

# NEWS RELEASE



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**4716 Old Gettysburg Road  
Mechanicsburg, PA 17055**

**NYSE Symbol: SEM**

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## **Select Medical Corporation Announces Third Quarter 2002 Results - - Earnings Per Share Increases by 46%**

MECHANICSBURG, PENNSYLVANIA - - October 29, 2002 - - Select Medical Corporation (NYSE: SEM) today announced results for the third quarter and nine months ended September 30, 2002.

For the quarter ended September 30, 2002, net operating revenues increased 16.7% to \$279.0 million compared to \$239.2 million for the same quarter, prior year. Income from operations increased 26.4% to \$22.5 million compared to \$17.8 million for the same quarter, prior year. Additionally, earnings before interest, taxes, depreciation and amortization, minority interests and extraordinary items ("EBITDA") increased 11.8% to \$29.0 million compared to \$25.9 million for the same quarter, prior year. Earnings per share on a fully diluted basis increased 46.2% to \$0.19 compared to \$0.13 per share for the same quarter, prior year.

For the nine months ended September 30, 2002, net operating revenues increased 19.0% to \$831.2 million compared to \$698.4 million for the same period, prior year. Income from operations increased 28.9% to \$74.5 million compared to \$57.8 million for the same period, prior year. Additionally, EBITDA increased 14.2% to \$93.2 million compared to \$81.6 million for the same period, prior year. Earnings per share on a fully diluted basis increased 54.8% to \$0.65 compared to \$0.42 per share before extraordinary items for the same period, prior year.

"Select Medical's third quarter results reflect continued success in the execution of our business strategies," commented Rocco A. Ortenzio, Select's Executive Chairman. "We are pleased to have exceeded analysts' expectations for another fiscal quarter. Management is hopeful that the Company's move to the New York Stock Exchange in August will benefit shareholders by enhancing the visibility and liquidity of Select Medical's stock."

Robert A. Ortenzio, Select's President and Chief Executive Officer, stated, "Our operating cash flow for the quarter was \$52.3 million and for the nine months was \$102.8 million. The Company continues to de-lever its balance sheet. Through the first nine months of 2002 we have repaid \$21.5 million of debt. We continue to fund our development growth through cash flow from operations as well as increase our cash position. Cash on the balance sheet at September 30, 2002 increased to \$60.0 million, from \$10.7 million at December 31, 2001."

### Specialty Hospitals

During the third quarter, Select opened two new hospitals and as of the end of the quarter operated 68 hospitals. This compares to 59 hospitals at September 30, 2001. For the third quarter of 2002, net operating revenues increased 20.2% to \$155.6 million compared to \$129.4 million for the same quarter, prior year. Patient days increased 17.6% to 155,105 days and net revenue per patient day increased 2.2% to \$1,003, compared to 131,851 days and net revenue per patient day of \$981 in the same quarter, prior year. Additionally, EBITDA increased 16.4% to \$16.5 million compared to \$14.2 million for the same quarter, prior year. The EBITDA margins for hospitals opened prior to 2001 were 13.1%, compared to 12.2% for the same quarter, prior year.

For the nine months ended September 30, 2002, net operating revenues increased 26.2% to \$456.5 million compared to \$361.6 million for the same period, prior year. Patient days increased 20.4% to 458,916 days and net revenue per patient day increased 4.9% to \$994, compared to 381,178 days and net revenue per patient day of \$948 in the same period, prior year. Additionally, EBITDA increased 20.2% to \$49.5 million compared to \$41.2 million for the same period, prior year. The EBITDA margins for hospitals opened prior to 2001 were 13.2%, compared to 12.5% for the same period, prior year.

### Outpatient Rehabilitation

During the third quarter, Select acquired two outpatient clinics, opened 14 clinics and now operates 743 clinics. For the third quarter, net operating revenues increased 12.3% to \$119.2 million compared to \$106.1 million for the same quarter, prior year, while EBITDA increased 9.2% to \$19.0 million compared to \$17.4 million in the same quarter, prior year. EBITDA margins declined slightly to 16.0% for the quarter compared to 16.4% in the same quarter, prior year. U.S. based patient visits increased 3.5% to 957,517 visits compared to 925,276 visits in the same quarter, prior year. Net revenue per U.S. based visit increased to \$87 for the quarter compared to \$82 for the same quarter, prior year.

