HEALTHSOUTH®

31st Annual J.P. Morgan Healthcare Conference
San Francisco | January 9, 2013

Jay Grinney, President and Chief Executive Officer

Forward-Looking Statements

The information contained in this presentation includes certain estimates, projections and other forward-looking information that reflect our current outlook, views and plans with respect to future events, including legislative and regulatory developments, strategy, capital expenditures, development activities, dividend strategies, repurchase of securities, effective tax rates, financial performance, and business model. These estimates, projections and other forward-looking information are based on assumptions that HealthSouth believes, as of the date hereof, are reasonable. Inevitably, there will be differences between such estimates and actual events or results, and those differences may be material.

There can be no assurance that any estimates, projections or forward-looking information will be realized.

All such estimates, projections and forward-looking information speak only as of the date hereof. HealthSouth undertakes no duty to publicly update or revise the information contained herein.

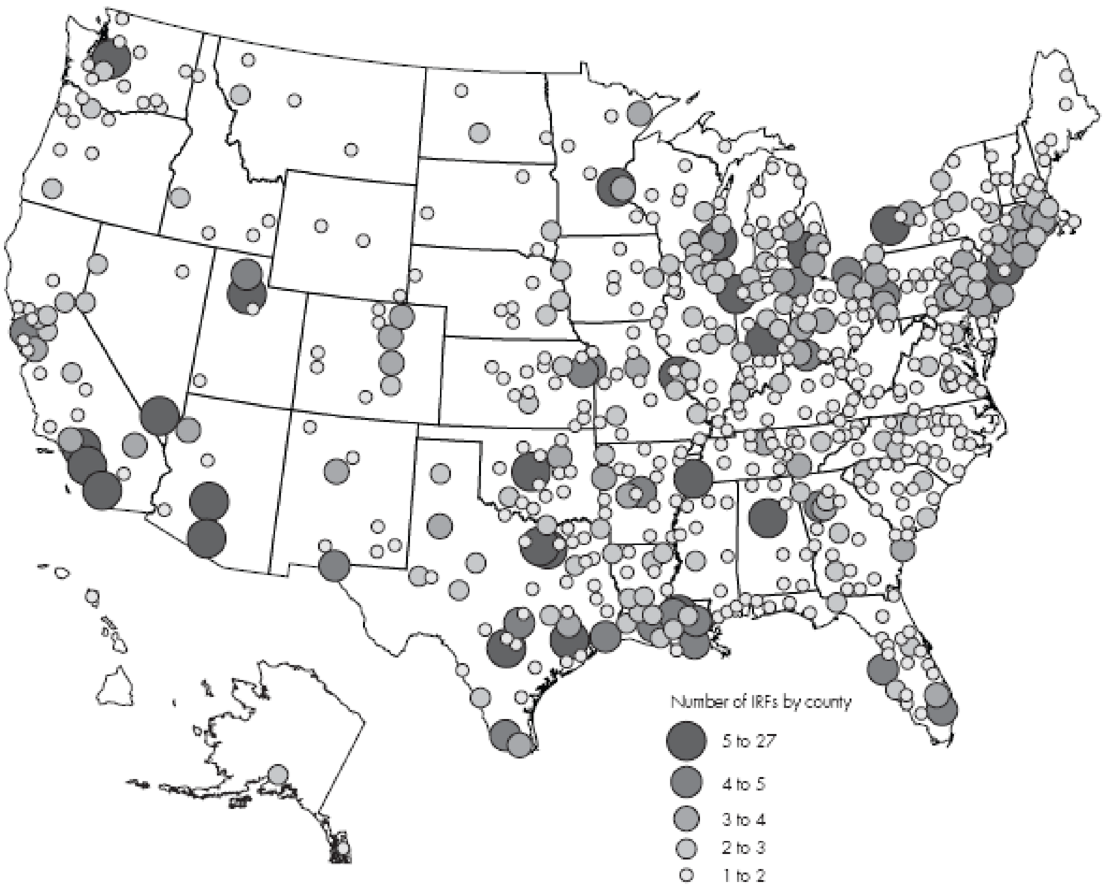
You are cautioned not to place undue reliance on the estimates, projections and other forward-looking information in this presentation as they are based on current expectations and general assumptions and are subject to various risks, uncertainties and other factors, including those set forth in the Form 10-K for the year ended December 31, 2011, our Form 10-Q for the quarters ended March 31, 2012, June 30, 2012, and September 30, 2012, and in other documents we previously filed with the SEC, many of which are beyond our control, that may cause actual results to differ materially from the views, beliefs and estimates expressed herein.

