

HEALTHSOUTH CORP
Form 10-Q
May 01, 2012

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 March 31, 2012

OR

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

Commission File Number 001-10315

HealthSouth Corporation
(Exact name of Registrant as specified in its Charter)

Delaware 63-0860407
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

3660 Grandview Parkway, Suite 200 35243
Birmingham, Alabama (Zip Code)
(Address of Principal Executive Offices)

(205) 967-7116
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). 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 95,582,648 shares of common stock outstanding, net of treasury shares, as of April 25, 2012.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains historical information, as well as forward-looking statements that involve known and unknown risks and relate to, among other things, future events, changes to Medicare reimbursement and other healthcare regulations from time to time, our business strategy, our financial plans, our future financial performance, our projected business results, or our projected capital expenditures. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” or “continue” or the negative of these terms or other comparable terminology. Such forward-looking statements are necessarily estimates based upon current information and involve a number of risks and uncertainties, many of which are beyond our control. Any forward-looking statement is based on information current as of the date of this report and speaks only as of the date on which such statement is made. Actual events or results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, factors that could cause actual results to differ materially from those estimated by us include, but are not limited to, the following:

each of the factors discussed in Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2011 (the “2011 Form 10-K”);

- uncertainties and factors discussed elsewhere in this Form 10-Q, in our other filings from time to time with SEC, or in materials incorporated therein by reference;
- changes in the regulations of the healthcare industry at either or both of the federal and state levels, including those contemplated now and in the future as part of national healthcare reform and deficit reduction, and related increases in the costs of complying with such changes;
- reductions or delays in, or suspension of, reimbursement for our services by governmental or private payors, including our ability to obtain and retain favorable arrangements with third-party payors;
- increased costs of regulatory compliance and compliance monitoring in the healthcare industry, including the costs of investigating and defending asserted claims, whether meritorious or not;
- our ability to attract and retain nurses, therapists, and other healthcare professionals in a highly competitive environment with often severe staffing shortages and the impact on our labor expenses from potential union activity and staffing recruitment and retention;
- competitive pressures in the healthcare industry and our response to those pressures;
- our ability to successfully complete and integrate de novo developments, acquisitions, investments, and joint ventures consistent with our growth strategy, including realization of anticipated revenues, cost savings, and productivity improvements arising from the related operations;
- any adverse outcome of various lawsuits, claims, and legal or regulatory proceedings involving us;
- increased costs of defending and insuring against alleged professional liability and other claims and the ability to predict the costs related to such claims;
- potential disruptions or incidents affecting the proper operation, availability, or security of our information systems;
- the price of our common stock as it affects our willingness and ability to repurchase shares under the program discussed further in Part I, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations, “Executive Overview,” of this Form 10-Q;
- our ability to attract and retain key management personnel; and
- general conditions in the economy and capital markets.

The cautionary statements referred to in this section also should be considered in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf. We undertake no duty to update these forward-looking statements, even though our situation may change in the future. Furthermore, we cannot guarantee future results, events, levels of activity, performance, or achievements.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

HealthSouth Corporation and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended March 31,	
	2012	2011
	(In Millions, Except Per Share Data)	
Net operating revenues	\$538.6	\$506.0
Less: Provision for doubtful accounts	(6.3)	(4.8)
Net operating revenues less provision for doubtful accounts	532.3	501.2
Operating expenses:		
Salaries and benefits	261.0	244.0
Other operating expenses	73.0	70.9
General and administrative expenses	30.0	26.9
Supplies	26.5	25.8
Depreciation and amortization	19.5	19.5
Occupancy costs	12.5	11.6
Loss on disposal of assets	0.8	0.1
Professional fees—accounting, tax, and legal	3.6	3.8
Total operating expenses	426.9	402.6
Interest expense and amortization of debt discounts and fees	23.3	35.1
Other income	(0.9)	(0.6)
Equity in net income of nonconsolidated affiliates	(3.3)	(2.5)
Income from continuing operations before income tax expense (benefit)	86.3	66.6
Provision for income tax expense (benefit)	29.1	(7.4)
Income from continuing operations	57.2	74.0
(Loss) income from discontinued operations, net of tax	(0.4)	17.5
Net income	56.8	91.5
Less: Net income attributable to noncontrolling interests	(12.6)	(11.7)
Net income attributable to HealthSouth	44.2	79.8
Less: Convertible perpetual preferred stock dividends	(6.4)	(6.5)
Less: Repurchase of convertible perpetual preferred stock	(0.5)	—
Net income attributable to HealthSouth common shareholders	\$37.3	\$73.3
Weighted average common shares outstanding:		
Basic	94.5	93.1
Diluted	108.7	109.0
Earnings per common share:		
Basic:		
Income from continuing operations attributable to HealthSouth common shareholders	\$0.40	\$0.60
(Loss) income from discontinued operations, net of tax, attributable to HealthSouth common shareholders	(0.01)	0.19
Net income attributable to HealthSouth common shareholders	\$0.39	\$0.79
Diluted:		
Income from continuing operations attributable to HealthSouth common shareholders	\$0.40	\$0.57
(Loss) income from discontinued operations, net of tax, attributable to HealthSouth common shareholders	(0.01)	0.16