For the nine months ended September 30, 2002, net operating revenues increased 11.3% to \$363.5 million compared to \$326.7 million for the same period, prior year, while EBITDA increased 10.6% to \$63.1 million compared to \$57.1 million for the same period, prior year. EBITDA margins remained relatively constant at 17.4% for the period compared to 17.5% in the same period, prior year. U.S. based patient visits increased 2.8% to 2,916,983 visits, compared to 2,837,544 visits in the same period, prior year. Net revenue per visit increased to \$86 for the period compared to \$81 for the same period, prior year.

### Adoption of FAS 142 Regarding Goodwill Amortization

Select adopted SFAS No. 142 on January 1, 2002. This accounting standard eliminates the amortization of goodwill, requires annual impairment testing of goodwill and introduces the concept of indefinite life intangible assets. There was no asset impairment upon the adoption of this accounting standard. If the new standard had been in effect in 2001, pre-tax amortization expense in the third quarter of 2001 would have been approximately \$2.2 million less and for the nine months ended September 30, 2001 would have been approximately \$6.7 million less. This would have increased fully diluted earnings per share by approximately \$0.03 for the quarter ended September 30, 2001 and \$0.09 for the nine months ended September 30, 2001.

## LTACH Regulations

On August 30, 2002, the Centers for Medicare & Medicaid Services (“CMS”) published final regulations establishing a prospective payment system for Medicare payment of long-term acute care hospital services (“LTCH-PPS”), which replaces the reasonable cost-based payment system previously in effect. Under LTCH-PPS, each discharged patient will be assigned to a distinct long-term care diagnosis-related group (“LTC-DRG”), and a long-term acute care hospital will generally be paid a pre-determined fixed amount applicable to the assigned LTC-DRG (adjusted for area wage differences).

LTCH-PPS will be phased in over a five year period, during which time a long-term care hospital will be paid a blended amount consisting of set percentages of the LTC-DRG payment rate and the hospital’s reasonable cost-based reimbursement. The LTC-DRG payment will be 20% for a hospital’s annual cost reporting period beginning on or after October 1, 2002, and will increase by 20% for each cost reporting period thereafter until the hospital’s cost reporting period beginning on or after October 1, 2006, when the hospital will be paid solely on the basis of LTC-DRG payments. A long-term acute care hospital may elect to be paid solely on the basis of LTC-DRG payments (and not be subject to the transition period) at the start of any of its cost reporting periods during the transition period.

Under the LTCH-PPS, it may be possible for Select’s hospitals to experience enhanced financial performance. However, there are risks associated with transitioning to the new payment system. Select believes that the conversion to the new payment system will be accretive to its earnings, but is still assessing the potential impact of the LTCH-PPS. Therefore, Select has not included any financial impact associated with the LTCH-PPS in its financial objectives for 2003 set forth below.

## Business Outlook

Management has outlined the following financial objectives for the quarter and full year ending December 31, 2002 (in millions, except per share data):

	Qtr. Ending 12/31/02	Year Ending 12/31/02
Net Revenue	\$260 - \$270	\$1,090 - \$1,100
EBITDA	\$34 - \$36	\$127 - \$129
Diluted Earnings Per Share	\$0.23-\$0.24	\$0.88-\$0.89

## Business Outlook (continued)

Management has outlined the following financial objectives for the quarters and full year 2003 (in millions, except per share data and DSO):

	Qtr Ending 3/31/03	Qtr Ending 6/30/03	Qtr Ending 9/30/03	Qtr Ending 12/31/03	Year Ending 12/31/03
Net Revenue	\$290 - \$300	\$305 - \$315	\$310 - \$320	\$330 - \$340	\$1,235 - \$1,275
EBITDA	\$32 - \$33	\$38 - \$39	\$35 - \$36	\$41 - \$42	\$146 - \$150
Diluted Earnings Per Share	\$0.23-\$0.24	\$0.29-\$0.30	\$0.25-\$0.26	\$0.32-\$0.33	\$1.09 - \$1.13

Capital Expenditures	\$35 - \$40
Depreciation & Amortization	\$30 - \$35
Interest Expense	\$20 - \$25
Days Sales Outstanding (DSO)	68 – 72 days

Select will host a conference call regarding the third quarter and year-to-date results and its business outlook on Wednesday, October 30, 2002, at 11:00am EST. The domestic dial-in number for the call is 1-877-626-0595. The international dial-in number is 1-706-679-7458. The conference call will be webcast simultaneously at <http://www.firstcallevts.com/service/ajwz366128066gf12.html>.

