

HEALTHSOUTH CORP
Form 10-Q
July 29, 2014

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, 2014

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
(Address of Principal Executive Offices) (Zip Code)

(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 87,726,340 shares of common stock outstanding, net of treasury shares, as of July 22, 2014.

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NOTE TO READERS

As used in this report, the terms “HealthSouth,” “we,” “us,” “our,” and the “Company” refer to HealthSouth Corporation and its consolidated subsidiaries, unless otherwise stated or indicated by context. This drafting style is suggested by the Securities and Exchange Commission and is not meant to imply that HealthSouth Corporation, the publicly traded parent company, owns or operates any specific asset, business, or property. The hospitals, operations, and businesses described in this filing are primarily owned and operated by subsidiaries of the parent company. In addition, we use the term “HealthSouth Corporation” to refer to HealthSouth Corporation alone wherever a distinction between HealthSouth Corporation and its subsidiaries is required or aids in the understanding of this filing.

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 laws and regulations from time to time, our business strategy, our dividend and stock repurchase strategies, our financial plans, our growth 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,” “could,” “should,” “expect,” “plan,” “anticipate,” “believe,” “intend,” “estimate,” “predict,” “project,” “target,” “potential,” or 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 events or 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, 2013, as well as uncertainties and factors discussed elsewhere in this Form 10-Q, in our other filings from time to time with the SEC, or in materials incorporated therein by reference;
- changes in the rules and 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 such as the transformation of the current healthcare system to coordinated care delivery and payment models, the reinstatement of the “75% Rule,” or the introduction of site neutral payments with skilled nursing facilities for certain conditions, 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, and the potential reputational harm associated with those claims;

the ability of each of our hospitals to maintain licensure, certification, and accreditation necessary to operate and receive reimbursement;

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 and avoidance of unforeseen exposure to liabilities;

any adverse outcome of various lawsuits, claims, and legal or regulatory proceedings, including the ongoing investigations initiated by the U.S. Department of Health and Human Services, Office of the Inspector General;

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 incidents affecting the proper operation, availability, or security of our information systems, including unauthorized access to or theft of patient information;

the price of our common or preferred stock as it affects our willingness and ability to repurchase shares and the financial and accounting effects of any repurchases;

our ability and willingness to continue to declare and pay dividends on our common stock;

our ability to attract and retain key management personnel; and

general conditions in the economy and capital markets, including any instability or uncertainty related to political disputes or impasses over the United States federal budget or similar matters affecting federal spending.

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 or their effects on the value of our securities.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

HealthSouth Corporation and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended		Six Months Ended June	
	June 30,		30,	
	2014	2013	2014	2013
	(In Millions)			
Net operating revenues	\$604.4	\$564.5	\$1,195.6	\$1,137.1
Less: Provision for doubtful accounts	(9.3	) (7.0	) (16.8	) (14.4
Net operating revenues less provision for doubtful accounts	595.1	557.5	1,178.8	1,122.7
Operating expenses:				
Salaries and benefits	285.3	273.6	571.4	548.2
Other operating expenses	86.3	81.0	170.8	159.1
Occupancy costs	10.3	11.9	20.8	24.1
Supplies	27.8	26.6	55.4	52.8
General and administrative expenses	30.2	29.5	60.9	59.7
Depreciation and amortization	26.4	23.1	52.8	45.2
Government, class action, and related settlements	(0.8	) (2.0	) (0.8	) (2.0
Professional fees—accounting, tax, and legal	2.0	2.2	3.6	3.6
Total operating expenses	467.5	445.9	934.9	890.7
Interest expense and amortization of debt discounts and fees	27.8	24.4	55.7	48.6
Other income	(28.2	) (1.9	) (29.9	) (2.6
Equity in net income of nonconsolidated affiliates	(2.6	) (3.3	) (6.9	) (6.2
Income from continuing operations before income tax expense (benefit)	130.6	92.4	225.0	192.2
Provision for income tax expense (benefit)	36.5	(86.5	) 69.3	(53.0
Income from continuing operations	94.1	178.9	155.7	245.2
Income (loss) from discontinued operations, net of tax	3.8	0.1	3.7	(0.3
Net income	97.9	179.0	159.4	244.9
Less: Net income attributable to noncontrolling interests	(14.8	) (13.8	) (29.6	) (28.4
Net income attributable to HealthSouth	83.1	165.2	129.8	216.5
Less: Convertible perpetual preferred stock dividends	(1.5	) (5.8	) (3.1	) (11.5
Net income attributable to HealthSouth common shareholders	\$81.6	\$159.4	\$126.7	\$205.0

(Continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In Millions, Except Per Share Data)			
Weighted average common shares outstanding:				
Basic	86.7	86.1	87.0	90.0
Diluted	100.6	99.8	100.8	103.4
Earnings per common share:				
Basic earnings per share attributable to HealthSouth common shareholders:				
Continuing operations	\$0.89	\$1.82	\$1.40	\$2.24
Discontinued operations	0.04	—	0.04	—
Net income	\$0.93	\$1.82	\$1.44	\$2.24
Diluted earnings per share attributable to HealthSouth common shareholders:				
Continuing operations	\$0.81	\$1.66	\$1.29	\$2.09
Discontinued operations	0.04	—	0.04	—
Net income	\$0.85	\$1.66	\$1.33	\$2.09
Cash dividends per common share	\$0.18	\$—	\$0.36	\$—
Amounts attributable to HealthSouth common shareholders:				
Income from continuing operations	\$79.3	\$165.1	\$126.1	\$216.8
Income (loss) from discontinued operations, net of tax	3.8	0.1	3.7	(0.3)
Net income attributable to HealthSouth	\$83.1	\$165.2	\$129.8	\$216.5

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In Millions)			
COMPREHENSIVE INCOME				
Net income	\$97.9	\$179.0	\$159.4	\$244.9
Other comprehensive income (loss), net of tax:				
Net change in unrealized gain (loss) on available-for-sale securities:				
Unrealized net holding gain (loss) arising during the period	0.6	(0.9)	0.7	(0.8)
Reclassifications to net income	(0.5)	(1.0)	(0.5)	(1.0)
Other comprehensive income (loss) before income taxes	0.1	(1.9)	0.2	(1.8)
Provision for income tax benefit related to other comprehensive income (loss) items	—	0.1	—	0.1
Other comprehensive income (loss), net of tax	0.1	(1.8)	0.2	(1.7)
Comprehensive income	98.0	177.2	159.6	243.2
Comprehensive income attributable to noncontrolling interests	(14.8)	(13.8)	(29.6)	(28.4)
Comprehensive income attributable to HealthSouth	\$83.2	\$163.4	\$130.0	\$214.8

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

HealthSouth Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

	June 30, 2014	December 31, 2013
	(In Millions)	
Assets		
Current assets:		
Cash and cash equivalents	\$65.8	\$64.5
Accounts receivable, net of allowance for doubtful accounts of \$24.8 in 2014; \$23.1 in 2013	272.3	261.8
Deferred income tax assets	138.9	139.0
Other current assets	103.9	115.1
Total current assets	580.9	580.4
Property and equipment, net	976.5	910.5
Goodwill	491.7	456.9
Intangible assets, net	103.3	88.2
Deferred income tax assets	276.1	354.3
Other long-term assets	148.0	144.1
Total assets	\$2,576.5	\$2,534.4
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$55.7	\$61.9
Accrued expenses and other current liabilities	243.6	249.7
Total current liabilities	299.3	311.6
Long-term debt, net of current portion	1,475.1	1,505.2
Other long-term liabilities	141.1	142.2
	1,915.5	1,959.0
Commitments and contingencies		
Convertible perpetual preferred stock	93.2	93.2
Redeemable noncontrolling interests	12.4	13.5
Shareholders' equity:		
HealthSouth shareholders' equity		
Common stock, \$.01 par value; 200,000,000 shares authorized; issued: 103,970,478 in 2014; 102,648,302 in 2013	1.0	1.0
Capital in excess of par value	2,841.5	