Note Regarding Presentation of Non-GAAP Financial Measures
The following presentation includes certain "non-GAAP financial measures" as defined in Regulation G under the Securities Exchange Act of 1934. Schedules are attached that reconcile the non-GAAP financial measures included in the following presentation to the most directly comparable financial measures calculated and presented in accordance with Generally Accepted Accounting Principles in the United States. Our Form 8-K, dated January 7, 2013, to which the following supplemental slides are attached as Exhibit 99.1, provides further explanation and disclosure regarding our use of non-GAAP financial measures and should be read in conjunction with these supplemental slides.

HEALTHSOUTH

Inpatient Rehabilitation Facility (IRF) Sector Overview

Geographic Distribution of IRFs, 2010



Key Metrics

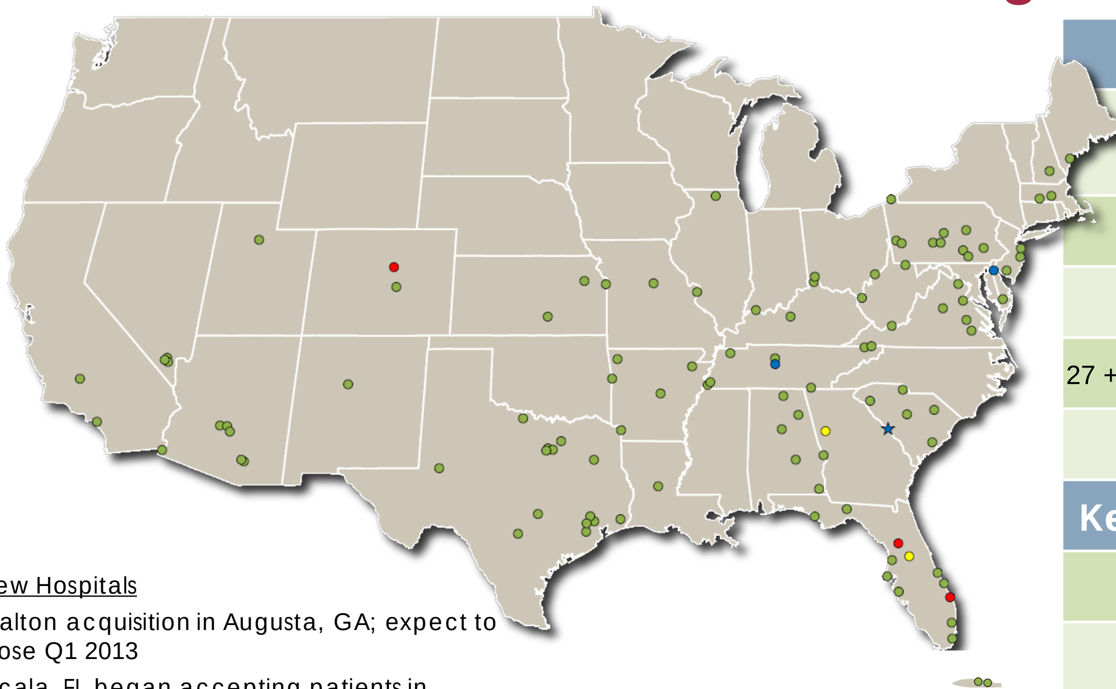
	2008	2011
All IRFs	1,202	1,165
• Hospital-based	981	931
• Freestanding	221	234
Medicare Fee-for-Service (FFS) Spending	$5.93B	$6.46B
No. of Medicare FFS Cases	356,000	371,288