For those unable to participate in the conference call, a replay will be available until 1:00pm EST Friday, November 8, 2002. The replay number is 1-800-642-1687 (domestic) or 1-706-645-9291 (international). The passcode for the replay will be 5910971. The replay can also be accessed at Select Medical Corporation's website, [www.selectmedicalcorp.com](http://www.selectmedicalcorp.com).

Select Medical Corporation is a leading operator of long term acute care hospitals in the United States. With the additional hospital opening in October 2002, Select now operates 69 specialty acute care hospitals in 22 states. Select is also a leading operator of outpatient rehabilitation clinics in the United States and Canada. Select operates approximately 743 outpatient rehabilitation clinics in the United States and Canada.

Certain statements contained herein that are not descriptions of historical facts are "forward-looking" statements (as such term is defined in the Private Securities Litigation Reform Act of 1995). Because such statements include risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause results to differ materially from those expressed or implied by such forward-looking statements include, but are not limited to, those discussed in filings made by Select Medical Corporation with the Securities and Exchange Commission.

Investor inquiries:

Joel Veit, 717/972-1101  
[ir@selectmedicalcorp.com](mailto:ir@selectmedicalcorp.com)

I. Condensed Consolidated Statements of Operations  
(in thousands, except per share data)  
(unaudited)  
For the Three Months Ended September 30, 2002 and 2001

	2002	2001	% Change
Net operating revenues	<u>\$ 278,983</u>	<u>\$ 239,155</u>	16.7%
Costs and expenses:			
Cost of services	231,054	194,900	18.6%
Bad debt expense	8,611	9,360	(8.0)%
General and administrative	<u>10,317</u>	<u>8,951</u>	15.3%
Earnings before interest, taxes, depreciation and amortization, and minority interests (EBITDA)	29,001	25,944	11.8%
Depreciation and amortization	<u>6,518</u>	<u>8,150</u>	(20.0)%
Income from operations	22,483	17,794	26.4%
Interest expense, net	<u>6,694</u>	<u>6,924</u>	(3.3)%
Income before minority interests, and income taxes	15,789	10,870	45.3%
Minority interests	<u>390</u>	<u>473</u>	(17.5)%
Income before income taxes	15,399	10,397	48.1%
Income tax expense	<u>6,044</u>	<u>4,054</u>	49.1%
Net income	<u><u>\$ 9,355</u></u>	<u><u>\$ 6,343</u></u>	47.5%
Diluted earnings per share	\$ 0.19	\$ 0.13	46.2%
Weighted average shares outstanding	49,268	49,223	0.1%

II. Condensed Consolidated Statements of Operations  
(in thousands, except per share data)  
(unaudited)  
For the Nine Months Ended September 30, 2002 and 2001

	2002	2001	% Change
Net operating revenues	\$ 831,175	\$ 698,442	19.0%
Costs and expenses:			
Cost of services	680,972	564,861	20.6%
Bad debt expense	27,631	26,008	6.2%
General and administrative	<u>29,329</u>	<u>25,945</u>	<u>13.0%</u>
Earnings before interest, taxes, depreciation and amortization, minority interests and extraordinary item (EBITDA)	93,243	81,628	14.2%
Depreciation and amortization	<u>18,724</u>	<u>23,829</u>	<u>(21.4)%</u>
Income from operations	74,519	57,799	28.9%
Interest expense, net	<u>20,080</u>	<u>22,166</u>	<u>(9.4)%</u>
Income before minority interests, income taxes and extraordinary item	54,439	35,633	52.8%
Minority interests	<u>1,563</u>	<u>2,745</u>	<u>(43.1)%</u>
Income before income taxes and extraordinary item	52,876	32,888	60.8%
Income tax expense	<u>20,744</u>	<u>12,826</u>	<u>61.7%</u>
Income before extraordinary item	32,132	20,062	60.2%
Extraordinary item (1)	<u>-</u>	<u>8,676</u>	<u>(100.0)%</u>
Net income	<u>\$ 32,132</u>	<u>\$ 11,386</u>	<u>182.2%</u>
Diluted earnings per share before extraordinary item	\$ 0.65	\$ 0.42	54.8%
Diluted earnings per share	\$ 0.65	\$ 0.22	195.5%
Weighted average shares outstanding	49,126	44,333	10.8%

(1) The extraordinary item relates to the write off of financing costs associated with debt that was refinanced through the Company's initial public stock offering and the Company's subsequent issuance of senior subordinate debt. The extraordinary item is presented net of tax benefit.

