

HEALTHSOUTH CORP

Form 8-K

March 01, 2007

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): March 1, 2007

HealthSouth Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation)

000-14940

63-0860407

(Commission File Number) (IRS Employer Identification No.)

One HealthSouth Parkway, Birmingham, Alabama 35243

(Address of Principal Executive Offices, Including Zip Code)

(205) 967-7116

(Registrant's Telephone Number, Including Area Code)

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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 communications 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))
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ITEM 2.02. Results of Operations and Financial Condition.

On March 1, 2007, HealthSouth Corporation (the Company) issued a press release, a copy of which is attached as Exhibit 99, announcing that it had filed its annual report on Form 10-K for the year ended December 31, 2006 (the "2006 Form 10-K"), and that it will hold a conference call, which will also be webcast live, to review its 2006 Form 10-K. The release also provides an overview of certain information contained in the 2006 Form 10-K, including certain financial results for the quarter ended December 31, 2006.

Note Regarding Presentation of Non-GAAP Financial Measures

The financial data contained in the press release includes non-GAAP financial measures, including "Adjusted Consolidated EBITDA". The Company continues to believe Adjusted Consolidated EBITDA under its 2006 Credit Agreement is a measure of operating performance, leverage capacity, its ability to service its debt, and its ability to make capital expenditures.

The Company uses Adjusted Consolidated 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 2006 Credit Agreement, which is discussed in more detail in the 2006 Form 10-K. These covenants are material terms of the 2006 Credit Agreement, and the 2006 Credit Agreement represents a substantial portion of the Company's capitalization. Non-compliance with these financial covenants under the 2006 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. In addition, if the Company cannot satisfy these financial covenants, it would be prohibited under the 2006 Credit Agreement from engaging in certain activities, such as incurring additional indebtedness, making certain payments, and acquiring and disposing of assets. Consequently, Adjusted Consolidated EBITDA is critical to the company's assessment of its liquidity.

The Company also uses Adjusted Consolidated EBITDA to assess its operating performance. The Company believes it is meaningful because it provides investors with a measure used by its internal decision makers for evaluating its business. The Company's internal decision makers believe Adjusted Consolidated EBITDA is a meaningful measure, because it represents a view of the Company's recurring operating performance and allows the Company's management to readily view operating trends, perform analytical comparisons, and perform benchmarking between segments. Additionally, the Company's management believes the inclusion of professional fees associated with litigation, financial restructuring, government investigations, forensic accounting, creditor advisors, accounting reconstruction, audit and tax work associated with the reconstruction process, and non-ordinary course charges incurred after March 19, 2003 (the date the United States Securities and Exchange Commission filed a lawsuit against the Company and its former chairman and chief executive officer alleging that it historically overstated earnings) and related to its overall corporate restructuring (including matters related to internal controls) distort, within

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EBITDA, their ability to efficiently assess and view the core operating trends on a consolidated basis and within segments.

In general terms, the definition of Adjusted Consolidated EBITDA, per the 2006 Credit Agreement, allows the Company to add back to Adjusted Consolidated EBITDA all unusual non-cash items or non-recurring items. These items include, but may not be limited to, (1) expenses associated with government, class action, and related settlements, (2) fees, costs, and expenses related to the Company's recapitalization transactions, (3) any losses from discontinued operations and closed locations, (4) 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 defense and support matters discussed in the 2006 Form 10-K, and (5) compensation expenses recorded in accordance with FASB Statement No. 123(R), *Share-Based Payment*.

However, Adjusted Consolidated 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 Consolidated EBITDA are significant components in understanding and assessing financial performance. Therefore, Adjusted Consolidated EBITDA should not be considered a substitute for *Net loss* or cash flows from operating, investing, or financing activities. The Company reconciles Adjusted Consolidated EBITDA to *Net loss*, which reconciliation is set forth in the press release attached as Exhibit 99, and to *Net cash used in operating activities*, which reconciliation is set forth below. Because Adjusted Consolidated EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, Adjusted Consolidated 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 Company's 2006 Form 10-K.

Reconciliation of Adjusted Consolidated EBITDA to Net Cash Used In Operating Activities

	Year Ended December 31, 2006		2005
	(In Millions)		
Adjusted Consolidated EBITDA	\$ 535.5		\$ 627.6
Compensation expense under FASB Statement No. 123(R)	(15.5)		
Restructuring charges under FASB Statement No. 146	(5.1)		(8.1)
Sarbanes-Oxley related costs	(4.8)		(32.2)
Provision for doubtful accounts	119.3		94.3
Net gain on disposal of assets	(10.9)		-
Professional fees - accounting, tax, and legal	(163.6)		(169.8)
Interest expense and amortization of debt discounts and fees	(335.1)		(337.5)
Interest income	15.7		17.1
Loss on sale of investments, excluding marketable securities	1.6		0.1
Equity in net income of nonconsolidated affiliates	(21.3)		(29.4)
Minority interest in earnings of consolidated affiliates	92.3		97.2
Amortization of debt issue costs, debt discounts, and fees	18.3		39.0
Amortization of restricted stock	3.4		2.0
Distributions from nonconsolidated affiliates	14.1		22.5
Stock-based compensation	12.1		-
Current portion of income tax provision	(7.9)		(21.4)
Change in assets and liabilities, net of acquisitions	(215.4)		(101.8)
Cash portion of 2006 government, class action, and related settlements expense	(14.9)		-
Change in government, class action, and related settlements liability	(118.4)		(165.4)
Other operating cash used in discontinued operations	(19.6)		(36.5)
Other	(0.2)		(0.6)
Net Cash Used In Operating Activities	\$ (120.4)		\$ (2.9)

ITEM 9.01. Financial Statements and Exhibits.

(d) Exhibits.

See Exhibit Index.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

HEALTHSOUTH CORPORATION

By: /s/ John P. Whittington

Name: John P. Whittington

Title: Executive Vice President, General Counsel
and Corporate Secretary

Dated: March 1, 2007

EXHIBIT INDEX

Exhibit Number

Description

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Press release of HealthSouth Corporation, dated March 1, 2007.