223,373	—	3,770,034
Other revenues	9,438	28,396	59,501	8,299	203,670	309,304
Total net operating revenues	$ 1,381,569	$ 488,301	$ 774,126	$ 1,231,672	$ 203,670	$ 4,079,338

(1) For the three and nine months ended September 30, 2018, the financial results of the Company's reportable segments have been changed to remove the net operating revenues associated with employee leasing services provided to the Company's non-consolidating subsidiaries. These results are now reported as part of the Company's other activities.

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 dividends declared or contractual dividends paid for the three and nine months ended September 30, 2018 and 2019.

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

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

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

	Basic EPS		**Diluted EPS**	
	Three Months Ended September 30,		**Three Months Ended September 30,**	
	2018	**2019**	**2018**	**2019**
	(in thousands)			
Net income	$ 42,679	$ 44,030	$ 42,679	$ 44,030
Less: net income attributable to non-controlling interests	9,762	13,298	9,762	13,298
Net income attributable to the Company	32,917	30,732	32,917	30,732
Less: net income attributable to participating securities	1,098	1,052	1,098	1,052
Net income attributable to common shares	$ 31,819	$ 29,680	$ 31,819	$ 29,680

	Basic EPS		**Diluted EPS**	
	Nine Months Ended September 30,		**Nine Months Ended September 30,**	
	2018	**2019**	**2018**	**2019**
	(in thousands)			
Net income	$ 147,220	$ 157,360	$ 147,220	$ 157,360
Less: net income attributable to non-controlling interests	34,053	40,978	34,053	40,978
Net income attributable to the Company	113,167	116,382	113,167	116,382
Less: net income attributable to participating securities	3,732	3,889	3,729	3,888
Net income attributable to common shares	$ 109,435	$ 112,493	$ 109,438	$ 112,494

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

	Three Months Ended September 30, 2018					
	Net Income Allocation	Shares(1)	Basic EPS	Net Income Allocation	Shares(1)	Diluted EPS
	(in thousands, except for per share amounts)					
Common shares	$ 31,819	130,387	$ 0.24	$ 31,819	130,447	$ 0.24
Participating securities	1,098	4,501	$ 0.24	1,098	4,501	$ 0.24
Total Company	$ 32,917			$ 32,917		

	Three Months Ended September 30, 2019					
	Net Income Allocation	Shares(1)	Basic EPS	Net Income Allocation	Shares(1)	Diluted EPS
	(in thousands, except for per share amounts)					
Common shares	$ 29,680	129,988	$ 0.23	$ 29,680	130,007	$ 0.23
Participating securities	1,052	4,607	$ 0.23	1,052	4,607	$ 0.23
Total Company	$ 30,732			$ 30,732		

	Nine Months Ended September 30, 2018					
	Net Income Allocation	Shares(1)	Basic EPS	Net Income Allocation	Shares(1)	Diluted EPS
	(in thousands, except for per share amounts)					
Common shares	$ 109,435	129,972	$ 0.84	$ 109,438	130,066	$ 0.84
Participating securities	3,732	4,432	$ 0.84	3,729	4,432	$ 0.84
Total Company	$ 113,167			$ 113,167		

	Nine Months Ended September 30, 2019					
	Net Income Allocation	Shares(1)	Basic EPS	Net Income Allocation	Shares(1)	Diluted EPS
	(in thousands, except for per share amounts)					
Common shares	$ 112,493	130,442	$ 0.86	$ 112,494	130,474	$ 0.86
Participating securities	3,889	4,509	$ 0.86	3,888	4,509	$ 0.86
Total Company	$ 116,382			$ 116,382		

(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 operations, the Company currently maintains insurance coverages under a combination of policies with a total annual aggregate limit of up to $40.0 million. The Company's insurance for the professional liability coverage is written on a "claims-made" basis, and its commercial general liability coverage is maintained on an "occurrence" basis. These coverages apply after a self-insured retention limit is exceeded. For the Company's joint venture operations, the Company has numerous programs that are designed to respond to the risks of the specific joint venture. The annual aggregate limit under these programs ranges from $5.0 million to $20.0 million. The policies are generally written on a "claims-made" basis. Each of these programs has either a deductible or self-insured retention limit. The Company reviews its insurance program annually and may make adjustments to the amount of insurance coverage and self-insured retentions in future years. The Company also maintains umbrella liability insurance covering claims which, due to their nature or amount, are not covered by or not fully covered by the Company's other insurance policies. These insurance policies also do not generally cover punitive damages and are subject to various deductibles and policy limits. Significant legal actions, as well as the cost and possible lack of available insurance, could subject the Company to substantial uninsured liabilities. In the Company's opinion, the outcome of these actions, individually or in the aggregate, will not have a material adverse effect on its financial position, results of operations, or cash flows.

Healthcare providers are subject to lawsuits under the qui tam provisions of the federal False Claims Act. Qui tam lawsuits typically remain under seal (hence, usually unknown to the defendant) for some time while the government decides whether or not to intervene on behalf of a private qui tam plaintiff (known as a relator) and take the lead in the litigation. These lawsuits can involve significant monetary damages and penalties and award bounties to private plaintiffs who successfully bring the suits. The Company is and has been a defendant in these cases in the past, and may be named as a defendant in similar cases from time to time in the future.

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

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

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

In October 2019, the Company entered into a settlement agreement with the United States government and the plaintiff-relators. Under the terms of the settlement, the Company agreed to make payments to the government, the plaintiff-relators and their counsel. Such payments, in the aggregate, are immaterial to the Company's financial statements. In the settlement agreement, the government and the plaintiff-relators released all defendants from liability for all conduct alleged in the complaint, and the Company admitted no liability or wrongdoing.

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

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

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

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

14. Supplemental Financial Information of Concentra Group Holdings Parent

The following tables summarize selected financial information of Concentra Group Holdings Parent.

	December 31, 2018	September 30, 2019
	(in thousands)	
Assets		
Current assets	$ 385,094	$ 287,514
Non-current assets	1,793,774	2,078,713
Total Assets	$ 2,178,868	$ 2,366,227
Liabilities and Equity		
Current liabilities	$ 206,386	$ 232,035
Non-current liabilities	1,478,084	1,587,721
Total Liabilities	1,684,470	1,819,756
Redeemable non-controlling interests	18,525	17,268
Members' Equity of Concentra Group Holdings Parent	470,329	523,814
Non-controlling interests	5,544	5,389
Total Equity	475,873	529,203
Total Liabilities and Equity	$ 2,178,868	$ 2,366,227

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2019	2018	2019
	(in thousands)			
Net operating revenues	$ 404,481	$ 421,900	$ 1,173,420	$ 1,231,672
Income from operations	43,499	52,922	123,776	144,350
Net income	16,084	17,788	45,576	53,521
Net income attributable to Select Medical Holdings Corporation	7,486	8,124	20,778	24,534

	Nine Months Ended September 30,	
	2018	2019
	(in thousands)	
Net cash provided by operating activities	$ 119,147	$ 104,234
Net cash used in investing activities	(545,856)	(56,400)
Net cash provided by (used in) financing activities	465,314	(185,717)
Net increase (decrease) in cash and cash equivalents	38,605	(137,883)
Cash and cash equivalents at beginning of period	113,059	163,116
Cash and cash equivalents at end of period	$ 151,664	$ 25,233

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, 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:

- changes in government reimbursement for our services and/or new payment policies may result in a reduction in net operating revenues, 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 net operating revenues 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 net operating revenues 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, including the acquisition of U.S. HealthWorks by Concentra, and our ability to realize anticipated synergies;
- private third-party payors for our services may adopt payment policies that could limit our future net operating revenues and profitability;
- the failure to maintain established relationships with the physicians in the areas we serve could reduce our net operating revenues and profitability;
- shortages in qualified nurses, therapists, physicians, or other licensed providers could increase our operating costs significantly or limit our ability to staff our facilities;
- competition may limit our ability to grow and result in a decrease in our net operating revenues 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, 2018, as such risk factors may be updated from time to time in our periodic filings with the SEC.

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 September 30, 2019, we had operations in 47 states and the District of Columbia. We operated 100 critical illness recovery hospitals in 28 states, 29 rehabilitation hospitals in 12 states, and 1,707 outpatient rehabilitation clinics in 37 states and the District of Columbia. Concentra, a joint venture subsidiary, operated 523 occupational health centers in 41 states as of September 30, 2019. Concentra also provides contract services at employer worksites and Department of Veterans Affairs community-based outpatient clinics ("CBOCs").

Our reportable segments include the critical illness recovery hospital segment, the rehabilitation hospital segment, the outpatient rehabilitation segment, and the Concentra segment. We had net operating revenues of $4,079.3 million for the nine months ended September 30, 2019. Of this total, we earned approximately 34% of our net operating revenues from our critical illness recovery hospital segment, approximately 12% from our rehabilitation hospital segment, approximately 19% from our outpatient rehabilitation segment, and approximately 30% 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. Additionally, our Concentra segment delivers veteran's healthcare through its Department of Veterans Affairs CBOCs. During 2019, we began reporting the net operating revenues and expenses associated with employee leasing services provided to our non-consolidating subsidiaries as part of our other activities. Previously, these services were reflected in the financial results of our reportable segments. Under these employee leasing arrangements, actual labor costs are passed through to our non-consolidating subsidiaries, resulting in our recognition of net operating revenues equal to the actual labor costs incurred. Prior year results presented herein have been changed to conform to the current presentation.

