

HEALTHSOUTH CORP
Form 10-Q
April 26, 2013

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, 2013

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 87,222,227 shares of common stock outstanding, net of treasury shares, as of April 22, 2013.

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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, regulatory investigations, our business strategy, our dividend and stock repurchase strategies, our financial plans, our growth plans, our future financial performance, our projected business results, our effective income tax rates, our leverage ratio, 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, 2012;
- 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 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, including the ongoing investigations 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 disruptions or incidents affecting the proper operation, availability, or security of our information systems;
- the price of our common or preferred stock as it affects our willingness and ability to repurchase shares;
- 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, | |
|---|--------------------------------------|---------|
| | 2013 | 2012 |
| | (In Millions, Except Per Share Data) | |
| Net operating revenues | \$572.6 | \$538.6 |
| Less: Provision for doubtful accounts | (7.4 |) (6.3 |
| Net operating revenues less provision for doubtful accounts | 565.2 | 532.3 |
| Operating expenses: | | |
| Salaries and benefits | 274.6 | 261.0 |
| Other operating expenses | 78.1 | 73.8 |
| Occupancy costs | 12.2 | 12.5 |
| Supplies | 26.2 | 26.5 |
| General and administrative expenses | 30.2 | 30.0 |
| Depreciation and amortization | 22.1 | 19.5 |
| Professional fees—accounting, tax, and legal | 1.4 | 3.6 |
| Total operating expenses | 444.8 | 426.9 |
| Interest expense and amortization of debt discounts and fees | 24.2 | 23.3 |
| Other income | (0.7 |) (0.9 |
| Equity in net income of nonconsolidated affiliates | (2.9 |) (3.3 |
| Income from continuing operations before income tax expense | 99.8 | 86.3 |
| Provision for income tax expense | 33.5 | 29.1 |
| Income from continuing operations | 66.3 | 57.2 |
| Loss from discontinued operations, net of tax | (0.4 |) (0.4 |
| Net income | 65.9 | 56.8 |
| Less: Net income attributable to noncontrolling interests | (14.6 |) (12.6 |
| Net income attributable to HealthSouth | 51.3 | 44.2 |
| Less: Convertible perpetual preferred stock dividends | (5.7 |) (6.4 |
| Less: Repurchase of convertible perpetual preferred stock | — | (0.5 |
| Net income attributable to HealthSouth common shareholders | \$45.6 | \$37.3 |
| Weighted average common shares outstanding: | | |
| Basic | 94.0 | 94.5 |
| Diluted | 107.1 | 108.7 |
| Earnings per common share: | | |
| Basic earnings per share attributable to HealthSouth common shareholders: | | |
| Continuing operations | \$0.49 | \$0.40 |
| Discontinued operations | — | (0.01 |
| Net income | \$0.49 | \$0.39 |
| Diluted earnings per share attributable to HealthSouth common shareholders: | | |
| Continuing operations | \$0.48 | \$0.40 |
| Discontinued operations | — | (0.01 |
| Net income | \$0.48 | \$0.39 |
| Amounts attributable to HealthSouth common shareholders: | | |
| Income from continuing operations | \$51.7 | \$44.6 |
| Loss from discontinued operations, net of tax | (0.4 |) (0.4 |
| Net income attributable to HealthSouth | \$51.3 | \$44.2 |

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 | |
|---|--------------------------|---------|
| | 2013 | 2012 |
| | (In Millions) | |
| COMPREHENSIVE INCOME | | |
| Net income | \$65.9 | \$56.8 |
| Other comprehensive income, net of tax: | | |
| Net change in unrealized gain on available-for-sale securities: | | |
| Unrealized net holding gain arising during the period | 0.1 | 0.8 |
| Other comprehensive income, net of tax | 0.1 | 0.8 |
| Comprehensive income | 66.0 | 57.6 |
| Comprehensive income attributable to noncontrolling interests | (14.6 |) (12.6 |
| Comprehensive income attributable to HealthSouth | \$51.4 | \$45.0 |

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, 2013 (In Millions) | December 31, 2012 |
|---------------------------|------------------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$80.1 | \$132.8 |