IRF Criteria

- Patients must:
  - Require at least two types of therapy
  - Tolerate a minimum of 3 hours of therapy/day
  - Be admitted by a physician
- IRFs must:
  - Have a medical director of rehabilitation
  - Screen patients within 48 hours prior to admission
  - Have an interdisciplinary approach
  - Meet the 60% compliance threshold

Sources: MedPAC Report to Congress, Medicare Payment Policy, March 2012 – pages 235; MedPAC Report: Assessing payment adequacy: Inpatient rehabilitation facility services, December 7, 2012

HealthSouth is the Nation's Leading IRF Provider



New Hospitals

- ★ Walton acquisition in Augusta, GA; expect to close Q1 2013
- ● Ocala, FL began accepting patients in December 2012
- ● Under construction, Stuart, FL; expect to be operational Q2 2013
- ● Under construction, Littleton, CO; expect to be operational Q2 2013
- ● CON approved for 50-bed hospital in Orlando, FL; expect to be operational 2nd half of 2014
- ● CON approved for 50-bed hospital in Newnan, GA
- ● CON approved for Middletown, DE; being contested
- ● CON approved for Williamson Co, TN; being contested

Portfolio – As of December 31, 2012

100	Inpatient Rehabilitation Hospitals • 29 operate as JV's with Acute Care Hospitals
24	Outpatient Rehabilitation Satellite Clinics
25	Hospital-Based Home Health Agencies
27 + Puerto Rico	Number of States
~ 22,700	Employees

Key Statistics – (TTM as of Sept. 30, 2012)

~ $2.1 Billion	Revenue
122,225	Inpatient Discharges
907,105	Outpatient Visits

Patients Served

Most Common Conditions (Q3 2012):

1. Neurological	21.2%
2. Stroke	16.1%
3. Other orthopedic conditions	9.4%
4. Fracture of the lower extremity	9.3%
5. Debility	8.9%

Marketshare

~ 9% of IRFs (Total in U.S. = 1,139)

~ 19% of Licensed Beds

~ 21% of Patients Served

Most IRF patients have medical conditions associated with aging; the demand/need for inpatient rehabilitative services is expected to grow as the Medicare-eligible population increases.

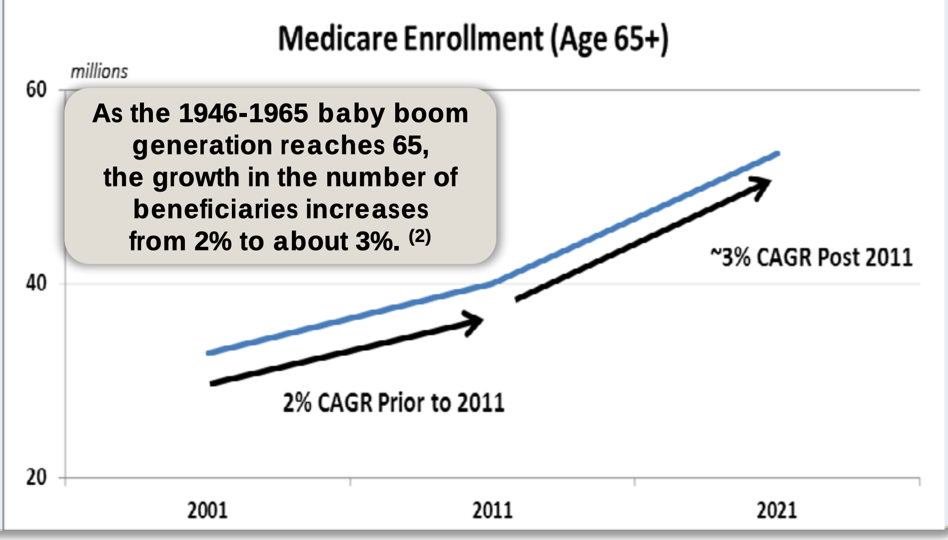
Median Age of a HealthSouth Patient:
- **All patients = 72**
- **Medicare FFS = 76**

IRF Conditions 2011 (1)

1.	Stroke	19.8%
2.	Fracture of the lower extremity	13.9%
3.	Knee/Hip replacement	10.5%
4.	Debility	10.4%
5.	Neurological disorders	10.3%
6.	Brain injury	7.5%
7.	Other orthopedic conditions	7.0%
8.	Cardiac conditions	5.1%
9.	Spinal cord injury	4.3%
10.	All other	11.1%

IRF Services (1)

Inpatient rehabilitation facilities (IRFs) provide intensive rehabilitation services to patients after an injury, illness, or surgery. Rehabilitation programs at IRFs are supervised by rehabilitation physicians and include services such as physical and occupational therapy, rehabilitation nursing, prosthetic and orthotic services, and speech-language pathology.