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 operating segments. Adjusted EBITDA is not a measure of financial performance under accounting principles generally accepted in the United States of America ("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, acquisition costs associated with U.S. HealthWorks, 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 table below reconciles net income and income from operations to Adjusted EBITDA and should be referenced when we discuss Adjusted EBITDA:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2019	2018	2019
	(in thousands)			
Net income	$ 42,679	$ 44,030	$ 147,220	$ 157,360
Income tax expense	14,060	12,847	47,460	52,140
Interest expense	50,669	54,336	147,991	156,611
Gain on sale of businesses	(2,139)	—	(9,016)	(6,532)
Equity in earnings of unconsolidated subsidiaries	(5,432)	(6,950)	(14,914)	(18,710)
Loss on early retirement of debt	—	18,643	10,255	18,643
Income from operations	99,837	122,906	328,996	359,512
Stock compensation expense:				
Included in general and administrative	4,683	5,305	12,720	14,849
Included in cost of services	1,581	1,513	4,455	4,582
Depreciation and amortization	50,527	52,941	149,022	160,072
U.S. HealthWorks acquisition costs	—	—	2,895	—
Adjusted EBITDA	$ 156,628	$ 182,665	$ 498,088	$ 539,015

Summary Financial Results

Three Months Ended September 30, 2019

For the three months ended September 30, 2019, our net operating revenues increased 9.9% to $1,393.3 million, compared to $1,267.4 million for the three months ended September 30, 2018. Income from operations increased 23.1% to $122.9 million for the three months ended September 30, 2019, compared to $99.8 million for the three months ended September 30, 2018.

Net income increased 3.2% to $44.0 million for the three months ended September 30, 2019, compared to $42.7 million for the three months ended September 30, 2018. Net income included pre-tax losses on early retirement of debt of $18.6 million for the three months ended September 30, 2019. Net income included a pre-tax gain on sale of businesses of $2.1 million for the three months ended September 30, 2018.

Adjusted EBITDA increased 16.6% to $182.7 million for the three months ended September 30, 2019, compared to $156.6 million for the three months ended September 30, 2018. Our Adjusted EBITDA margin was 13.1% for the three months ended September 30, 2019, compared to 12.4% for the three months ended September 30, 2018.

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

	Three Months Ended September 30, 2019					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Net operating revenues	$ 462,892	$ 173,369	$ 265,330	$ 421,900	$ 69,852	$ 1,393,343
Operating expenses	405,645	136,589	225,290	344,989	104,983	1,217,496
Depreciation and amortization	12,484	7,234	6,887	23,989	2,347	52,941
Income (loss) from operations	$ 44,763	$ 29,546	$ 33,153	$ 52,922	$ (37,478)	$ 122,906
Depreciation and amortization	12,484	7,234	6,887	23,989	2,347	52,941
Stock compensation expense	—	—	—	768	6,050	6,818
Adjusted EBITDA	$ 57,247	$ 36,780	$ 40,040	$ 77,679	$ (29,081)	$ 182,665
Adjusted EBITDA margin	12.4%	21.2%	15.1%	18.4%	N/M	13.1%

	Three Months Ended September 30, 2018					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Net operating revenues[1]	$ 420,108	$ 144,588	$ 245,234	$ 404,481	$ 52,990	$ 1,267,401
Operating expenses[1]	366,816	119,245	210,703	336,494	83,779	1,117,037
Depreciation and amortization	11,136	6,079	6,597	24,488	2,227	50,527
Income (loss) from operations	$ 42,156	$ 19,264	$ 27,934	$ 43,499	$ (33,016)	$ 99,837
Depreciation and amortization	11,136	6,079	6,597	24,488	2,227	50,527
Stock compensation expense	—	—	—	767	5,497	6,264
Adjusted EBITDA	$ 53,292	$ 25,343	$ 34,531	$ 68,754	$ (25,292)	$ 156,628
Adjusted EBITDA margin	12.7%	17.5%	14.1%	17.0%	N/M	12.4%

The following table summarizes changes in segment performance measures for the three months ended September 30, 2019, compared to the three months ended September 30, 2018:

	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
Change in net operating revenues	10.2%	19.9%	8.2%	4.3%	31.8 %	9.9%
Change in income from operations	6.2%	53.4%	18.7%	21.7%	(13.5)%	23.1%
Change in Adjusted EBITDA	7.4%	45.1%	16.0%	13.0%	(15.0)%	16.6%

N/M — Not meaningful.

(1) For the three months ended September 30, 2018, the financial results of our reportable segments have been changed to remove the net operating revenues and expenses associated with employee leasing services provided to our non-consolidating subsidiaries. These results are now reported as part of our other activities. We lease employees at cost to these non-consolidating subsidiaries.

Nine Months Ended September 30, 2019

For the nine months ended September 30, 2019, our net operating revenues increased 6.9% to $4,079.3 million, compared to $3,816.6 million for the nine months ended September 30, 2018. Income from operations increased 9.3% to $359.5 million for the nine months ended September 30, 2019, compared to $329.0 million for the nine months ended September 30, 2018.

Net income increased 6.9% to $157.4 million for the nine months ended September 30, 2019, compared to $147.2 million for the nine months ended September 30, 2018. Net income included pre-tax losses on early retirement of debt of $18.6 million and a pre-tax gain on sale of businesses of $6.5 million for the nine months ended September 30, 2019. Net income included pre-tax losses on early retirement of debt of $10.3 million, pre-tax gains on sales of businesses of $9.0 million, and pre-tax U.S. HealthWorks acquisition costs of $2.9 million for the nine months ended September 30, 2018.

Adjusted EBITDA increased 8.2% to $539.0 million for the nine months ended September 30, 2019, compared to $498.1 million for the nine months ended September 30, 2018. Our Adjusted EBITDA margin was 13.2% for the nine months ended September 30, 2019, compared to 13.1% for the nine months ended September 30, 2018.

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

	Nine Months Ended September 30, 2019					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Net operating revenues	$ 1,381,569	$ 488,301	$ 774,126	$ 1,231,672	$ 203,670	$ 4,079,338
Operating expenses	1,187,186	395,756	662,511	1,013,950	300,351	3,559,754
Depreciation and amortization	38,430	20,332	20,910	73,372	7,028	160,072
Income (loss) from operations	$ 155,953	$ 72,213	$ 90,705	$ 144,350	$ (103,709)	$ 359,512
Depreciation and amortization	38,430	20,332	20,910	73,372	7,028	160,072
Stock compensation expense	—	—	—	2,302	17,129	19,431
Adjusted EBITDA	$ 194,383	$ 92,545	$ 111,615	$ 220,024	$ (79,552)	$ 539,015
Adjusted EBITDA margin	14.1%	19.0%	14.4%	17.9%	N/M	13.2%

	Nine Months Ended September 30, 2018					
	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
	(in thousands)					
Net operating revenues[(1)]	$ 1,327,236	$ 432,675	$ 743,379	$ 1,173,420	$ 139,865	$ 3,816,575
Operating expenses[(1)]	1,140,247	352,361	636,376	979,312	230,261	3,338,557
Depreciation and amortization	34,146	17,816	19,938	70,332	6,790	149,022
Income (loss) from operations	$ 152,843	$ 62,498	$ 87,065	$ 123,776	$ (97,186)	$ 328,996
Depreciation and amortization	34,146	17,816	19,938	70,332	6,790	149,022
Stock compensation expense	—	—	—	2,116	15,059	17,175
U.S. HealthWorks acquisition costs	—	—	—	2,895	—	2,895
Adjusted EBITDA	$ 186,989	$ 80,314	$ 107,003	$ 199,119	$ (75,337)	$ 498,088
Adjusted EBITDA margin	14.1%	18.6%	14.4%	17.0%	N/M	13.1%

The following table summarizes changes in segment performance measures for the nine months ended September 30, 2019, compared to the nine months ended September 30, 2018:

	Critical Illness Recovery Hospital	Rehabilitation Hospital	Outpatient Rehabilitation	Concentra	Other	Total
Change in net operating revenues	4.1%	12.9%	4.1%	5.0%	45.6 %	6.9%
Change in income from operations	2.0%	15.5%	4.2%	16.6%	(6.7)%	9.3%
Change in Adjusted EBITDA	4.0%	15.2%	4.3%	10.5%	(5.6)%	8.2%

N/M — Not meaningful.

(1) For the nine months ended September 30, 2018, the financial results of our reportable segments have been changed to remove the net operating revenues and expenses associated with employee leasing services provided to our non-consolidating subsidiaries. These results are now reported as part of our other activities. We lease employees at cost to these non-consolidating subsidiaries.

Significant Events

Select 6.250% Senior Notes

On August 1, 2019, Select issued and sold $550.0 million aggregate principal amount of 6.250% senior notes due August 15, 2026. Select used a portion of the net proceeds of the 6.250% senior notes, together with a portion of the proceeds from the incremental term loan borrowings under the Select credit facilities (as described below) in part to (i) redeem in full the $710.0 million aggregate principal amount of the 6.375% senior notes on August 30, 2019 at the redemption price of 100.000% of the principal amount plus accrued and unpaid interest, (ii) repay in full the outstanding borrowings under Select's revolving facility, and (iii) pay related fees and expenses associated with the financing.

