

HEALTHSOUTH CORP
Form 10-Q
August 05, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

x 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, 2010

o 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 x No o

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).

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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 93,455,973 shares of common stock outstanding, net of treasury shares, as of July 29, 2010.

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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 future events, our business strategy, our future financial performance, or our projected business results. 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 terms or other comparable terminology. Such forward-looking statements are necessarily estimates or forecasts based upon current information and involve a number of risks and uncertainties, many of which are beyond our control. Actual events or results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. 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. 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, 2009, 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;
- 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 shortages;
 - 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; 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		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
(In Millions, Except Per Share Data)				
Net operating revenues	\$496.9	\$481.6	\$987.9	\$954.5
Operating expenses:				
Salaries and benefits	241.6	237.8	483.5	471.1
Other operating expenses	76.6	67.0	143.5	133.9
General and administrative expenses	26.7	24.9	53.0	50.4
Supplies	28.8	28.6	57.1	56.0
Depreciation and amortization	18.7	17.6	37.0	35.0
Occupancy costs	11.4	12.0	23.0	24.0
Provision for doubtful accounts	5.9	9.7	12.8	17.5
Loss on disposal of assets	0.4	1.3	0.4	2.3
Government, class action, and related settlements	-	48.7	-	32.8
Professional fees—accounting, tax, and legal	5.7	(3.3)	8.6	1.5
Total operating expenses	415.8	444.3	818.9	824.5
Loss (gain) on early extinguishment of debt	0.1	(1.3)	0.4	(3.1)
Interest expense and amortization of debt discounts and fees	30.1	31.1	60.6	65.5
Other income	(1.4)	(1.0)	(2.1)	(0.8)
(Gain) loss on interest rate swaps	(0.3)	3.8	4.0	8.8
Equity in net (income) loss of nonconsolidated affiliates	(2.6)	2.7	(5.2)	0.2
Income from continuing operations before income tax (benefit) expense	55.2	2.0	111.3	59.4
Provision for income tax (benefit) expense	(2.2)	(0.3)	0.3	0.9
Income from continuing operations	57.4	2.3	111.0	58.5
Income (loss) from discontinued operations, net of tax	0.1	1.3	(3.0)	(1.4)
Net income	57.5	3.6	108.0	57.1
Less: Net income attributable to noncontrolling interests	(10.2)	(9.1)	(20.0)	(17.7)
Net income (loss) attributable to HealthSouth	47.3	(5.5)	88.0	39.4
Less: Convertible perpetual preferred stock dividends	(6.5)	(6.5)	(13.0)	(13.0)
Net income (loss) attributable to HealthSouth common shareholders	\$40.8	\$(12.0)	\$75.0	\$26.4
Weighted average common shares outstanding:				