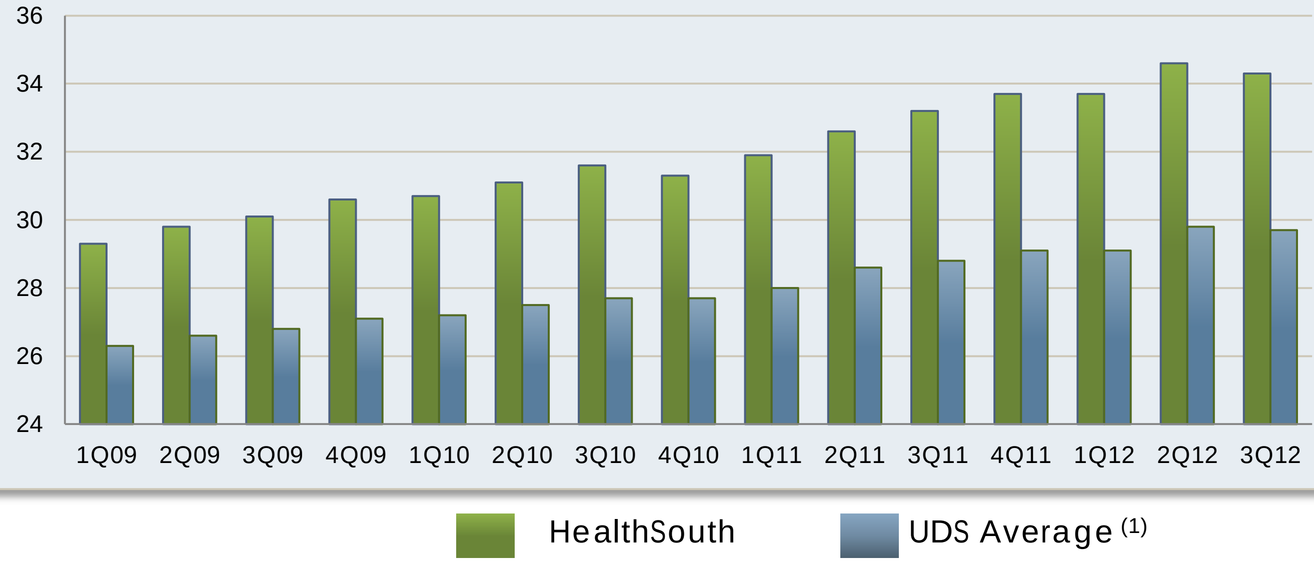


(1) Medicare Report to Congress, Medicare Payment Policy, March 2012 – page 233 and 241

(2) 2012 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds - pages 10 and 22

HEALTHSOUTH

HealthSouth differentiates itself on its superior outcomes…



FIM Gain
Change in Functional Independence Measurement (based on an 18 point assessment) from admission to discharge

- **Inpatient rehabilitation hospitals evaluate all patients at admission and upon discharge to determine their functional status.**
  - The Functional Independence Measurement ("FIM") patient assessment instrument is used for these evaluations.
- **The difference between the FIM scores at admission and upon discharge is called the "FIM Gain."**
  - The greater the FIM Gain, the greater the patient's level of independence, the better the patient outcome.

(1) The UDS average is the risk adjusted average of a patient mix pulled from the UDS nation (including HealthSouth) that is similar to the HealthSouth actual patient mix. Cases are placed into CMGs by admitting impairment code, functional status at admission, and sometimes age.

HEALTHSOUTH

…and its cost effectiveness.