Select Credit Facilities

On August 1, 2019, Select entered into Amendment No. 3 to the Select credit agreement dated March 6, 2017. Amendment No. 3, among other things, (i) provided for an additional $500.0 million in term loans that, along with the existing term loans, have a maturity date of March 6, 2025, (ii) extended the maturity date of Select's revolving facility from March 6, 2022 to March 6, 2024, and (iii) increased the total net leverage ratio permitted under the Select credit agreement.

Concentra Credit Facilities

On September 20, 2019, Concentra Inc. entered into Amendment No. 6 to the Concentra first lien credit agreement. Amendment No. 6, among other things, (i) provided for an additional $100.0 million in term loans that, along with the existing Concentra first lien term loans, have a maturity date of June 1, 2022 and (ii) extended the maturity date of the revolving facility from June 1, 2021 to March 1, 2022. Concentra Inc. used the incremental borrowings under the Concentra first lien credit agreement to prepay in full all of its term loans outstanding under the Concentra second lien credit agreement on September 20, 2019.

Regulatory Changes

Our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on February 21, 2019, 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 and CMS. Net operating revenues generated directly from the Medicare program represented approximately 26% of our net operating revenues for the nine months ended September 30, 2019, and 27% of our net operating revenues for the year ended December 31, 2018.

Medicare Reimbursement of LTCH Services

The following is a summary of significant regulatory changes affecting our critical illness recovery hospitals, which are certified by Medicare as long term care hospitals ("LTCHs"), 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").

The following is a summary of significant changes to LTCH-PPS which have affected our results of operations, as well as the policies and payment rates that may affect our future results of operations.

Fiscal Year 2018. On August 14, 2017, CMS published the final rule updating policies and payment rates for the LTCH-PPS for fiscal year 2018 (affecting discharges and cost reporting periods beginning on or after October 1, 2017 through September 30, 2018). Certain errors in the final rule published on August 14, 2017 were corrected in a final rule published October 4, 2017. The standard federal rate was set at $41,415, a decrease from the standard federal rate applicable during fiscal year 2017 of $42,476. The update to the standard federal rate for fiscal year 2018 included a market basket increase of 2.7%, less a productivity adjustment of 0.6%, and less a reduction of 0.75% mandated by the Affordable Care Act ("ACA"). The update to the standard federal rate for fiscal year 2018 was further impacted by the Medicare Access and CHIP Reauthorization Act of 2015, which limits the update for fiscal year 2018 to 1.0%. The fixed-loss amount for high cost outlier cases paid under LTCH-PPS was set at $27,381, an increase from the fixed-loss amount in the 2017 fiscal year of $21,943. The fixed-loss amount for high cost outlier cases paid under the site-neutral payment rate was set at $26,537, an increase from the fixed-loss amount in the 2017 fiscal year of $23,573.

Fiscal Year 2019. On August 17, 2018, CMS published the final rule updating policies and payment rates for the LTCH-PPS for fiscal year 2019 (affecting discharges and cost reporting periods beginning on or after October 1, 2018 through September 30, 2019). Certain errors in the final rule were corrected in a final rule published October 3, 2018. The standard federal rate was set at $41,559, an increase from the standard federal rate applicable during fiscal year 2018 of $41,415. The update to the standard federal rate for fiscal year 2019 included a market basket increase of 2.9%, less a productivity adjustment of 0.8%, and less a reduction of 0.75% mandated by the ACA. The standard federal rate also included an area wage budget neutrality factor of 0.999215 and a temporary, one-time budget neutrality adjustment of 0.990878 in connection with the elimination of the 25 Percent Rule (discussed herein). The fixed-loss amount for high cost outlier cases paid under LTCH-PPS was set at $27,121, a decrease from the fixed-loss amount in the 2018 fiscal year of $27,381. The fixed-loss amount for high cost outlier cases paid under the site-neutral payment rate was set at $25,743, a decrease from the fixed-loss amount in the 2018 fiscal year of $26,537.

Fiscal Year 2020. On August 16, 2019, CMS published the final rule updating policies and payment rates for the LTCH-PPS for fiscal year 2020 (affecting discharges and cost reporting periods beginning on or after October 1, 2019 through September 30, 2020). Certain errors in the final rule were corrected in a final rule published October 8, 2019. The standard federal rate was set at $42,678, an increase from the standard federal rate applicable during fiscal year 2019 of $41,559. The update to the standard federal rate for fiscal year 2020 included a market basket increase of 2.9%, less a productivity adjustment of 0.4%. The standard federal rate also included an area wage budget neutrality factor of 1.0020203 and a temporary, one-time budget neutrality adjustment of 0.999858 in connection with the elimination of the 25 Percent Rule (discussed herein). The fixed-loss amount for high cost outlier cases paid under LTCH-PPS was set at $26,778, a decrease from the fixed-loss amount in the 2019 fiscal year of $27,121. The fixed-loss amount for high cost outlier cases paid under the site-neutral payment rate was set at $26,552, an increase from the fixed-loss amount in the 2019 fiscal year of $25,743. For LTCH discharges occurring in cost reporting periods beginning in FY 2020, site neutral payment rate cases will begin to be paid fully on the site neutral payment rate, rather than the transitional blended rate.

25 Percent Rule

The "25 Percent Rule" was a downward payment adjustment that applied if the percentage of Medicare patients discharged from LTCHs who were admitted from a referring hospital (regardless of whether the LTCH or LTCH satellite is co-located with the referring hospital) exceeded the applicable percentage admissions threshold during a particular cost reporting period.

For fiscal year 2018, CMS adopted a regulatory moratorium on the implementation of the 25 Percent Rule.

For fiscal year 2019 and thereafter, CMS eliminated the 25 Percent Rule entirely. The elimination of the 25 Percent Rule is being implemented in a budget neutral manner by adjusting the standard federal payment rates down such that the projection of aggregate LTCH payments would equal the projection of aggregate LTCH payments that would have been paid if the moratorium ended and the 25 Percent Rule went into effect on October 1, 2018. As a result, the elimination of the 25 Percent Rule includes a temporary, one-time adjustment to the fiscal year 2019 LTCH-PPS standard federal payment rate, a temporary, one-time adjustment to the fiscal year 2020 LTCH-PPS standard federal payment rate, and a permanent, one-time adjustment to the LTCH-PPS standard federal payment rate in fiscal years 2021 and subsequent years.

Medicare Reimbursement of IRF Services

The following is a summary of significant regulatory changes affecting our rehabilitation hospitals, which are certified by Medicare as inpatient rehabilitation facilities ("IRFs"), 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").

The following is a summary of significant changes to IRF-PPS which have affected our results of operations, as well as the policies and payment rates that may affect our future results of operations.

Fiscal Year 2018. On August 3, 2017, CMS published the final rule updating policies and payment rates for the IRF-PPS for fiscal year 2018 (affecting discharges and cost reporting periods beginning on or after October 1, 2017 through September 30, 2018). The standard payment conversion factor for discharges for fiscal year 2018 was set at $15,838, an increase from the standard payment conversion factor applicable during fiscal year 2017 of $15,708. The update to the standard payment conversion factor for fiscal year 2018 included a market basket increase of 2.6%, less a productivity adjustment of 0.6%, and less a reduction of 0.75% mandated by the ACA. The standard payment conversion factor for fiscal year 2018 was further impacted by the Medicare Access and CHIP Reauthorization Act of 2015, which limited the update for fiscal year 2018 to 1.0%. CMS increased the outlier threshold amount for fiscal year 2018 to $8,679 from $7,984 established in the final rule for fiscal year 2017.

Fiscal Year 2019. On August 6, 2018, CMS published the final rule updating policies and payment rates for the IRF-PPS for fiscal year 2019 (affecting discharges and cost reporting periods beginning on or after October 1, 2018 through September 30, 2019). The standard payment conversion factor for discharges for fiscal year 2019 was set at $16,021, an increase from the standard payment conversion factor applicable during fiscal year 2018 of $15,838. The update to the standard payment conversion factor for fiscal year 2019 included a market basket increase of 2.9%, less a productivity adjustment of 0.8%, and less a reduction of 0.75% mandated by the ACA. CMS increased the outlier threshold amount for fiscal year 2019 to $9,402 from $8,679 established in the final rule for fiscal year 2018.

Fiscal Year 2020. On August 8, 2019, CMS published the final rule updating policies and payment rates for the IRF-PPS for fiscal year 2020 (affecting discharges and cost reporting periods beginning on or after October 1, 2019 through September 30, 2020). The standard payment conversion factor for discharges for fiscal year 2020 was set at $16,489, an increase from the standard payment conversion factor applicable during fiscal year 2019 of $16,021. The update to the standard payment conversion factor for fiscal year 2020 included a market basket increase of 2.9%, less a productivity adjustment of 0.4%. CMS decreased the outlier threshold amount for fiscal year 2020 to $9,300 from $9,402 established in the final rule for fiscal year 2019.

