

HEALTHSOUTH CORP
Form 8-K
November 30, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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): November 30, 2011

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
(IRS Employer Identification No.)

3660 Grandview Parkway, Suite 200, Birmingham, Alabama 35243
(Address of Principal Executive Offices, Including Zip Code)

(205) 967-7116
(Registrant's Telephone Number, Including Area Code)

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 communication 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 (the “Company”) will participate in the Bank of America Merrill Lynch Leveraged Finance Conference in Orlando, Florida from November 30 to December 2, 2011. HealthSouth Executive Vice President and Chief Financial Officer, Doug Coltharp, and Senior Vice President and Treasurer, Ed Fay, will make a presentation on Wednesday, November 30th at 3:20 p.m. ET using the slides attached to this Current Report on Form 8-K as Exhibit 99.1. The presentation will address, among other things, the Company’s strategy and financial performance and discuss industry trends and dynamics. The presentation will be webcast live and will be available at <http://investor.healthsouth.com> by clicking on an available link.

While the format of certain slides may have changed, the slide presentation attached to this Current Report on Form 8-K as Exhibit 99.1 contains substantially the same information as previously provided in a Current Report on Form 8-K dated November 15, 2011.

In November 2011, the Company received data published through the Uniform Data System for Medical Rehabilitation (the “UDS”) for the third quarter of 2011. This data suggested the Company continued to grow its market share during the third quarter of 2011. This industry information, as reported through the UDS under the presumptive method on a quarter lag, showed an average 1.4% increase in discharges for UDS industry sites (including HealthSouth sites) compared to same-store discharge growth of 4.0% for HealthSouth during the third quarter of 2011.

The Company will also discuss its initial observations and considerations for the fourth quarter of 2011. These observations and considerations are:

Volume. The Company is on track to achieve 1.0% to 2.0% discharge growth in the fourth quarter of 2011, which would bring full-year discharge growth to between 4.9% and 5.2%. This growth is against a strong volume comparison of 5.9% in the fourth quarter of 2010.

Growth. The Company’s de novo hospital in Cypress, Texas began accepting patients on October 24, 2011.

Adjusted Free Cash Flow. The Company expects full-year adjusted free cash flow to be at least \$210 million reflecting growth over full-year 2010 of at least 16%.

The Company reiterates as of the date hereof its guidance for 2011, as previously reported in the press release furnished as an exhibit to the Current Report on Form 8-K, dated October 27, 2011, and during the Company’s earnings conference call held on October 28, 2011.

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 information contained herein is being furnished pursuant to Item 7.01 of Form 8-K, “Regulation FD Disclosure.” This information shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or 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.

Note Regarding Presentation of Non-GAAP Financial Measures

The financial data contained in the slide presentation attached as Exhibit 99.1 includes non-GAAP financial measures, including the Company's leverage ratio and Adjusted EBITDA. The leverage ratio referenced therein is defined as the ratio of consolidated total debt to Adjusted EBITDA for the trailing four quarters. The Company believes its leverage ratio and Adjusted EBITDA are measures of its ability to service its debt and its ability to make capital expenditures. Additionally, the leverage ratio is a standard measurement used by investors to gauge the creditworthiness of an institution. The Company's credit agreement also includes a maximum leverage ratio

financial covenant which allows the Company to deduct up to \$75 million of cash on hand from consolidated total debt.

The Company uses Adjusted 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, 2010 (the "2010 Form 10-K"), and Note 3, Long-term Debt, to the condensed consolidated financial statements included in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011 (the "September 2011 Form 10-Q"). These covenants are material terms of the credit agreement, and the credit agreement represents a substantial portion of the Company's liquidity. Non-compliance with these 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 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 EBITDA is critical to the Company's assessment of its liquidity.

