

HEALTHSOUTH CORP  
Form 8-K  
September 14, 2009

## UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

## FORM 8-K

### CURRENT REPORT

Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (date of earliest event reported): September 14, 2009

## HealthSouth Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation)

001-10315  
(Commission File Number)

63-0860407  
(I.R.S. Employer  
Identification No.)

3660 Grandview Parkway, Suite 200, Birmingham, Alabama 35243

(Address of Principal Executive Officers, Including Zip Code)

(205) 967-7116

(Registrant's telephone number)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**ITEM 7.01. Regulation FD Disclosure.**

HealthSouth Corporation (“HealthSouth” or the “Company”) will attend the Stifel Nicolaus / John Hopkins Health Policy Symposium in Baltimore on September 15, 2009. As part of this symposium, representatives of HealthSouth will meet with third parties and distribute the handout attached to this Current Report on Form 8-K as Exhibit 99.1. The handout will address, among other things, the Company’s strategy, objectives, and financial performance and discuss industry trends and dynamics. The handout will be available at <http://investor.healthsouth.com> by clicking on an available link.

The Company made a presentation at the Jefferies 3<sup>rd</sup> Annual Healthcare Conference on June 17-18, 2009 in New York, and the related slide presentation was furnished as an exhibit to the Current Report on Form 8-K dated June 17, 2009. Since that time, the Company has issued a press release reporting the financial results of the Company for the three months and six months ended June 30, 2009 and has filed its Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009 (the “June 2009 Form 10-Q”). The press release was furnished as an exhibit to the Current Report on Form 8-K dated August 4, 2009 and included certain supplemental slides the Company discussed during its earnings conference call held on August 5, 2009. While the format of certain slides may have changed, the handout attached to this Current Report on Form 8-K as Exhibit 99.1 contains substantially the same information as previously provided with the above referenced reports.

In the handout attached to this Current Report on Form 8-K as Exhibit 99.1, the Company will share its initial observations on the third quarter of 2009. These observations are:

- *Volume:* Through August 2009, the Company has continued to experience positive discharge growth and remains on track to achieve 4+% discharge growth in the second half of 2009.
- *Pricing:* Quarter-over-quarter comparables are similar.
- *Expenses:* The Company has continued to focus on high-quality, cost-effective patient care, and it continues to monitor pending Medicare appeals.

In addition, the handout includes data published through the Uniform Data System for Medical Rehabilitation (the “UDS”) for the second quarter of 2009. This data shows that the Company continued to grow its market share during the second quarter of 2009. This industry information, as reported through the UDS under the presumptive method on a quarter lag, showed an average 1.3% increase in discharges for UDS industry sites (including 90 HealthSouth sites) compared to same store discharge growth of 4.7% for HealthSouth during the second quarter of 2009.

The Company uses “same store” comparisons to explain the changes in certain performance metrics and line items within its financial statements. Same store comparisons are calculated based on hospitals open throughout both the full current periods and throughout the full prior periods presented. These comparisons include the financial results of market consolidation transactions in existing markets, as it is difficult to determine, with precision, the incremental impact of these transactions on the Company’s results of operations.

The Company also reiterated its guidance for 2009.

The information in this Current Report on Form 8-K, including the information set forth in Exhibit 99.1, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor shall it be incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing. The furnishing of this report is not intended to constitute a determination by the Company that the information is material or that the dissemination of the information is required by Regulation FD.

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***Note Regarding Adoption of New Accounting Pronouncement***

Effective January 1, 2009, the Company reclassified its noncontrolling interests (formerly known as “minority interests”) as a component of equity and now reports net income and comprehensive income attributable to its noncontrolling interests separately from net income and comprehensive income attributable to HealthSouth.

***Note Regarding Presentation of Non-GAAP Financial Measures***

The financial data contained in the handout includes non-GAAP financial measures, including “Adjusted Consolidated EBITDA.” The Company continues to believe Adjusted Consolidated EBITDA as defined in its Credit Agreement is a measure of leverage capacity, its ability to service its debt, and its ability to make capital expenditures.

The Company uses Adjusted Consolidated EBITDA on a consolidated basis as a liquidity measure. The Company believes this financial measure on a consolidated basis is important in analyzing its liquidity because it is the key component of certain material covenants contained within the Company’s Credit Agreement, which is discussed in more detail in Note 8, *Long-term Debt*, to the consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2008 (the “2008 Form 10-K”). These covenants are material terms of the Credit Agreement, and the Credit Agreement represents a substantial portion of the Company’s capitalization. Non-compliance with the financial covenants under the Credit Agreement – its interest coverage ratio and its leverage ratio – could result in the Company’s lenders requiring the Company to immediately repay all amounts borrowed. If the Company anticipated a potential covenant violation, it would seek relief from its lenders, which would have some cost to the Company, and such relief might not be on terms as favorable to those in the Company’s existing Credit Agreement. In addition, if the Company cannot satisfy these financial covenants, it would be prohibited under the Credit Agreement from engaging in certain activities, such as incurring additional indebtedness, making certain payments, and acquiring and disposing of assets. Consequently, Adjusted Consolidated EBITDA is critical to the Company’s assessment of its liquidity.