Medicare Reimbursement of Outpatient Rehabilitation Clinic Services

The Medicare program reimburses outpatient rehabilitation providers based on the Medicare physician fee schedule. For services provided in 2017 through 2019, a 0.5% update was applied each year to the fee schedule payment rates, subject to an adjustment beginning in 2019 under the Merit-Based Incentive Payment System ("MIPS"). For services provided in 2020 through 2025, a 0.0% percent update will be applied each year to the fee schedule payment rates, subject to adjustments under MIPS and the alternative payment models ("APMs"). In 2026 and subsequent years, eligible professionals participating in APMs who meet certain criteria would receive annual updates of 0.75%, while all other professionals would receive annual updates of 0.25%.

Beginning in 2019, payments under the fee schedule are subject to adjustment based on performance in MIPS, which measures performance based on certain quality metrics, resource use, and meaningful use of electronic health records. Under the MIPS requirements an eligible clinician's performance is assessed according to established performance standards and used to determine an adjustment factor that is then applied to the clinician's payment for a year. Each year from 2019 through 2024 eligible clinicians who receive a significant share of their revenues through an APM (such as accountable care organizations or bundled payment arrangements) that involves risk of financial losses and a quality measurement component will receive a 5% bonus. The bonus payment for APM participation is intended to encourage participation and testing of new APMs and to promote the alignment of incentives across payors.

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

In the Medicare Physician Fee Schedule final rule for calendar year 2019, CMS established two new modifiers to identify services furnished in whole or in part by physical therapy assistants ("PTAs") or occupational therapy assistants ("OTAs"). These modifiers were mandated by the Bipartisan Budget Act of 2018, which requires that claims for outpatient therapy services furnished in whole or part by therapy assistants on or after January 1, 2020 include the appropriate modifier. CMS intends to use these modifiers to implement a payment differential that would reimburse services provided by PTAs and OTAs at 85% of the fee schedule rate beginning on January 1, 2022.

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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2019	2018	2019
Critical illness recovery hospital data:				
Number of hospitals owned—start of period	98	99	99	96
Number of hospitals acquired	—	—	—	3
Number of hospital start-ups	—	—	1	—
Number of hospitals closed/sold	(1)	—	(3)	—
Number of hospitals owned—end of period	97	99	97	99
Number of hospitals managed—end of period	—	1	—	1
Total number of hospitals (all)—end of period	97	100	97	100
Available licensed beds(1)	4,095	4,230	4,095	4,230
Admissions(1)	8,651	9,051	27,605	27,679
Patient days(1)	243,891	258,089	765,863	779,078
Average length of stay (days)(1)	28	28	28	28
Net revenue per patient day(1)(2)	$ 1,705	$ 1,773	$ 1,716	$ 1,757
Occupancy rate(1)	65%	67%	68%	69%
Percent patient days—Medicare(1)	53%	49%	53%	51%
Rehabilitation hospital data:				
Number of hospitals owned—start of period	17	19	16	17
Number of hospitals start-ups	—	—	1	2
Number of hospitals owned—end of period	17	19	17	19
Number of hospitals managed—end of period	9	10	9	10
Total number of hospitals (all)—end of period	26	29	26	29
Available licensed beds(1)	1,189	1,309	1,189	1,309
Admissions(1)	5,370	6,400	16,219	18,253
Patient days(1)	79,232	89,454	233,537	258,795
Average length of stay (days)(1)	15	14	15	14
Net revenue per patient day(1)(2)	$ 1,582	$ 1,724	$ 1,604	$ 1,665
Occupancy rate(1)	72%	75%	73%	75%
Percent patient days—Medicare(1)	53%	53%	54%	51%
Outpatient rehabilitation data:				
Number of clinics owned—start of period	1,435	1,419	1,447	1,423
Number of clinics acquired	—	3	14	17
Number of clinic start-ups	8	14	26	36
Number of clinics closed/sold	(23)	(7)	(67)	(47)
Number of clinics owned—end of period	1,420	1,429	1,420	1,429
Number of clinics managed—end of period	229	278	229	278
Total number of clinics (all)—end of period	1,649	1,707	1,649	1,707
Number of visits(1)	2,039,462	2,204,328	6,251,582	6,462,316
Net revenue per visit(1)(3)	$ 103	$ 103	$ 103	$ 103
Concentra data:				
Number of centers owned—start of period	527	526	312	524
Number of centers acquired	1	1	220	6
Number of centers closed/sold	(3)	(4)	(7)	(7)
Number of centers owned—end of period	525	523	525	523
Number of onsite clinics operated—end of period	123	131	123	131
Number of CBOCs owned—end of period	30	32	30	32
Number of visits(1)	2,984,832	3,150,903	8,605,012	9,165,599
Net revenue per visit(1)(3)	$ 124	$ 120	$ 124	$ 122

(1) Data excludes locations managed by the Company. For purposes of our Concentra segment, onsite clinics and community-based outpatient clinics are excluded.

(2) Net revenue per patient day is calculated by dividing direct patient service revenues by the total number of patient days.

(3) Net revenue per visit is calculated by dividing direct patient service revenue by the total number of visits. For purposes of this computation for our Concentra segment, direct patient service revenue does not include onsite clinics and community-based outpatient clinics.

Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2019	2018	2019
Net operating revenues	100.0%	100.0%	100.0%	100.0%
Cost of services, exclusive of depreciation and amortization[1]	85.8	84.9	85.1	84.9
General and administrative	2.4	2.5	2.4	2.3
Depreciation and amortization	3.9	3.8	3.9	4.0
Income from operations	7.9	8.8	8.6	8.8
Loss on early retirement of debt	—	(1.3)	(0.3)	(0.5)
Equity in earnings of unconsolidated subsidiaries	0.4	0.5	0.4	0.5
Gain on sale of businesses	0.2	—	0.2	0.2
Interest expense	(4.0)	(3.9)	(3.8)	(3.9)
Income before income taxes	4.5	4.1	5.1	5.1
Income tax expense	1.1	0.9	1.2	1.2
Net income	3.4	3.2	3.9	3.9
Net income attributable to non-controlling interests	0.8	1.0	0.9	1.0
Net income attributable to Select Medical Holdings Corporation	2.6%	2.2%	3.0%	2.9%

(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 September 30,			Nine Months Ended September 30,		
	2018[(2)]	2019	% Change	2018[(2)]	2019	% Change
			(in thousands)			
Net operating revenues:						
Critical illness recovery hospital	$ 420,108	$ 462,892	10.2%	$ 1,327,236	$ 1,381,569	4.1%
Rehabilitation hospital	144,588	173,369	19.9	432,675	488,301	12.9
Outpatient rehabilitation	245,234	265,330	8.2	743,379	774,126	4.1
Concentra	404,481	421,900	4.3	1,173,420	1,231,672	5.0
Other[(1)]	52,990	69,852	31.8	139,865	203,670	45.6
Total Company	$ 1,267,401	$ 1,393,343	9.9%	$ 3,816,575	$ 4,079,338	6.9%
Income (loss) from operations:						
Critical illness recovery hospital	$ 42,156	$ 44,763	6.2%	$ 152,843	$ 155,953	2.0%
Rehabilitation hospital	19,264	29,546	53.4	62,498	72,213	15.5
Outpatient rehabilitation	27,934	33,153	18.7	87,065	90,705	4.2
Concentra	43,499	52,922	21.7	123,776	144,350	16.6
Other[(1)]	(33,016)	(37,478)	(13.5)	(97,186)	(103,709)	(6.7)
Total Company	$ 99,837	$ 122,906	23.1%	$ 328,996	$ 359,512	9.3%
Adjusted EBITDA:						
Critical illness recovery hospital	$ 53,292	$ 57,247	7.4%	$ 186,989	$ 194,383	4.0%
Rehabilitation hospital	25,343	36,780	45.1	80,314	92,545	15.2
Outpatient rehabilitation	34,531	40,040	16.0	107,003	111,615	4.3
Concentra	68,754	77,679	13.0	199,119	220,024	10.5
Other[(1)]	(25,292)	(29,081)	(15.0)	(75,337)	(79,552)	(5.6)
Total Company	$ 156,628	$ 182,665	16.6%	$ 498,088	$ 539,015	8.2%
Adjusted EBITDA margins:						
Critical illness recovery hospital	12.7%	12.4%		14.1%	14.1%	
Rehabilitation hospital	17.5	21.2		18.6	19.0	
Outpatient rehabilitation	14.1	15.1		14.4	14.4	
Concentra	17.0	18.4		17.0	17.9	
Other[(1)]	N/M	N/M		N/M	N/M	
Total Company	12.4%	13.1%		13.1%	13.2%	
Total assets:						
Critical illness recovery hospital	$ 1,785,336	$ 2,116,512		$ 1,785,336	$ 2,116,512	
Rehabilitation hospital	888,342	1,121,260		888,342	1,121,260	
Outpatient rehabilitation	991,105	1,280,712		991,105	1,280,712	
Concentra	2,201,869	2,366,227		2,201,869	2,366,227	
Other[(1)]	113,529	270,045		113,529	270,045	
Total Company	$ 5,980,181	$ 7,154,756		$ 5,980,181	$ 7,154,756	
Purchases of property and equipment:						
Critical illness recovery hospital	$ 8,134	$ 12,254		$ 31,455	$ 36,902	
Rehabilitation hospital	8,769	5,293		29,766	23,832	
Outpatient rehabilitation	7,209	7,476		22,565	23,221	
Concentra	12,539	8,240		29,281	36,178	
Other[(1)]	2,740	1,408		7,972	3,823	
Total Company	$ 39,391	$ 34,671		$ 121,039	$ 123,956	

(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.