Total Inpatient Rehabilitation Facilities (IRFs): 1,139

	IRFs	Avg. Beds per IRF	Avg. Medicare Discharges per IRF [(2)]	Avg. Est. Total Cost per Discharge for FY 2013	Avg. Est. Total Payment per Discharge for FY 2013
HLS [(1)] =	97	67	896	$12,371	$17,301
Free-standing (Non-HLS) =	135	52	597	$16,251	$18,603
Hospital Units =	907	23	231	$18,857	$18,249
Total	1,139	30	331	$16,805	$18,106

- Medicare pays **HealthSouth** less per discharge, on average, and **HealthSouth** treats a higher acuity patient.

- **HealthSouth differentiates itself by:**
  - ☐ "Best Practices" clinical protocols
  - ☐ Supply chain efficiencies
  - ☐ Sophisticated management information systems
  - ☐ Economies of scale

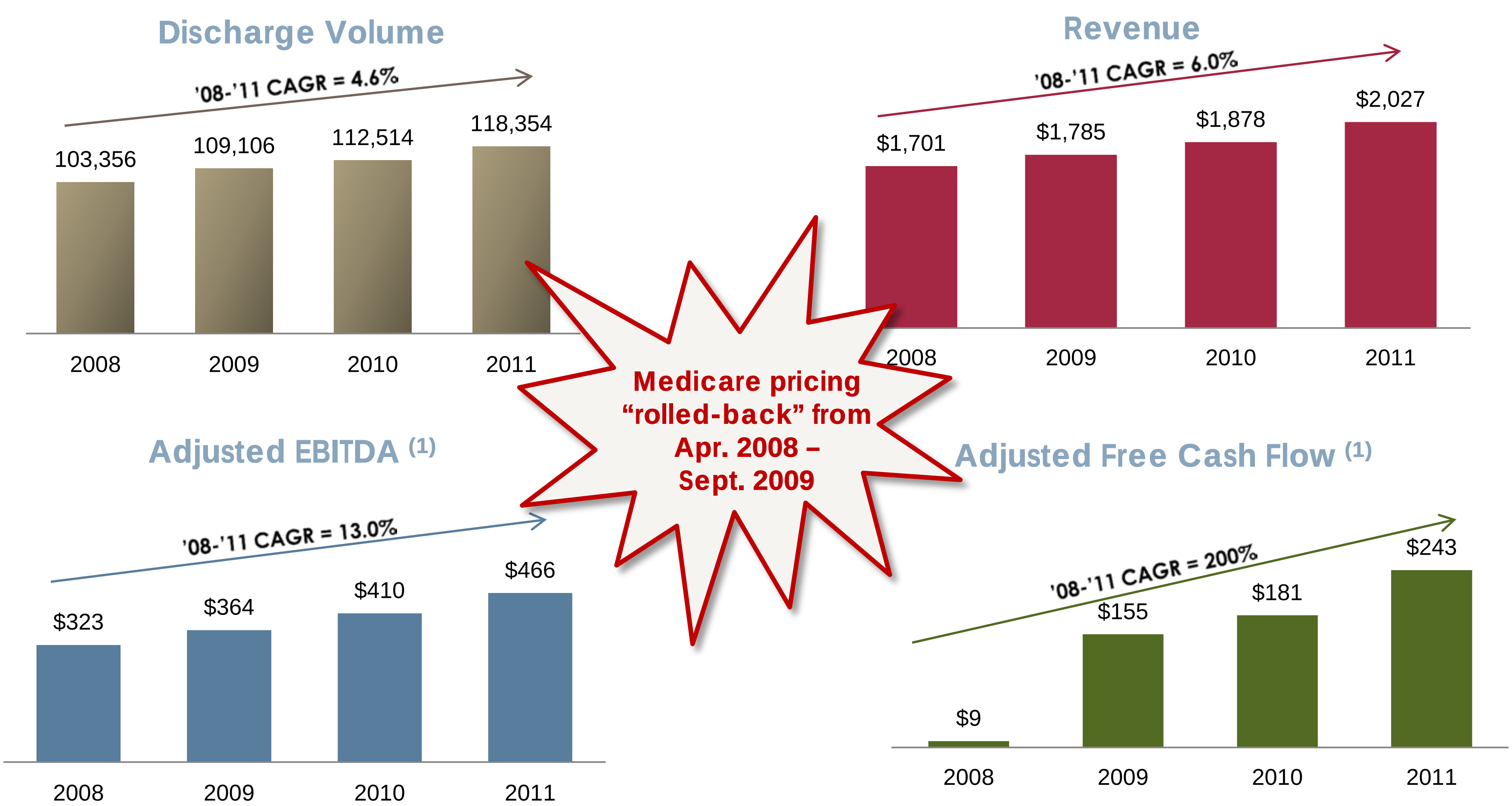
(1) The 97 for HLS does not include HealthSouth Rehabilitation Hospital of Cypress, TX, which opened in October 2011, HealthSouth Rehabilitation Hospital at Drake, which opened in December 2011, and HealthSouth Rehabilitation Hospital of Ocala, FL, which opened December 2012.