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Net income attributable to HealthSouth common shareholders	\$0.39	\$0.73
Amounts attributable to HealthSouth common shareholders:		
Income from continuing operations	\$44.6	\$62.2
(Loss) income from discontinued operations, net of tax	(0.4) 17.6
Net income attributable to HealthSouth	\$44.2	\$79.8

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

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HealthSouth Corporation and Subsidiaries
 Condensed Consolidated Statements of Comprehensive Income
 (Unaudited)

	Three Months Ended March 31,	
	2012	2011
	(In Millions)	
COMPREHENSIVE INCOME		
Net income	\$56.8	\$91.5
Other comprehensive income, net of tax:		
Net change in unrealized gain on available-for-sale securities:		
Unrealized net holding gain arising during the period	0.8	0.7
Reclassifications to net income	—	(0.5)
Other comprehensive income, net of tax	0.8	0.2
Comprehensive income	57.6	91.7
Less: Comprehensive income attributable to noncontrolling interests	(12.6)	(11.7)
Comprehensive income attributable to HealthSouth	\$45.0	\$80.0

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

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HealthSouth Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

	March 31, 2012 (In Millions)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$44.3	\$30.1
Accounts receivable, net of allowance for doubtful accounts of \$22.9 in 2012; \$21.4 in 2011	244.0	222.8
Other current assets	142.8	138.1
Total current assets	431.1	391.0
Property and equipment, net	677.2	664.4
Goodwill	421.7	421.7
Intangible assets, net	61.0	57.7
Deferred income tax assets	579.6	608.1
Other long-term assets	124.8	128.3
Total assets	\$2,295.4	\$2,271.2
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$53.4	\$45.4
Accrued expenses and other current liabilities	261.3	267.8
Total current liabilities	314.7	313.2
Long-term debt, net of current portion	1,246.2	1,235.8
Other long-term liabilities	135.4	133.2
	1,696.3	1,682.2
Commitments and contingencies		
Convertible perpetual preferred stock	363.2	387.4
Shareholders' equity:		
HealthSouth shareholders' equity	149.4	117.0
Noncontrolling interests	86.5	84.6
Total shareholders' equity	235.9	201.6
Total liabilities and shareholders' equity	\$2,295.4	\$2,271.2

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 Shareholders' Equity
 (Unaudited)

Three Months Ended March 31, 2012 (In Millions)									
HealthSouth Common Shareholders									
	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Noncontrolling Interests	Total	Comprehensive Income
Balance at beginning of period	95.2	\$ 1.0	\$ 2,874.7	\$ (2,609.7)	\$ (0.2)	\$(148.8)	\$ 84.6	\$ 201.6	
Comprehensive income:									
Net income	—	—	—	44.2	—	—	12.6	56.8	\$ 56.8
Other comprehensive income, net of tax	—	—	—	—	0.8	—	—	0.8	0.8
Comprehensive income									\$ 57.6
Issuance of restricted stock	1.0	—	—	—	—	—	—	—	
Receipt of treasury stock	(0.7)	—	—	—	—	(11.8)	—	(11.8)	
Dividends declared on convertible perpetual preferred stock	—	—	(6.4)	—	—	—	—	(6.4)	
Stock-based compensation	—	—	6.1	—	—	—	—	6.1	
Distributions declared	—	—	—	—	—	—	(9.7)	(9.7)	
Other	0.1	—	(0.2)	—	—	(0.3)	(1.0)	(1.5)	
Balance at end of period	95.6	\$ 1.0	\$ 2,874.2	\$ (2,565.5)	\$ 0.6	\$(160.9)	\$ 86.5	\$ 235.9	