(2) For the three and nine months ended September 30, 2018, the financial results of our reportable segments have been changed to remove the net operating revenues and expenses associated with employee leasing services provided to our non-consolidating subsidiaries. These results are now reported as part of our other activities. We lease employees at cost to these non-consolidating subsidiaries.

N/M — Not meaningful.

Three Months Ended September 30, 2019, Compared to Three Months Ended September 30, 2018

In the following, we discuss our results of operations related to net operating revenues, operating expenses, Adjusted EBITDA, depreciation and amortization, income from operations, loss on early retirement of debt, equity in earnings of unconsolidated subsidiaries, gain on sale of businesses, interest expense, income taxes, and net income attributable to non-controlling interests.

Net Operating Revenues

Our net operating revenues increased 9.9% to $1,393.3 million for the three months ended September 30, 2019, compared to $1,267.4 million for the three months ended September 30, 2018.

Critical Illness Recovery Hospital Segment. Net operating revenues increased 10.2% to $462.9 million for the three months ended September 30, 2019, compared to $420.1 million for the three months ended September 30, 2018. The increase in net operating revenues was due to increases in both patient volume and net revenue per patient day. Our patient days increased 5.8% to 258,089 days for the three months ended September 30, 2019, compared to 243,891 days for the three months ended September 30, 2018. The acquisition of three hospitals during 2019 contributed to the increase in patient days. We also experienced a 2.9% increase in patient days in our existing hospitals, which was offset in part by a decrease in patient days from the temporary closure of our hospital located in Panama City, Florida as a result of damage sustained from Hurricane Michael in October 2018. For the three months ended September 30, 2019, our net revenue per patient day increased 4.0% to $1,773, as compared to $1,705 for the three months ended September 30, 2018. The increase is primarily driven by an increase in our Medicare net revenue per patient day.

Rehabilitation Hospital Segment. Net operating revenues increased 19.9% to $173.4 million for the three months ended September 30, 2019, compared to $144.6 million for the three months ended September 30, 2018. Our patient days increased 12.9% to 89,454 days for the three months ended September 30, 2019, compared to 79,232 days for the three months ended September 30, 2018. The increase in patient days was principally driven by our rehabilitation hospitals which recently commenced operations. We also experienced a 4.0% increase in patient days within our existing hospitals. Our net revenue per patient day increased 9.0% to $1,724 for the three months ended September 30, 2019, compared to $1,582 for the three months ended September 30, 2018. We experienced increases in both our Medicare and non-Medicare net revenue per patient day.

Outpatient Rehabilitation Segment. Net operating revenues increased 8.2% to $265.3 million for the three months ended September 30, 2019, compared to $245.2 million for the three months ended September 30, 2018. The increase in net operating revenues was attributable to an increase in visits, which increased 8.1% to 2,204,328 for the three months ended September 30, 2019, compared to 2,039,462 visits for the three months ended September 30, 2018. The increase in visits was due to new outpatient rehabilitation clinics and a 7.2% increase in visits within our existing clinics. This growth was offset in part by the sale of outpatient rehabilitation clinics to non-consolidating subsidiaries since September 30, 2018, which contributed 24,146 visits during the three months ended September 30, 2018. During the three months ended September 30, 2019, we also experienced an increase in management fee revenues related to services provided to our non-consolidating subsidiaries. Our net revenue per visit was $103 for both the three months ended September 30, 2019 and 2018.

Concentra Segment. Net operating revenues increased 4.3% to $421.9 million for the three months ended September 30, 2019, compared to $404.5 million for the three months ended September 30, 2018. The increase in net operating revenues was attributable to an increase in visits, offset in part by a decrease in net revenue per visit. Visits increased 5.6% to 3,150,903 visits for the three months ended September 30, 2019, compared to 2,984,832 visits for the three months ended September 30, 2018. Net revenue per visit was $120 for the three months ended September 30, 2019, compared to $124 for the three months ended September 30, 2018. The decrease in net revenue per visit was principally due to an increase in employer services visits, which yield lower per visits rates.

Operating Expenses

Our operating expenses consist principally of cost of services and general and administrative expenses. Our operating expenses were $1,217.5 million, or 87.4% of net operating revenues, for the three months ended September 30, 2019, compared to $1,117.0 million, or 88.2% of net operating revenues, for the three months ended September 30, 2018. Our cost of services, a major component of which is labor expense, was $1,183.1 million, or 84.9% of net operating revenues, for the three months ended September 30, 2019, compared to $1,087.1 million, or 85.8% of net operating revenues, for the three months ended September 30, 2018. The decrease in our operating expenses relative to our net operating revenues was principally due to the improved operating performance of our rehabilitation hospital and Concentra segments during the three months ended September 30, 2019. General and administrative expenses were $34.4 million, or 2.5% of net operating revenues, for the three months ended September 30, 2019, compared to $30.0 million, or 2.4% of net operating revenues, for the three months ended September 30, 2018.

Adjusted EBITDA

Critical Illness Recovery Hospital Segment. Adjusted EBITDA increased 7.4% to $57.2 million for the three months ended September 30, 2019, compared to $53.3 million for the three months ended September 30, 2018. Our Adjusted EBITDA margin for the critical illness recovery hospital segment was 12.4% for the three months ended September 30, 2019, compared to 12.7% for the three months ended September 30, 2018. The increase in Adjusted EBITDA for our critical illness recovery hospital segment was primarily driven by increases in patient volumes and net revenue per patient day, as discussed above under "*Net Operating Revenues*." The decrease in our Adjusted EBITDA margin resulted from our newly acquired hospitals operating at lower margins than our other critical illness recovery hospitals.

Rehabilitation Hospital Segment. Adjusted EBITDA increased 45.1% to $36.8 million for the three months ended September 30, 2019, compared to $25.3 million for the three months ended September 30, 2018. Our Adjusted EBITDA margin for the rehabilitation hospital segment was 21.2% for the three months ended September 30, 2019, compared to 17.5% for the three months ended September 30, 2018. The increases in Adjusted EBITDA and Adjusted EBITDA margin were primarily attributable to improved patient volume and net revenue per patient day within several of our existing hospitals, as discussed above under "*Net Operating Revenues*."

Outpatient Rehabilitation Segment. Adjusted EBITDA increased 16.0% to $40.0 million for the three months ended September 30, 2019, compared to $34.5 million for the three months ended September 30, 2018. Our Adjusted EBITDA margin for the outpatient rehabilitation segment was 15.1% for the three months ended September 30, 2019, compared to 14.1% for the three months ended September 30, 2018. Our Adjusted EBITDA and Adjusted EBITDA margin increased principally from increased patient volumes in our existing outpatient rehabilitation clinics, allowing these clinics to operate at lower relative costs, as well as other cost reductions we have achieved.

Concentra Segment. Adjusted EBITDA increased 13.0% to $77.7 million for the three months ended September 30, 2019, compared to $68.8 million for the three months ended September 30, 2018. Our Adjusted EBITDA margin for the Concentra segment was 18.4% for the three months ended September 30, 2019, compared to 17.0% for the three months ended September 30, 2018. The increase in Adjusted EBITDA margin resulted principally from achieving lower relative operating costs across our combined Concentra and U.S. HealthWorks businesses.

Depreciation and Amortization

Depreciation and amortization expense was $52.9 million for the three months ended September 30, 2019, compared to $50.5 million for the three months ended September 30, 2018. The increase principally occurred within our critical illness recovery hospital and rehabilitation hospital segments.

Income from Operations

For the three months ended September 30, 2019, we had income from operations of $122.9 million, compared to $99.8 million for the three months ended September 30, 2018. The increase in income from operations resulted principally from our rehabilitation hospital and Concentra segments.

Loss on Early Retirement of Debt

The amendment to the Select credit agreement, the amendment to the Concentra first lien credit agreement, the repayment of term loans outstanding under the Concentra second lien credit agreement, and the redemption of the 6.375% senior notes resulted in losses on early retirement of debt totaling $18.6 million for the three months ended September 30, 2019.

Equity in Earnings of Unconsolidated Subsidiaries

Our equity in earnings of unconsolidated subsidiaries principally relates to rehabilitation businesses in which we are a minority owner. For the three months ended September 30, 2019, we had equity in earnings of unconsolidated subsidiaries of $7.0 million, compared to $5.4 million for the three months ended September 30, 2018. The increase in equity in earnings was principally attributable to the growth of certain of our non-consolidating subsidiaries, which resulted from our sales of outpatient rehabilitation clinics to these subsidiaries.

Gain on Sale of Businesses

We recognized a gain of $2.1 million during the three months ended September 30, 2018. The gain was principally attributable to the sale of outpatient rehabilitation clinics to a non-consolidating subsidiary.

