

HEALTHSOUTH CORP
Form 10-Q
May 02, 2011

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, 2011

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
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

35243
(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

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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 95,127,171 shares of common stock outstanding, net of treasury shares, as of April 27, 2011.

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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, 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,” “targets,” “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, 2010, as well as uncertainties and factors discussed elsewhere in this Form 10-Q, in our other filings from time to time with the United States Securities and Exchange Commission, 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 related increases in the costs of complying with such changes;
- changes 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;
- 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 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;
 - 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.

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

	Three Months Ended March 31,	
	2011	2010
	(In Millions, Except Per Share Data)	
Net operating revenues	\$538.1	\$491.0
Operating expenses:		
Salaries and benefits	259.1	241.9
Other operating expenses	76.7	66.9
General and administrative expenses	26.9	26.3
Supplies	29.9	28.3
Depreciation and amortization	20.3	18.3
Occupancy costs	12.3	11.6
Provision for doubtful accounts	5.4	6.9
Loss on disposal of assets	0.2	-
Professional fees—accounting, tax, and legal	3.8	2.9
Total operating expenses	434.6	403.1
Loss on early extinguishment of debt	-	0.3
Interest expense and amortization of debt discounts and fees	35.1	30.5
Other income	(0.6)	(0.7)
Loss on interest rate swaps	-	4.3
Equity in net income of nonconsolidated affiliates	(2.5)	(2.6)
Income from continuing operations before income tax (benefit) expense	71.5	56.1
Provision for income tax (benefit) expense	(5.6)	2.5
Income from continuing operations	77.1	53.6
Income (loss) from discontinued operations, net of tax	14.4	(3.1)
Net income	91.5	50.5
Less: Net income attributable to noncontrolling interests	(11.7)	(9.8)
Net income attributable to HealthSouth	79.8	40.7
Less: Convertible perpetual preferred stock dividends	(6.5)	(6.5)
Net income attributable to HealthSouth common shareholders	\$73.3	\$34.2
Weighted average common shares outstanding:		
Basic	93.1	92.7
Diluted	109.0	108.0
Earnings per common share:		
Basic:		
Income from continuing operations attributable to HealthSouth common shareholders	\$0.63	\$0.40

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Income (loss) from discontinued operations, net of tax, attributable to HealthSouth common shareholders	0.16	(0.03)
Net income attributable to HealthSouth common shareholders	\$0.79	\$0.37
Diluted:		
Income from continuing operations attributable to HealthSouth common shareholders	\$0.60	\$0.40
Income (loss) from discontinued operations, net of tax, attributable to HealthSouth common shareholders	0.13	(0.03)
Net income attributable to HealthSouth common shareholders	\$0.73	\$0.37
Amounts attributable to HealthSouth common shareholders:		
Income from continuing operations	\$65.4	\$43.8
Income (loss) from discontinued operations, net of tax	14.4	(3.1)
Net income attributable to HealthSouth	\$79.8	\$40.7

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, 2011	December 31, 2010
	(In Millions)	

Assets