(2) In 2011, HealthSouth averaged 1,233 total Medicare and non-Medicare discharges per hospital in its 96 consolidated hospitals.

Source: FY 2013 CMS Rate Setting File and Medicare Report to Congress, Medicare Payment Policy, March 2012 – pages 239 and 240

HealthSouth has a track record of delivering strong operational and financial results (even during periods of reduced Medicare pricing)…

($ in millions)



(1) Reconciliation to GAAP provided on slides 24-29.

HEALTHSOUTH

…and expects another solid year.

Original 2012 Adjusted EBITDA Guidance	Raised 2012 Adjusted EBITDA Guidance (1)	
Feb. 23, 2012	Oct. 25, 2012	January 7, 2013 (2)
$475 million to $485 million	$490 million to $495 million	$495 million to $498 million

Reflects 6.2% to 6.8% growth over 2011 even with the approx. $10 million one-time, non-management bonus in lieu of Oct. 1, 2012 merit increase

Q4 2012 Preliminary Observations and Considerations (2) :

- Discharge growth of approximately 5.4%; New-store discharge growth of 2.4% (120 bps from the consolidation of St. Vincent in Sherwood, AR)
- Revenue-per-discharge increase of approximately 2.4%
- Q4 2012 includes one-time bonus of approx. $10 million in lieu of October 1, 2012 merit increases for all non-management employees (a 2.25% merit increase would amount to approx. $5.5 million in SWB in Q4 2012).
  - SWB as a percent of net revenues <50.0%.
- Q4 2011 Adjusted EBITDA benefited by $2.4 million from a nonrecurring franchise tax recovery

(1) Reconciliation to GAAP provided on slides 25, 26, 28, and 29.
(2) The Company has not yet closed its books for Q4 and YE 2012

…and expects another solid year. (cont.)

Revised 2012 Earnings per Share from Continuing Operations Attributable to HealthSouth (1)
$1.53 to $1.55

Considerations:

- Assumes provision for income tax of approx. 39% in 2012 vs. approx. 19% in 2011 (2)
- Cash taxes expected to be $8 to $12 million

	EPS Guidance		
	Actual	Low	High
(In Millions, Except Per Share Data)	2011	2012	
Adjusted EBITDA	**$ 466.2**	**$ 495**	**$ 498**
Interest expense and amortization of debt discounts and fees	(119.4)	(95)	
Depreciation and amortization	(78.8)	(82)	
Stock-based compensation expense	(20.3)	(23)	
Other, including non-cash loss on disposal of assets	(4.3)	(7)	
	243.4	288	291
Certain Nonrecurring Expenses:			
Government, class action and related settlements	12.3	4	
Professional fees - accounting, tax and legal	(21.0)	(17)	
Loss on early extinguishment of debt	(38.8)	(4)	
Gain on consolidation of St. Vincent Rehabilitation Hospital	-	5	
Pre-tax income	**195.9**	**276**	**279**
Income tax (assumes 39% in 2012)	(37.1) (3)	(107)	(108)
Income from continuing operations (1)	**$ 158.8**	**$ 169**	**$ 171**
Basic shares	93.3	94.6	94.6
Earnings per share (1) (4)	**$ 1.42**	**$ 1.53**	**$ 1.55**

(1) Income from continuing operations attributable to HealthSouth; The Company has not yet closed its books for Q4 and YE 2012
(2) Estimated effective tax rate using pre-tax income from continuing operations attributable to HealthSouth
(3) Includes an approx. $46 million, or $0.49 per share, benefit primarily related to the Company's settlement with the IRS for tax years 2007 and 2008, a decrease in the valuation allowance, and a reduction in unrecognized tax benefits due to the lapse of the statute of limitations for certain federal and state claims
(4) The dividends related to our convertible perpetual preferred stock must be subtracted from income from continuing operations when calculating basic earnings per share.