Interest Expense

Interest expense was $54.3 million for the three months ended September 30, 2019, compared to $50.7 million for the three months ended September 30, 2018. The increase in interest expense was principally due to the recognition of interest expense on both the 6.250% senior notes and the 6.375% senior notes during August 2019, as the redemption of the 6.375% senior notes occurred on August 30, 2019, while the issuance of the $550.0 million 6.250% senior notes occurred on August 1, 2019.

Income Taxes

We recorded income tax expense of $12.8 million for the three months ended September 30, 2019, which represented an effective tax rate of 22.6%. We recorded income tax expense of $14.1 million for the three months ended September 30, 2018, which represented an effective tax rate of 24.8%. The decrease in the effective tax rate resulted from a lower estimate of state and local income taxes.

Net Income Attributable to Non-Controlling Interests

Net income attributable to non-controlling interests was $13.3 million for the three months ended September 30, 2019, compared to $9.8 million for the three months ended September 30, 2018. The increase was principally due to the improved operating performance of our Concentra segment.

Nine Months Ended September 30, 2019, Compared to Nine Months Ended September 30, 2018

In the following, we discuss our results of operations related to net operating revenues, operating expenses, Adjusted EBITDA, depreciation and amortization, income from operations, loss on early retirement of debt, equity in earnings of unconsolidated subsidiaries, gain on sale of businesses, interest expense, income taxes, and net income attributable to non-controlling interests.

Net Operating Revenues

Our net operating revenues increased 6.9% to $4,079.3 million for the nine months ended September 30, 2019, compared to $3,816.6 million for the nine months ended September 30, 2018.

Critical Illness Recovery Hospital Segment. Net operating revenues increased 4.1% to $1,381.6 million for the nine months ended September 30, 2019, compared to $1,327.2 million for the nine months ended September 30, 2018. The increase in net operating revenues was due to increases in both patient volume and net revenue per patient day. Our patient days increased 1.7% to 779,078 days for the nine months ended September 30, 2019, compared to 765,863 days for the nine months ended September 30, 2018. The acquisition of three hospitals during 2019 contributed to the increase in patient days. We also experienced an increase in patient days in our existing hospitals, which was offset by a decrease in patient days from hospital closures which occurred during 2018, including the temporary closure of our hospital located in Panama City, Florida as a result of damage sustained from Hurricane Michael in October 2018. Net revenue per patient day increased 2.4% to $1,757 for the nine months ended September 30, 2019, compared to $1,716 for the nine months ended September 30, 2018. We experienced increases in both our Medicare and non-Medicare net revenue per patient day.

Rehabilitation Hospital Segment. Net operating revenues increased 12.9% to $488.3 million for the nine months ended September 30, 2019, compared to $432.7 million for the nine months ended September 30, 2018. The increase in net operating revenues resulted from both an increase in patient volumes and net revenue per patient day during the nine months ended September 30, 2019. Our patient days increased 10.8% to 258,795 days for the nine months ended September 30, 2019, compared to 233,537 days for the nine months ended September 30, 2018. The increase in patient days was principally driven by our rehabilitation hospitals which recently commenced operations. We also experienced a 3.0% increase in patient days in our existing hospitals. Our net revenue per patient day increased 3.8% to $1,665 for the nine months ended September 30, 2019, compared to $1,604 for the nine months ended September 30, 2018. We experienced increases in both our Medicare and non-Medicare net revenue per patient day.

Outpatient Rehabilitation Segment. Net operating revenues increased 4.1% to $774.1 million for the nine months ended September 30, 2019, compared to $743.4 million for the nine months ended September 30, 2018. The increase in net operating revenues was attributable to an increase in visits, which increased 3.4% to 6,462,316 for the nine months ended September 30, 2019, compared to 6,251,582 visits for the nine months ended September 30, 2018. The increase in visits was due to new outpatient rehabilitation clinics and a 5.0% increase in visits within our existing clinics. This growth was offset in part by the sale of outpatient rehabilitation clinics to non-consolidating subsidiaries since September 30, 2018, which contributed 192,149 visits during the nine months ended September 30, 2018. During the nine months ended September 30, 2019, we also experienced an increase in management fee revenues related to services provided to our non-consolidating subsidiaries. These services have expanded as a result of our sales of clinics to these non-consolidating subsidiaries. Our net revenue per visit was $103 for both the nine months ended September 30, 2019 and 2018.

Concentra Segment. Net operating revenues increased 5.0% to $1,231.7 million for the nine months ended September 30, 2019, compared to $1,173.4 million for the nine months ended September 30, 2018. Visits in our centers increased 6.5% to 9,165,599 for the nine months ended September 30, 2019, compared to 8,605,012 visits for the nine months ended September 30, 2018. The increases in net operating revenues and visits were principally due to U.S. HealthWorks, which we acquired on February 1, 2018, and other newly acquired centers. Net revenue per visit was $122 for the nine months ended September 30, 2019, compared to $124 for the nine months ended September 30, 2018. The decrease in net revenue per visit was principally due to an increase in employer services visits, which yield lower per visits rates.

Operating Expenses

Our operating expenses consist principally of cost of services and general and administrative expenses. Our operating expenses were $3,559.8 million, or 87.2% of net operating revenues, for the nine months ended September 30, 2019, compared to $3,338.6 million, or 87.5% of net operating revenues, for the nine months ended September 30, 2018. Our cost of services, a major component of which is labor expense, was $3,465.4 million, or 84.9% of net operating revenues, for the nine months ended September 30, 2019, compared to $3,247.6 million, or 85.1% of net operating revenues, for the nine months ended September 30, 2018. The decrease in our operating expenses relative to our net operating revenues was principally due to the operating performance of our Concentra and rehabilitation hospital segments. General and administrative expenses were $94.4 million, or 2.3% of net operating revenues, for the nine months ended September 30, 2019. General and administrative expenses were $91.0 million, or 2.4% of net operating revenues, for the nine months ended September 30, 2018. General and administrative expenses included $2.9 million of U.S. HealthWorks acquisition costs for the nine months ended September 30, 2018.

Adjusted EBITDA

Critical Illness Recovery Hospital Segment. Adjusted EBITDA increased 4.0% to $194.4 million for the nine months ended September 30, 2019, compared to $187.0 million for the nine months ended September 30, 2018. Our Adjusted EBITDA margin for the critical illness recovery hospital segment was 14.1% for both the nine months ended September 30, 2019 and 2018. The increase in Adjusted EBITDA for our critical illness recovery hospital segment was primarily driven by increases in patient volumes and net revenue per patient day, as discussed above under "*Net Operating Revenues*."

Rehabilitation Hospital Segment. Adjusted EBITDA increased 15.2% to $92.5 million for the nine months ended September 30, 2019, compared to $80.3 million for the nine months ended September 30, 2018. Our Adjusted EBITDA margin for the rehabilitation hospital segment was 19.0% for the nine months ended September 30, 2019, compared to 18.6% for the nine months ended September 30, 2018. The increases in Adjusted EBITDA and Adjusted EBITDA margin are primarily attributable to increases in patient volume and net revenue per visit at several of our existing hospitals. Adjusted EBITDA start-up losses were $8.8 million for the nine months ended September 30, 2019, compared to $3.8 million for the nine months ended September 30, 2018.

Outpatient Rehabilitation Segment. Adjusted EBITDA increased 4.3% to $111.6 million for the nine months ended September 30, 2019, compared to $107.0 million for the nine months ended September 30, 2018. Our Adjusted EBITDA margin for the outpatient rehabilitation segment was 14.4% for both the nine months ended September 30, 2019 and 2018. For the nine months ended September 30, 2019, the increase in Adjusted EBITDA resulted principally from our start-up and newly developed outpatient rehabilitation clinics.

Concentra Segment. Adjusted EBITDA increased 10.5% to $220.0 million for the nine months ended September 30, 2019, compared to $199.1 million for the nine months ended September 30, 2018, which included the operating results of U.S. HealthWorks beginning February 1, 2018. Our Adjusted EBITDA margin for the Concentra segment was 17.9% for the nine months ended September 30, 2019, compared to 17.0% for the nine months ended September 30, 2018. The increases in Adjusted EBITDA and Adjusted EBITDA margin resulted from achieving lower relative operating costs across our combined Concentra and U.S. HealthWorks businesses.

Depreciation and Amortization

Depreciation and amortization expense was $160.1 million for the nine months ended September 30, 2019, compared to $149.0 million for the nine months ended September 30, 2018. The increase principally occurred within our Concentra and critical illness recovery hospital segments. The increase in our Concentra segment was principally due to the acquisition of U.S. HealthWorks, which we acquired on February 1, 2018. The increase in our critical illness recovery hospital segment was principally due to the repeal of certificate of need regulations in the state of Florida effective July 1, 2019; accordingly, the certificate of need intangible assets for our Florida critical illness recovery hospitals were fully amortized during the nine months ended September 30, 2019.

Income from Operations

For the nine months ended September 30, 2019, we had income from operations of $359.5 million, compared to $329.0 million for the nine months ended September 30, 2018. The increase in income from operations resulted principally from our Concentra and rehabilitation hospital segments.

