

HEALTHSOUTH CORP
Form 10-Q
August 06, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2008

OR

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

Commission File Number 000-14940

HealthSouth Corporation

(Exact name of Registrant as specified in its Charter)

Delaware

(State or Other Jurisdiction of

Incorporation or Organization)

3660 Grandview Parkway, Suite 200

Birmingham, Alabama

(Address of Principal Executive Offices)

63-0860407

(I.R.S. Employer

Identification No.)

35243

(Zip Code)

(205) 967-7116

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(Registrant's telephone number)

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 period that the 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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-Accelerated filer Smaller reporting company

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

The registrant had 88,069,199 shares of common stock outstanding, net of treasury shares, as of July 31, 2008.

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)
HealthSouth Corporation and Subsidiaries
Condensed Consolidated Balance Sheets

(Unaudited)

	June 30, 2008	December 31, 2007
	(In Millions, Except Share Data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 67.2	\$ 19.8
Restricted cash	46.6	63.6
Restricted marketable securities	29.2	28.9
Accounts receivable, net of allowance for doubtful accounts of \$36.6 in 2008; \$37.8 in 2007	240.9	220.2
Insurance recoveries receivable	230.0	230.0
Other current assets	56.6	58.7
Current assets held for sale	7.9	16.2
Total current assets	678.4	637.4
Property and equipment, net	681.5	744.4
Goodwill	406.1	406.1
Intangible assets, net	23.6	26.1
Investment in and advances to nonconsolidated affiliates	41.7	42.7
Assets held for sale	20.8	63.2
Income tax refund receivable	43.2	52.5
Other long-term assets	69.8	78.2
Total assets	\$ 1,965.1	\$ 2,050.6
Liabilities and Shareholders' Deficit		
Current liabilities:		
Current portion of long-term debt	\$ 56.7	\$ 68.3
Accounts payable	47.7	49.1
Accrued expenses and other current liabilities	342.5	365.5
Government, class action, and related settlements	353.3	400.7
Current liabilities held for sale	39.6	86.9
Total current liabilities	839.8	970.5
Long-term debt, net of current portion	1,827.4	1,974.4
Liabilities held for sale	3.8	4.2
Other long-term liabilities	166.3	171.4
	2,837.3	3,120.5
Commitments and contingencies		
Minority interest in equity of consolidated affiliates	87.9	97.2
Convertible perpetual preferred stock, \$.10 par value; 1,500,000 shares authorized; 400,000 issued in 2008 and 2007; liquidation preference of \$1,000 per share	387.4	387.4
Shareholders' deficit:		
Common stock, \$.01 par value; 200,000,000 shares authorized; issued: 96,883,924 in 2008; 87,514,378 in 2007	1.0	0.9

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Capital in excess of par value	2,963.7	2,820.4
Accumulated deficit	(4,000.7)	(4,064.6)
Accumulated other comprehensive loss	(0.8)	(0.8)
Treasury stock, at cost (8,816,125 shares in 2008 and 8,801,665 shares in 2007)	(310.7)	(310.4)
Total shareholders' deficit	(1,347.5)	(1,554.5)
Total liabilities and shareholders' deficit	\$ 1,965.1	\$ 2,050.6

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

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PART 1. FINANCIAL INFORMATION

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In Millions, Except Per Share Data)			
Net operating revenues	\$ 461.4	\$ 438.7	\$ 930.4	\$ 881.8
Operating expenses:				
Salaries and benefits	236.7	217.2	469.6	435.4
Other operating expenses	65.1	58.6	135.5	125.7
General and administrative expenses	25.2	32.9	53.3	76.0
Supplies	28.0	25.4	55.5	51.2
Depreciation and amortization	18.3	20.0	48.4	38.0
Impairment of long-lived assets	0.6	14.7	0.6	14.7
Occupancy costs	12.5	12.8	24.8	25.6
Provision for doubtful accounts	6.7	10.6	14.8	21.0
Loss on disposal of assets	0.8	1.7	0.4	1.7
Government, class action, and related settlements	(8.6)	(25.7)	(45.0)	(37.9)
Professional fees—accounting, tax, and legal	5.3	13.3	8.9	35.1
Total operating expenses	390.6	381.5	766.8	786.5
Loss on early extinguishment of debt	3.4	17.7	3.7	17.7
Interest expense and amortization of debt discounts and fees	43.5	59.2	90.9	117.7
Other income	(1.0)	(0.5)	(1.7)	(5.2)
(Gain) loss on interest rate swap	(28.5)	(19.0)	8.1	(14.7)
Equity in net income of nonconsolidated affiliates	(2.7)	(2.4)	(5.1)	(5.1)
Minority interests in earnings of consolidated affiliates	8.2	7.8	15.8	16.1
Income (loss) from continuing operations before income tax expense (benefit)	47.9	(5.6)	51.9	(31.2)
Provision for income tax expense (benefit)	0.7	(10.3)	0.8	(7.0)
Income (loss) from continuing operations	47.2	4.7	51.1	(24.2)
(Loss) income from discontinued operations, net of income tax benefit	(3.1)	463.6	12.8	435.8
Net income	44.1	468.3	63.9	411.6
Convertible perpetual preferred stock dividends	(6.5)	(6.5)	(13.0)	(13.0)
Net income available to common shareholders	\$ 37.6	\$ 461.8	\$ 50.9	\$ 398.6
Comprehensive income:				
Net income	\$ 44.1	\$ 468.3	\$ 63.9	\$ 411.6
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	0.8	–	0.8	0.1
Unrealized (loss) gain on available-for-sale securities	(0.4)	0.3	(0.8)	(3.2)
Other comprehensive income (loss), net of tax	0.4	0.3	–	(3.1)
Comprehensive income	\$ 44.5	\$ 468.6	\$ 63.9	\$ 408.5
Weighted average common shares outstanding:				
Basic	79.5	78.7	79.2	78.8
Diluted	93.0	92.1	92.6	92.1

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Basic and diluted earnings per common share:

Income (loss) from continuing operations available to common shareholders	\$	0.51	\$	(0.02)	\$	0.48	\$	(0.47)
(Loss) income from discontinued operations, net of income tax benefit		(0.04)		5.89		0.16		5.53
Net income per share available to common shareholders	\$	0.47	\$	5.87	\$	0.64	\$	5.06

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

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HealthSouth Corporation and Subsidiaries

Condensed Consolidated Statements of Operations and Comprehensive Income

(Unaudited)

	Six Months Ended June 30,	
	2008	2007
	(In Millions)	
Net cash provided by (used in) operating activities	\$ 67.0	\$ (105.0)
Cash flows from investing activities:		
Capital expenditures	(18.7)	(15.2)
Proceeds from disposal of assets	47.2	0.2
Proceeds from sale and maturities of restricted marketable securities	1.3	65.3
Purchase of restricted investments	(2.2)	(10.5)
Net change in restricted cash	17.0	9.4
Net settlements on interest rate swap	(6.6)	1.2
Other	0.5	-
Net cash provided by investing activities of discontinued operations—		
Proceeds from divestitures of divisions	-	1,089.4
Other investing activities of discontinued operations	1.1	3.7
Net cash provided by investing activities	39.6	1,143.5
Cash flows from financing activities:		
Checks in excess of bank balance	(5.5)	(2.7)
Principal payments on debt, including pre-payments	(92.4)	(865.0)
Borrowings on revolving credit facility	75.0	175.0
Payments on revolving credit facility	(150.0)	(280.0)
Principal payments under capital lease obligations	(7.1)	(6.3)
Issuance of common stock	150.2	