In general terms, the definition of Adjusted Consolidated EBITDA, per the Credit Agreement, allows the Company to add back to Adjusted Consolidated EBITDA unusual non-cash or non-recurring items. These items include, but may not be limited to, (1) amounts associated with government, class action, and related settlements, (2) fees, costs, and expenses related to the Company’s recapitalization transactions, (3) any losses from discontinued operations and closed locations, (4) charges in respect of professional fees for reconstruction and restatement of financial statements, including fees paid to outside professional firms for matters related to internal controls and legal fees for continued litigation defense and support matters discussed in Note 11, *Settlements*, and Note 12, *Contingencies*, to the condensed consolidated financial statements included in the June 30, 2009 Form 10-Q, (5) compensation expense related to share-based payments, (6) investment and other income (including interest income), and (7) fees associated with the Company’s divestiture activities.

However, Adjusted Consolidated EBITDA is not a measure of financial performance under generally accepted accounting principles in the United States of America (“GAAP”), and the items excluded from Adjusted Consolidated EBITDA are significant components in understanding and assessing financial performance. Therefore, Adjusted Consolidated EBITDA should not be considered a substitute for net income or cash flows from operating, investing, or financing activities. The Company reconciles Adjusted Consolidated EBITDA to net income, which reconciliation is set forth in the handout attached as Exhibit 99.1, and to net cash provided by operating activities, which reconciliation is set forth below. Because Adjusted Consolidated EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, Adjusted Consolidated EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. Revenues and expenses are measured in accordance with the policies and procedures described in the 2008 Form 10-K.

The Company also uses adjusted income from continuing operations and the related per share amounts as analytical indicators to assess its performance. Management believes the presentation of adjusted income from continuing operations and the related per share amounts provides useful information to management and investors about the Company’s operating business before taking into account certain items that are non-operational or infrequent in nature. These measures are not defined measures of financial performance under GAAP and should not be considered as alternatives to net income and net (loss) income per share attributable to HealthSouth common

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shareholders. Because these measures are not measures determined in accordance with GAAP and are susceptible to varying calculations, they may not be comparable to other similarly titled measures presented by other companies. See the condensed consolidated statements of operations included in the June 2009 Form 10-Q and the consolidated statements of operations included in the 2008 Form 10-K for the GAAP measures of net income, income from continuing operations, and basic and diluted (loss) earnings per common share. A reconciliation of net income to adjusted income from continuing operations, and the related per share amounts, is included in the handout attached as Exhibit 99.1.

The Company also uses adjusted free cash flow as an analytical indicator to assess its performance. Management believes the presentation of adjusted free cash flow provides investors an efficient means by which they can evaluate the Company's capacity to reduce debt and pursue development activities. The calculation of adjusted free cash flow is included in the handout attached as Exhibit 99.1. This measure is not a defined measure of financial performance under GAAP and should not be considered as an alternative to net cash provided by operating activities. Our definition of adjusted free cash flow is limited and does not represent residual cash flows available for discretionary spending. Because this measure is not determined in accordance with GAAP and is susceptible to varying calculations, it may not be comparable to other similarly titled measures presented by other companies. See the condensed consolidated statements of cash flows included in the June 2009 Form 10-Q and the consolidated statements of cash flows included in the 2008 Form 10-K for the GAAP measures of cash flows from operating, investing, and financing activities. A reconciliation of net cash provided by operating activities to Adjusted Consolidated EBITDA and adjusted free cash flow is presented below.

### Reconciliation of Net Cash Provided by Operating Activities to Adjusted Consolidated EBITDA

	<b>Six Months Ended</b>		<b>Year Ended</b>		
	<b>June 30,</b>		<b>December 31,</b>		
	<b>2009</b>		<b>2008</b>		
		<b>(As Adjusted)</b>		<b>(As Adjusted)</b>	
<b>Net cash provided by operating activities</b>	\$	229.2	\$	67.0	\$ 227.2
Provision for doubtful accounts		(17.6)		(13.9)	(27.4)
Professional fees-accounting, tax, and legal		1.5		8.9	44.4
Interest expense and amortization of debt discounts and fees		65.5		90.8	159.5
UBS Settlement proceeds, gross		(100.0)		0.0	0.0
Equity in net (loss) income of nonconsolidated affiliates		(0.2)		5.1	10.6
Net income attributable to noncontrolling interests		(17.7)		(14.9)	(29.4)
Amortization of debt discounts and fees		(3.2)		(3.3)	(6.5)
Distributions from nonconsolidated affiliates		(3.9)		(6.0)	(10.9)
Current portion of income tax benefit		(1.0)		(0.6)	(73.8)
Change in assets and liabilities		23.7		28.0	48.6
Change in government, class action, and related settlements liability		8.7		7.4	7.4
Other operating cash used in (provided by)					
discontinued operations		7.0		6.5	(6.6)
Other		0.7		(0.2)	(1.4)
<b>Adjusted Consolidated EBITDA</b>	\$	192.7	\$	174.8	\$ 341.7

In accordance with the Credit Agreement, the Company is allowed to add certain other items to the calculation of Adjusted Consolidated EBITDA, and there may also be certain other deductions required. As these adjustments may not be indicative of the Company's ongoing performance, they have been excluded from the above table.