HEALTHSOUTH

Business Outlook: 2013 to 2015 (1)

Business Model
- Adjusted EBITDA CAGR: 4-8% (2)(3)
- Adjusted Free Cash Flow CAGR: 10-14% (2)(3)(4)

Revised CAGRs reflect:
- Completion of delevering and refinancing
- Sequestration beginning March 2013

Strategy	2012	2013	2014	2015
Delevering	Maintained **< 3.0x** Debt to Adjusted EBITDA	**< 3.0x** Debt to Adjusted EBITDA (subject to shareholder value-creating opportunities)		
Core Growth	Bed expansion = 95 Unit consolidations = 2	**Same-store Growth** (Includes bed expansions and unit consolidations)		
	De novos 1 - Ocala, FL	**De novos - 2** Littleton, CO; Stuart, FL	**De novos** (target of 4/year)	
	IRF Acquisitions LOI Augusta, GA	**IRF Acquisitions** (target of 2/year)		
Opportunistic Growth			**Consider opportunistic, disciplined acquisitions** of complementary post-acute services **Key Considerations:** • Regulatory clarity • Market conditions • Purchase price and terms and conditions	
Key Operational Initiatives	• **TeamWorks** = Care Management • **Beacon** (Management Reporting Software) = Labor / outcomes / quality optimization			
	• **Clinical Information System (CIS)** Installed in 13 hospitals	• **CIS:** Company-wide Implementation (target 20 hospitals/year)		
	• **CPR** (Comfort, Professionalism, Respect) Initiative	• **IRF Quality Reporting:** urinary tract infection, wound care		

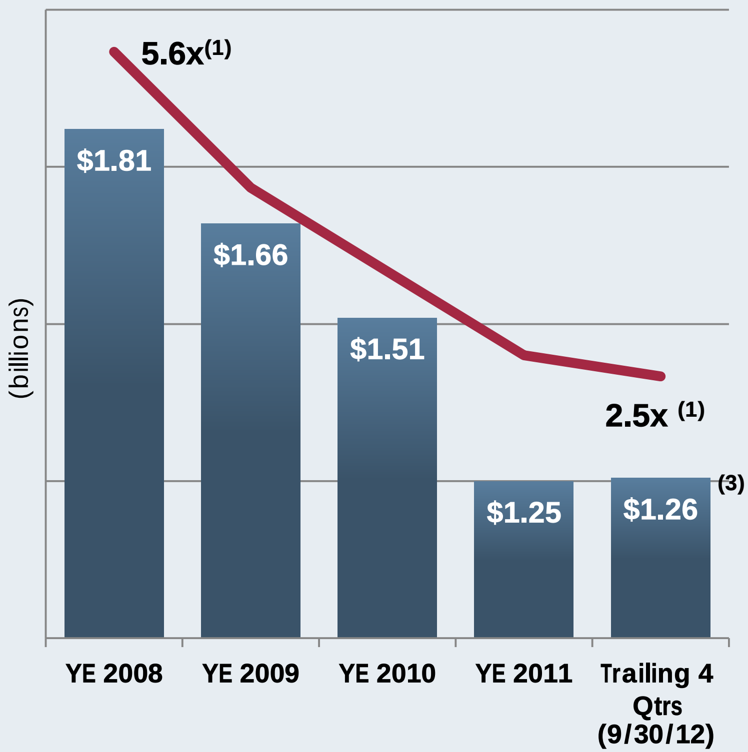
(1) If legislation affecting Medicare is passed, HealthSouth will evaluate its effect on the Company's Business Model.
(2) Reconciliation to GAAP provided on slides 24-26, 28, and 29.
(3) These are multi-year CAGRs; annual results may fall outside the range.
(3) Assumes NOL value is exhausted after 2015

HEALTHSOUTH

Business Model Tenets: Flexibility and Strong Free Cash Flow

HealthSouth has followed a prudent strategy of strengthening its balance sheet while building a flexible business model that generates significant free cash flow.