Loss on Early Retirement of Debt

During the nine months ended September 30, 2019, the amendment to the Select credit agreement, the amendment to the Concentra first lien credit agreement, the repayment of term loans outstanding under the Concentra second lien credit agreement, and the redemption of the 6.375% senior notes resulted in losses on early retirement of debt totaling $18.6 million.

During the nine months ended September 30, 2018, we amended both the Select credit agreement and the Concentra first lien credit agreement which resulted in losses on early retirement of debt of $10.3 million.

Equity in Earnings of Unconsolidated Subsidiaries

Our equity in earnings of unconsolidated subsidiaries principally relates to rehabilitation businesses in which we are a minority owner. For the nine months ended September 30, 2019, we had equity in earnings of unconsolidated subsidiaries of $18.7 million, compared to $14.9 million for the nine months ended September 30, 2018. The increase in equity in earnings was principally attributable to the growth of certain non-consolidating subsidiaries as a result of our sales of outpatient rehabilitation clinics to these subsidiaries.

Gain on Sale of Businesses

We recognized gains of $6.5 million and $9.0 million during the nine months ended September 30, 2019 and 2018, respectively. The gains were principally attributable to sales of outpatient rehabilitation clinics to non-consolidating subsidiaries.

Interest Expense

Interest expense was $156.6 million for the nine months ended September 30, 2019, compared to $148.0 million for the nine months ended September 30, 2018. The increase in interest expense was principally due an increase in variable interest rates associated with the Concentra credit facilities and an increase in our indebtedness as a result of the acquisition of U.S. HealthWorks on February 1, 2018. We also recognized interest expense on both the 6.250% senior notes and the 6.375% senior notes during August 2019, as the redemption of the 6.375% senior notes occurred on August 30, 2019, while the issuance of the $550.0 million 6.250% senior notes occurred on August 1, 2019.

Income Taxes

We recorded income tax expense of $52.1 million for the nine months ended September 30, 2019, which represented an effective tax rate of 24.9%. We recorded income tax expense of $47.5 million for the nine months ended September 30, 2018, which represented an effective tax rate of 24.4%. For the nine months ended September 30, 2018, the lower effective tax rate resulted principally from the discrete tax benefits realized from certain equity interests redeemed at our Concentra subsidiary.

Net Income Attributable to Non-Controlling Interests

Net income attributable to non-controlling interests was $41.0 million for the nine months ended September 30, 2019, compared to $34.1 million for the nine months ended September 30, 2018. The increase was principally due to the improved operating performance of our Concentra segment and several of our joint venture rehabilitation hospitals.

Liquidity and Capital Resources

Cash Flows for the Nine Months Ended September 30, 2019 and Nine Months Ended September 30, 2018

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

	Nine Months Ended September 30,	
	2018	2019
	(in thousands)	
Cash flows provided by operating activities	$ 380,977	$ 266,640
Cash flows used in investing activities	(646,542)	(270,710)
Cash flows provided by (used in) financing activities	303,429	(35,145)
Net increase (decrease) in cash and cash equivalents	37,864	(39,215)
Cash and cash equivalents at beginning of period	122,549	175,178
Cash and cash equivalents at end of period	$ 160,413	$ 135,963

Operating activities provided $266.6 million of cash flows for the nine months ended September 30, 2019, compared to $381.0 million of cash flows for the nine months ended September 30, 2018. The lower operating cash flows for the nine months ended September 30, 2019, compared to the nine months ended September 30, 2018, was principally driven by the change in our accounts receivable. We experienced an increase in days sales outstanding to 53 days at September 30, 2019, compared to 51 days at December 31, 2018. We experienced a decline in days sales outstanding to 54 days at September 30, 2018, compared to 58 days at December 31, 2017. Our days sales outstanding will fluctuate based upon variability in our collection cycles. Our days sales outstanding fell within our expected range at September 30, 2019 and December 31, 2018.

Investing activities used $270.7 million of cash flows for the nine months ended September 30, 2019. The principal uses of cash were $124.0 million for purchases of property and equipment and $146.9 million for investments in and acquisitions of businesses. Investing activities used $646.5 million of cash flows for the nine months ended September 30, 2018. The principal uses of cash were $515.0 million related to the acquisition of U.S. HealthWorks and $121.0 million for purchases of property and equipment.

Financing activities used $35.1 million of cash flows for the nine months ended September 30, 2019. The principal sources of cash were from the issuance of $550.0 million 6.250% senior notes, $500.0 million of incremental term loan borrowings under the Select credit facilities, and $100.0 million of incremental term loan borrowings under the Concentra first lien credit agreement. These borrowings resulted in net proceeds of $1,132.9 million. A portion of the net proceeds of the senior notes, together with a portion of the proceeds from the incremental term loan borrowings under the Select credit facilities, were used to redeem in full Select’s $710.0 million 6.375% senior notes at a redemption price of 100.000% of the principal amount. The proceeds from the incremental term loans under the Concentra first lien credit agreement were used, in part, to repay the $240.0 million of term loans outstanding under the Concentra second lien credit agreement. We also used $98.8 million and $33.9 million of cash for mandatory prepayments of term loans under the Select credit facilities and Concentra credit facilities, respectively. During the nine months ended September 30, 2019, we had net repayments of $20.0 million under the Select revolving facility.

Financing activities provided $303.4 million of cash flows for the nine months ended September 30, 2018. The principal source of cash was from the issuance of term loans under the Concentra credit facilities which resulted in net proceeds of $779.9 million. This was offset in part by $306.4 million of distributions to non-controlling interests, of which $294.9 million related to the redemption and reorganization transactions executed in connection with the acquisition of U.S. HealthWorks, and $165.0 million of net repayments under the Select revolving facility.

Capital Resources

Working capital. We had net working capital of $180.5 million at September 30, 2019, compared to $287.3 million at December 31, 2018. The decrease in net working capital was principally due to the recognition of current operating lease liabilities upon the adoption of ASC Topic 842, *Leases*, on January 1, 2019, offset in part by an increase in our accounts receivable.

Select credit facilities.

In February 2019, Select made a principal prepayment of $98.8 million associated with its term loans in accordance with the provision in the Select credit facilities that requires mandatory prepayments of term loans as a result of annual excess cash flow, as defined in the Select credit facilities.

On August 1, 2019, Select entered into Amendment No. 3 to the Select credit agreement dated March 6, 2017. Amendment No. 3, among other things, (i) provided for an additional $500.0 million in term loans that, along with the existing term loans, have a maturity date of March 6, 2025, (ii) extended the maturity date of the Select revolving facility from March 6, 2022 to March 6, 2024, and (iii) increased the total net leverage ratio permitted under the Select credit agreement.

At September 30, 2019, Select had outstanding borrowings under the Select credit facilities consisting of $1,531.1 million in Select term loans (excluding unamortized discounts and debt issuance costs of $22.2 million). Select did not have any borrowings under the Select revolving facility. At September 30, 2019, Select had $411.7 million of availability under the Select revolving facility after giving effect to $38.3 million of outstanding letters of credit.

Select 6.250% senior notes.

On August 1, 2019, Select issued and sold $550.0 million aggregate principal amount of 6.250% senior notes due August 15, 2026. Select used a portion of the net proceeds of the 6.250% senior notes, together with a portion of the proceeds from the incremental term loan borrowings under the Select credit facilities (as described above) in part to (i) redeem in full the $710.0 million aggregate principal amount of the 6.375% senior notes on August 30, 2019 at the redemption price of 100.000% of the principal amount plus accrued and unpaid interest, (ii) repay in full the outstanding borrowings under Select's revolving facility, and (iii) pay related fees and expenses associated with the financing.

Interest on the senior notes accrues at the rate of 6.250% per annum and is payable semi-annually in arrears on February 15 and August 15 of each year, commencing on February 15, 2020. The senior notes are Select's senior unsecured obligations which are subordinated to all of Select's existing and future secured indebtedness, including the Select credit facilities. The senior notes rank equally in right of payment with all of Select's other existing and future senior unsecured indebtedness and senior in right of payment to all of Select's existing and future subordinated indebtedness. The senior notes are unconditionally guaranteed on a joint and several basis by each of Select's direct or indirect existing and future domestic restricted subsidiaries, other than certain non-guarantor subsidiaries.

Select may redeem some or all of the senior notes prior to August 15, 2022 by paying a "make-whole" premium. Select may redeem some or all of the senior notes on or after August 15, 2022 at specified redemption prices. In addition, prior to August 15, 2022, Select may redeem up to 40% of the principal amount of the senior notes with the net proceeds of certain equity offerings at a price of 106.250% plus accrued and unpaid interest, if any. Select is obligated to offer to repurchase the senior notes at a price of 101% of their principal amount plus accrued and unpaid interest, if any, as a result of certain change of control events. These restrictions and prohibitions are subject to certain qualifications and exceptions.

The terms of the senior notes contains covenants that, among other things, limit Select's ability and the ability of certain of Select's subsidiaries to (i) grant liens on its assets, (ii) make dividend payments, other distributions or other restricted payments, (iii) incur restrictions on the ability of Select's restricted subsidiaries to pay dividends or make other payments, (iv) enter into sale and leaseback transactions, (v) merge, consolidate, transfer or dispose of substantially all of their assets, (vi) incur additional indebtedness, (vii) make investments, (viii) sell assets, including capital stock of subsidiaries, (ix) use the proceeds from sales of assets, including capital stock of restricted subsidiaries, and (x) enter into transactions with affiliates. These covenants are subject to a number of exceptions, limitations and qualifications.