III. Condensed Consolidated Balance Sheets  
(Amounts in thousands)

	September 30, 2002 <u>(unaudited)</u>	December 31, 2001 <u></u>
Assets		
Cash	\$ 59,969	\$ 10,703
Accounts receivable, net	229,968	218,393
Current deferred tax asset	27,006	28,945
Other current assets	<u>17,309</u>	<u>18,444</u>
Total current assets	334,252	276,485
Property and equipment, net	105,433	92,005
Intangible assets	251,731	247,257
Other assets	<u>30,113</u>	<u>35,098</u>
Total assets	<u><u>\$ 721,529</u></u>	<u><u>\$ 650,845</u></u>
Liabilities and Stockholders' Equity		
Payables and accruals	\$ 174,091	\$ 122,962
Current portion of long term debt	<u>30,380</u>	<u>26,774</u>
Total current liabilities	204,471	149,736
Long term debt, net of current portion	238,373	261,649
Minority interests	5,471	5,176
Stockholders' equity	<u>273,214</u>	<u>234,284</u>
Total liabilities and stockholders' equity	<u><u>\$ 721,529</u></u>	<u><u>\$ 650,845</u></u>

IV. Key Statistics  
(unaudited)  
For the Three Months Ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>	<u>% Change</u>
<b>Specialty Hospitals</b>			
Number of hospitals - end of period	68	59	15.3%
Net operating revenues (,000)	\$ 155,637	\$ 129,442	20.2%
Number of patient days	155,105	131,851	17.6%
Net revenue per patient day (a)	\$ 1,003	\$ 981	2.2%
EBITDA (,000)	\$ 16,522	\$ 14,189	16.4%
EBITDA margin – all hospitals	10.6%	11.0%	(3.6)%
EBITDA margin – same store hospitals (b)	13.1%	12.2%	7.4%
<b>Outpatient Rehabilitation</b>			
Number of clinics - end of period	743	688	8.0%
Net operating revenues (,000)	\$ 119,179	\$ 106,083	12.3%
Number of visits (US)	957,517	925,276	3.5%
Revenue per visit (US) (c)	\$ 87	\$ 82	6.1%
EBITDA (,000)	\$ 19,025	\$ 17,421	9.2%
EBITDA margin	16.0%	16.4%	(2.4)%

(a) Net revenue per patient day is calculated by dividing specialty hospital patient service revenue by the total number of patient days.

(b) EBITDA margin – same store hospitals represents the EBITDA margin for those hospitals opened before January 1, 2001 and operated throughout both periods.

(c) Net revenue per visit is calculated by dividing outpatient rehabilitation clinic revenue by the total number of visits. For purposes of this computation, outpatient rehabilitation clinic revenue does not include Select's Canadian Subsidiary or contract services revenue.

V. Key Statistics  
(unaudited)  
For the Nine Months Ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>	<u>% Change</u>
<b>Specialty Hospitals</b>			
Number of hospitals - end of period	68	59	15.3%
Net operating revenues (,000)	\$ 456,538	\$ 361,627	26.2%
Number of patient days	458,916	381,178	20.4%
Net revenue per patient day (a)	\$ 994	\$ 948	4.9%
EBITDA (,000)	\$ 49,470	\$ 41,167	20.2%
EBITDA margin – all hospitals	10.8%	11.4%	(5.3)%
EBITDA margin – same store hospitals (b)	13.2%	12.5%	5.6%
<b>Outpatient Rehabilitation</b>			
Number of clinics - end of period	743	688	8.0%
Net operating revenues (,000)	\$ 363,512	\$ 326,715	11.3%
Number of visits (US)	2,916,983	2,837,544	2.8%
Revenue per visit (US) (c)	\$ 86	\$ 81	6.2%
EBITDA (,000)	\$ 63,148	\$ 57,107	10.6%
EBITDA margin	17.4%	17.5%	(0.6)%

(a) Net revenue per patient day is calculated by dividing specialty hospital patient service revenue by the total number of patient days.

(b) EBITDA margin – same store hospitals represents the EBITDA margin for those hospitals opened before January 1, 2001 and operated throughout both periods.

(c) Net revenue per visit is calculated by dividing outpatient rehabilitation clinic revenue by the total number of visits. For purposes of this computation, outpatient rehabilitation clinic revenue does not include Select's Canadian Subsidiary or contract services revenue.