In general terms, the credit agreement definition of Adjusted EBITDA, referred to as "Adjusted Consolidated EBITDA" there, allows the Company to add back to consolidated net income interest expense, income taxes, and depreciation and amortization and then add back to or subtract from consolidated net income unusual non-cash or non-recurring items. These items have included, but may not be limited to, (1) amounts associated with government, class action, and related settlements, (2) amounts related to discontinued operations and closed locations, (3) 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 and support matters discussed in Note 21, Settlements, and Note 22, Contingencies and Other Commitments, to the consolidated financial statements included in the 2010 Form 10-K, and Note 10, Settlements, and Note 11, Contingencies, to the condensed consolidated financial statements included in the September 2011 Form 10-Q, (4) stock-based compensation expense, (5) net investment and other income (including interest income), and (6) fees associated with the Company's divestiture activities.

In accordance with the credit agreement, the Company has been allowed to add certain other items to the calculation of Adjusted EBITDA, and there may also be certain other deductions required. This includes net income attributable to noncontrolling interests and interest income associated with income tax recoveries, as discussed in Note 19, Income Taxes, to the consolidated financial statements included in the 2010 Form 10-K. In addition, the Company has been allowed to add non-recurring cash gains, such as the cash proceeds from the UBS Settlement (see Note 21, Settlements, to the consolidated financial statements included in the 2010 Form 10-K) to the calculation of Adjusted EBITDA. As these adjustments may not be indicative of the Company's ongoing performance, they have been excluded from Adjusted EBITDA presented herein and in the slide presentation attached as Exhibit 99.1.

However, Adjusted 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 EBITDA are significant components in understanding and assessing financial performance. Therefore, Adjusted EBITDA should not be considered a substitute for net income or cash flows from operating, investing, or financing activities. The Company reconciles Adjusted EBITDA to net income, which reconciliation is set forth in the slide presentation attached as Exhibit 99.1, and to net cash provided by operating activities, which reconciliation is set forth below. Because Adjusted EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, Adjusted 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 2010 Form 10-K.

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 slide presentation 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 September 2011 Form 10-Q for the GAAP measures of cash flows from operating, investing, and financing activities. A reconciliation of net cash provided by operating activities to adjusted free cash flow is included in the slide presentation attached as Exhibit 99.1.

Reconciliation of Net Cash Provided by Operating Activities to Adjusted EBITDA

	Three Months Ended September 30,		Nine Months Ended September 30,		For the Year Ended December 31,			
	2011	2010	2011	2010	2010	2009	2008	2007
(In Millions)								
Net cash provided by operating activities	\$ 53.9	\$ 90.8	\$ 210.8	\$ 263.9	\$ 331.0	\$ 406.1	\$ 227.2	\$ 230.6
Provision for doubtful accounts	(5.1)	(3.7)	(14.9)	(14.8)	(16.4)	(30.7)	(23.0)	(28.5)
Professional fees—accounting, tax, and legal	4.0	5.2	16.2	13.8	17.2	8.8	44.4	51.6
Interest expense and amortization of debt discounts and fees	26.3	30.8	96.3	91.4	125.6	125.7	159.3	229.2
UBS Settlement proceeds, gross	-	-	-	-	-	(100.0)	-	-
Equity in net income of nonconsolidated affiliates	3.1	2.3	8.8	7.5	10.1	4.6	10.6	10.3
Net income attributable to noncontrolling interests in continuing operations	(11.4)	(10.3)	(34.5)	(30.3)	(40.9)	(33.3)	(29.8)	(31.1)
Amortization of debt discounts and fees	(1.0)	(1.7)	(3.3)	(5.1)	(6.3)	(6.6)	(6.5)	(7.8)
Distributions from nonconsolidated affiliates	(4.2)	(1.4)	(9.7)	(4.7)	(8.1)	(8.6)	(10.9)	(5.3)
Current portion of income tax (benefit) expense	(0.1)	(0.7)	(1.5)	(1.7)	2.9	(7.0)	(72.8)	(330.4)
Change in assets and liabilities	38.6	(12.6)	68.1	(14.1)	2.7	(2.0)	50.6	5.5
Net premium paid (received) on bond issuance/redemption	8.9	-	22.8	-				