Concentra credit facilities. Select and Holdings are not parties to the Concentra credit facilities and are not obligors with respect to Concentra's debt under such agreements. While this debt is non-recourse to Select and Holdings, it is included in our consolidated financial statements.

In February 2019, Concentra Inc. made a principal prepayment of $33.9 million associated with its term loans in accordance with the provision in the Concentra credit facilities that requires mandatory prepayments of term loans as a result of annual excess cash flow, as defined in the Concentra credit facilities.

On April 8, 2019, Concentra Inc. entered into Amendment No. 5 to the Concentra first lien credit agreement. Amendment No. 5, among other things, (i) extended the maturity date of the Concentra revolving facility from June 1, 2020 to June 1, 2021 and (ii) increased the aggregate commitments available under the Concentra revolving facility from $75.0 million to $100.0 million.

On September 20, 2019, Concentra Inc. entered into Amendment No. 6 to the Concentra first lien credit agreement. Amendment No. 6, among other things, (i) provided for an additional $100.0 million in term loans that, along with the existing Concentra first lien term loans, have a maturity date of June 1, 2022 and (ii) extended the maturity date of the revolving facility from June 1, 2021 to March 1, 2022. Concentra Inc. used the incremental borrowings under the Concentra first lien credit agreement to prepay in full all of its term loans outstanding under the Concentra second lien credit agreement on September 20, 2019.

At September 30, 2019, Concentra Inc. had outstanding borrowings under the Concentra credit facilities consisting of $1,240.3 million of Concentra term loans (excluding unamortized discounts and debt issuance costs of $12.7 million). Concentra Inc. did not have any borrowings under the Concentra revolving facility. At September 30, 2019, Concentra Inc. had $87.3 million of availability under its revolving facility after giving effect to $12.7 million of outstanding letters of credit.

Stock Repurchase Program. Holdings' board of directors has authorized a common stock repurchase program to repurchase up to $500.0 million worth of shares of its common stock. The program has been extended until December 31, 2020, and will remain in effect until then, 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 the Select revolving facility. During the nine months ended September 30, 2019, Holdings repurchased 2,165,221 shares at a cost of approximately $33.2 million, an average cost per share of $15.32, which includes transaction costs. Since the inception of the program through September 30, 2019, Holdings has repurchased 38,089,349 shares at a cost of approximately $347.9 million, or $9.13 per share, which includes transaction costs.

Liquidity. We believe our internally generated cash flows and borrowing capacity under the Select and Concentra credit facilities will be sufficient to finance operations over the next twelve months. 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.

Use of Capital Resources. We may from time to time pursue opportunities to develop new joint venture relationships with significant 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.

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 the Select credit facilities and Concentra credit facilities.

At September 30, 2019, Select had outstanding borrowings under the Select credit facilities consisting of $1,531.1 million in Select term loans (excluding unamortized discounts and debt issuance costs of $22.2 million), which bear interest at variable rates. Select did not have any borrowings under the Select revolving facility.

At September 30, 2019, Concentra Inc. had outstanding borrowings under the Concentra credit facilities consisting of $1,240.3 million of Concentra term loans (excluding unamortized discounts and debt issuance costs of $12.7 million), which bear interest at variable rates. Concentra Inc. did not have any borrowings under the Concentra revolving facility.

As of September 30, 2019, each 0.25% increase in market interest rates will impact the interest expense on Select's and Concentra Inc.'s variable rate debt by $6.9 million per annum.

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 September 30, 2019, 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 third quarter ended September 30, 2019, 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

The Company is a party to various legal actions, proceedings, and claims (some of which are not insured), and regulatory and other governmental audits and investigations in the ordinary course of its business. The Company cannot predict the ultimate outcome of pending litigation, proceedings, and regulatory and other governmental audits and investigations. These matters could potentially subject the Company to sanctions, damages, recoupments, fines, and other penalties. The Department of Justice, Centers for Medicare & Medicaid Services ("CMS"), or other federal and state enforcement and regulatory agencies may conduct additional investigations related to the Company's businesses in the future that may, either individually or in the aggregate, have a material adverse effect on the Company's business, financial position, results of operations, and liquidity.

To address claims arising out of the Company's operations, the Company maintains professional malpractice liability insurance and general liability insurance coverages through a number of different programs that are dependent upon such factors as the state where the Company is operating and whether the operations are wholly owned or are operated through a joint venture. For the Company's wholly owned operations, the Company currently maintains insurance coverages under a combination of policies with a total annual aggregate limit of up to $40.0 million. The Company's insurance for the professional liability coverage is written on a "claims-made" basis, and its commercial general liability coverage is maintained on an "occurrence" basis. These coverages apply after a self-insured retention limit is exceeded. For the Company's joint venture operations, the Company has numerous programs that are designed to respond to the risks of the specific joint venture. The annual aggregate limit under these programs ranges from $5.0 million to $20.0 million. The policies are generally written on a "claims-made" basis. Each of these programs has either a deductible or self-insured retention limit. The Company reviews its insurance program annually and may make adjustments to the amount of insurance coverage and self-insured retentions in future years. The Company also maintains umbrella liability insurance covering claims which, due to their nature or amount, are not covered by or not fully covered by the Company's other insurance policies. These insurance policies also do not generally cover punitive damages and are subject to various deductibles and policy limits. Significant legal actions, as well as the cost and possible lack of available insurance, could subject the Company to substantial uninsured liabilities. In the Company's opinion, the outcome of these actions, individually or in the aggregate, will not have a material adverse effect on its financial position, results of operations, or cash flows.

Healthcare providers are subject to lawsuits under the qui tam provisions of the federal False Claims Act. Qui tam lawsuits typically remain under seal (hence, usually unknown to the defendant) for some time while the government decides whether or not to intervene on behalf of a private qui tam plaintiff (known as a relator) and take the lead in the litigation. These lawsuits can involve significant monetary damages and penalties and award bounties to private plaintiffs who successfully bring the suits. The Company is and has been a defendant in these cases in the past, and may be named as a defendant in similar cases from time to time in the future.

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

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

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

In October 2019, the Company entered into a settlement agreement with the United States government and the plaintiff-relators. Under the terms of the settlement, the Company agreed to make payments to the government, the plaintiff-relators and their counsel. Such payments, in the aggregate, are immaterial to the Company's financial statements. In the settlement agreement, the government and the plaintiff-relators released all defendants from liability for all conduct alleged in the complaint, and the Company admitted no liability or wrongdoing.

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

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

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

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

ITEM 1A. RISK FACTORS

There have been no material changes from our risk factors as previously reported in our Annual Report on Form 10-K for the year ended December 31, 2018.

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

Purchases of Equity Securities by the Issuer

Holdings' board of directors has authorized a common stock repurchase program to repurchase up to $500.0 million worth of shares of its common stock. The program, which has been extended until December 31, 2020, will remain in effect until then unless further extended or earlier terminated by the board of directors. Stock repurchases under this program may be made in the open market or through privately negotiated transactions, and at times and in such amounts as Holdings deems appropriate.

The following table provides information regarding repurchases of our common stock during the three months ended September 30, 2019.

	Total Number of Shares Purchased(1)	Average Price Paid Per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under Plans or Programs
July 1 - July 31, 2019	—	$ —	—	$ 172,124,038
August 1 - August 31, 2019	1,473,676	15.85	1,242,256	152,417,000
September 1 - September 30, 2019	20,652	16.01	20,652	152,086,459
Total	1,494,328	$ 15.85	1,262,908	$ 152,086,459

(1) Includes share repurchases under our common stock repurchase program and common stock surrendered to us to satisfy tax withholding obligations associated with the vesting of restricted shares issued to employees, pursuant to the provisions of our equity incentive plans.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Number	Description
4.1	Indenture, dated as of August 1, 2019, by and among Select Medical Corporation, the guarantors named therein and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K, filed on August 1, 2019).
4.2	Forms of 6.250% Senior Notes due 2026 (incorporated by reference to Exhibit 4.2 of the Current Report on Form 8-K, filed on August 1, 2019).
10.1	Amendment No. 3, dated August 1, 2019, to the Credit Agreement, dated 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, and Amendment No. 2, dated as of October 26, 2018 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K, filed on August 1, 2019).
10.2	Amendment No. 6, dated September 20, 2019, to the First Lien Credit Agreement, dated as of June 1, 2015, among Concentra Holdings Inc., MJ Acquisition Corporation, Concentra Inc., the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent, as amended by Amendment No. 1, dated as of September 26, 2016, Amendment No. 2, dated as of March 20, 2017, Amendment No. 3, dated as of February 1, 2018, Amendment No. 4, dated as of October 26, 2018, and Amendment No. 5, dated as of April 8, 2019 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K, filed on September 24, 2019).
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	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	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/ Scott A. Romberger

Scott A. Romberger
Senior Vice President, Chief Accounting Officer and Controller
(Principal Accounting Officer)

Dated: October 31, 2019