**Reconciliation of Net Cash Provided by Operating Activities to Adjusted Free Cash Flow**

	<b>Three Months Ended June 30, 2009 <sup>(1)</sup></b>	<b>Three Months Ended June 30, 2008</b>	<b>Six Months Ended June 30, 2009</b>	<b>Year Ended December 31, 2008</b>
<b>Net cash provided by operating activities</b>	\$ 46.1	\$ 25.2	\$ 229.2	\$ 227.2
Impact of discontinued operations	6.8	5.0	7.0	(6.6)
<b>Net cash provided by operating activities of continuing operations</b>	<b>52.9</b>	<b>30.2</b>	<b>236.2</b>	<b>220.6</b>
Incremental income tax expense	(1.4)	(0.4)	(1.7)	(5.0)
Capital expenditures for maintenance	(7.5)	(8.4)	(15.0)	(37.3)
Net settlements on interest rate swap	(10.6)	(6.4)	(19.1)	(20.7)
Dividends paid on convertible perpetual preferred stock	(6.5)	(6.5)	(13.0)	(26.0)
Distributions paid to noncontrolling interests of consolidated affiliates	(7.3)	(6.4)	(15.8)	(33.4)
Non-recurring items:				
UBS Settlement proceeds, less fees to derivative plaintiffs' attorneys	0.0	0.0	(73.8)	0.0
Federal income tax refunds	0.0	0.0	(41.6)	(47.6)
Cash paid for:				
Professional fees-accounting, tax, and legal	3.2	5.3	8.0	18.2
Government, class action, and related settlements	7.0	0.1	8.7	7.4
<b>Adjusted free cash flow</b>	<b>\$ 29.8</b>	<b>\$ 7.5</b>	<b>\$ 72.9</b>	<b>\$ 76.2</b>

<sup>(1)</sup> Net cash provided by operating activities for the six months ended June 30, 2009 was \$229.2 million. Net cash provided by operating activities for the three months ended March 31, 2009 was \$183.1 million, as reported in the Company's Form 10-Q for the quarterly period ended March 31, 2009. The difference is the \$46.1 million of net cash provided by operating activities for the three months ended June 30, 2009.

For the three months ended June 30, 2008, net cash provided by investing activities was \$6.5 million and resulted primarily from a decrease in restricted cash offset by capital expenditures and net settlement payments related to an interest rate swap. Net cash used in financing activities during the three months ended June 30, 2008 was \$26.0 million and resulted primarily from net debt payments made during the period. Net cash used in financing activities during the second quarter of 2008 included \$150.2 million of proceeds related to the issuance of common stock, virtually all of which was used to reduce debt.

For the six months ended June 30, 2009, net cash used in investing activities was \$77.8 million and resulted primarily from capital expenditures and net settlement payments related to an interest rate swap. Net cash used in financing activities during the six months ended June 30, 2009 was \$133.8 million and resulted primarily from net debt payments made during the period.

**Forward-Looking Statements**

The information contained in this Current Report on Form 8-K and the handout attached as Exhibit 99.1 includes certain estimates, projections, and other forward-looking information that reflect the Company's current views with respect to future events and financial performance. These estimates, projections, and other forward-looking information are based on assumptions the Company believes, as of the date hereof, are reasonable. Inevitably, there will be differences between such estimates and actual results, and those differences may be material.

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There can be no assurance that any estimates, projections, or forward-looking information will be realized. All such estimates, projections, and forward-looking information speak only as of the date hereof. The Company undertakes no duty to publicly update or revise the information contained herein or in the handout.

The handout also includes estimates and projections published by the Centers for Medicare and Medicaid Services ("CMS"). HealthSouth is not able to verify those estimates or projections or the detailed calculations thereof by CMS which are not made public. Any changes or errors in those calculations, among other uncertainties such as those referred to below and changes in CMS's own rules and policies, could cause actual results to differ materially from CMS's projections. Furthermore, the Company does not believe that CMS's numbers are consistent with financial reporting results. CMS data and projections should not be used as an indication of financial performance.

You are cautioned not to place undue reliance on the estimates, projections, and other forward-looking information in the slide handout as it is based on current expectations and general assumptions and is subject to various risks, uncertainties, and other factors, including those set forth in the 2008 Form 10-K, the June 2009 Form 10-Q, the Company's Form 10-Q for the quarterly period ended March 31, 2009, and in other documents the Company previously filed with the SEC, many of which are beyond the Company's control. These factors may cause actual results to differ materially from the views, beliefs and estimates expressed herein.

### **ITEM 9.01. *Financial Statements and Exhibits***

- (d) Exhibits  
99.1 Handout of HealthSouth Corporation used in connection with the Stifel Nicolaus / John Hopkins Health Policy Symposium.
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**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 hereunto duly authorized.

HEALTHSOUTH CORPORATION

By: /s/ John P. Whittington  
Name: John P. Whittington  
Title: Executive Vice President, General Counsel, and Corporate Secretary

Dated: September 14, 2009