

HEALTHSOUTH CORP  
Form 10-Q  
October 26, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

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FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-10315

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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 95,661,996 shares of common stock outstanding, net of treasury shares, as of October 22, 2012.



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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, changes to Medicare reimbursement and other healthcare regulations from time to time, 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,” “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, 2011 (the “2011 Form 10-K”);
- 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;
- 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 stock as it affects our willingness and ability to repurchase shares under the program discussed further in Part I, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations, “Executive Overview,” of this Form 10-Q;
- 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		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
	(In Millions, Except Per Share Data)			
Net operating revenues	\$537.0	\$497.7	\$1,609.0	\$1,508.8
Less: Provision for doubtful accounts	(7.0	) (5.1	) (19.8	) (14.9
Net operating revenues less provision for doubtful accounts	530.0	492.6	1,589.2	1,493.9
Operating expenses:				
Salaries and benefits	262.3	245.0	780.7	730.6
Other operating expenses	75.4	70.3	222.8	216.6
General and administrative expenses	29.3	26.4	87.3	80.7
Supplies	23.8	24.7	76.2	76.7
Depreciation and amortization	21.3	19.5	60.8	58.6
Occupancy costs	11.8	12.5	36.6	36.2
Loss on disposal of assets	1.6	2.8	3.0	3.9
Government, class action, and related settlements	(3.5	) —	(3.5	) (10.6
Professional fees—accounting, tax, and legal	4.1	4.0	13.2	16.2
Total operating expenses	426.1	405.2	1,277.1	1,208.9
Loss on early extinguishment of debt	1.3	12.7	1.3	38.8
Interest expense and amortization of debt discounts and fees	23.5	26.3	69.8	96.3
Other income	(6.1	) (0.2	) (7.4	) (1.5
Equity in net income of nonconsolidated affiliates	(3.3	) (3.1	) (9.7	) (8.8
Income from continuing operations before income tax expense	88.5	51.7	258.1	160.2
Provision for income tax expense	28.1	18.1	84.1	21.9
Income from continuing operations	60.4	33.6	174.0	138.3
(Loss) income from discontinued operations, net of tax	(0.5	) 34.7	2.6	53.8
Net income	59.9	68.3	176.6	192.1
Less: Net income attributable to noncontrolling interests	(12.8	) (11.3	) (38.6	) (33.4
Net income attributable to HealthSouth	47.1	57.0	138.0	158.7
Less: Convertible perpetual preferred stock dividends	(5.7	) (6.5	) (18.1	) (19.5
Less: Repurchase of convertible perpetual preferred stock	—	—	(0.8	) —
Net income attributable to HealthSouth common shareholders	\$41.4	\$50.5	\$119.1	\$139.2
Weighted average common shares outstanding:				
Basic	94.7	93.3	94.6	93.2
Diluted	108.1	109.2		