Three Months Ended March 31, 2011 (In Millions)									
HealthSouth Common Shareholders									
	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Noncontrolling Interests	Total	Comprehensive Income
Balance at beginning of period	93.4	\$ 1.0	\$ 2,873.5	\$ (2,818.4)	\$ 0.5	\$(141.8)	\$ 83.0	\$(2.2)	

period									
Comprehensive income:									
Net income	—	—	—	79.8	—	—	11.7	91.5	\$ 91.5
Other comprehensive income, net of tax	—	—	—	—	0.2	—	—	0.2	0.2
Comprehensive income									\$ 91.7
Issuance of restricted stock	1.9	—	—	—	—	—	—	—	
Receipt of treasury stock	(0.2)	—	—	—	—	(4.3)	—	(4.3)	
Dividends declared on convertible perpetual preferred stock	—	—	(6.5)	—	—	—	—	(6.5)	
Stock-based compensation	—	—	4.2	—	—	—	—	4.2	
Distributions declared	—	—	—	—	—	—	(9.8)	(9.8)	
Other	0.1	—	0.3	—	—	(0.1)	(1.0)	(0.8)	
Balance at end of period	95.2	\$ 1.0	\$2,871.5	\$ (2,738.6)	\$ 0.7	\$(146.2)	\$ 83.9	\$72.3	

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

HealthSouth Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
	(In Millions)	
Cash flows from operating activities:		
Net income	\$56.8	\$91.5
Loss (income) from discontinued operations	0.4	(17.5)
Adjustments to reconcile net income to net cash provided by operating activities—		
Provision for doubtful accounts	6.3	4.8
Depreciation and amortization	19.5	19.5
Equity in net income of nonconsolidated affiliates	(3.3)	(2.5)
Distributions from nonconsolidated affiliates	3.3	2.7
Stock-based compensation	6.1	4.2
Deferred tax expense (benefit)	27.0	(5.3)
Other	1.4	1.1
Increase in assets—		
Accounts receivable	(27.5)	(18.5)
Other assets	(4.0)	(14.0)
Increase (decrease) in liabilities—		
Accounts payable	6.0	2.5
Accrued payroll	(14.3)	1.8
Accrued interest	(5.8)	10.7
Other liabilities	8.7	6.6
Premium on bond issuance	—	4.1
Government, class action, and related settlements	—	(4.3)
Net cash provided by operating activities of discontinued operations	0.4	2.1
Total adjustments	23.8	15.5
Net cash provided by operating activities	81.0	89.5

(Continued)

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HealthSouth Corporation and Subsidiaries
 Condensed Consolidated Statements of Cash Flows (Continued)
 (Unaudited)

	Three Months Ended March 31,		
	2012	2011	
	(In Millions)		
Cash flows from investing activities:			
Purchases of property and equipment	(27.2) (13.0)
Capitalized software costs	(6.9) (2.0)
Purchase of restricted investments	(0.2) (7.6)
Net change in restricted cash	1.2	10.1	
Net settlements on interest rate swaps	—	(10.9)
Other	0.2	0.3	
Net cash used in investing activities of discontinued operations	—	(0.3)
Net cash used in investing activities	(32.9) (23.4)
Cash flows from financing activities:			
Proceeds from bond issuance	—	120.0	
Borrowings on revolving credit facility	25.0	40.0	
Payments on revolving credit facility	(10.0) (107.0)
Principal payments under capital lease obligations	(2.8) (3.7)
Repurchase of convertible perpetual preferred stock	(24.7) —	
Dividends paid on convertible perpetual preferred stock	(6.8) (6.5)
Distributions paid to noncontrolling interests of consolidated affiliates	(13.1) (13.7)
Other			