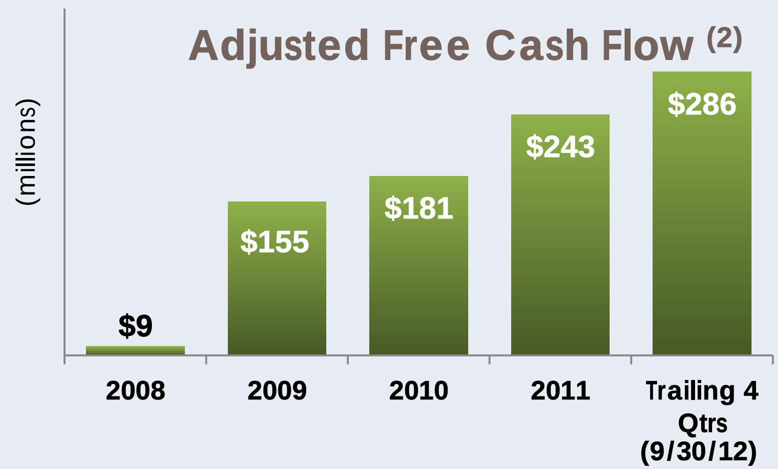
Debt Outstanding



Liquidity

	Pro forma (2) Sept. 30, 2012	Sept. 30 2012	Dec. 31, 2011
Cash Available	$ 96.8	$ 163.2	$ 30.1
Revolver Total Line	$ 600.0	$ 600.0	$ 500.0
Less:			
– Draws	-	-	(110.0)
– Letters of credit	(41.4)	(41.4)	(44.6)
Available	$ 558.6	$ 558.6	$ 345.4
Total Liquidity	$ 655.4	$ 721.8	$ 375.5

Adjusted Free Cash Flow (2)



(1) Based on 2008 and Sept. 30, 2012 trailing 4 quarters Adjusted EBITDA of $322.6 million and $500.2 million, respectively; reconciliation to GAAP provided on slides 25-29.

(2) Reconciliation to GAAP provided on slide 24

(3) Based on the pro forma debt level reflecting the redemption of 10% of the 2018 and 2022 Senior Notes in October 2012.

HEALTHSOUTH

HealthSouth has multiple, flexible opportunities for deploying its Free Cash Flows to increase Shareholder value.

Priorities may shift based on prevailing market conditions

Growth

Growth in core business	2013 Assumptions	(millions) 2012 Estimates	2011 Actuals
Bed expansions (target approx. 80 beds/yr)	$25 to $35	$20	$12.5
De novo hospitals (target 4/yr)	$55 to $75	48	15.6
Acquisitions (target 2/yr)			
- Free standing IRFS	TBD	-	-
- Hospital units	TBD	3	6.5
	$80 to $110, excluding acquisitions	$71	$34.6

Debt Reduction

	2013 Assumptions	2012 Estimates	2011 Actuals
Debt pay down, net	TBD	-	$256.6
Purchase leased properties (1)	$20 to $125	$23	28.6

Shareholder Distribution

Convertible preferred stock repurchase ($125 million market repurchases authorization)	TBD	47	-
Cash dividends (one time or regular)	TBD	-	-
Common share repurchase ($125 million authorization)	TBD	-	-
	TBD	$70	$285.2

(1) 2012 includes the purchase of the real estate (previously subject to an operating lease) associated with our joint venture hospital in Fayetteville, AR for approx. $15 million, half of which was reimbursed to us by our joint venture partner through a capital contribution; also includes an initial investment for a replacement hospital for our currently leased hospital in Ludlow, MA.

HealthSouth is a company with strong and sustainable business fundamentals.

Attractive Healthcare Sector
- Favorable demographic trends
- Nondiscretionary nature of many conditions treated in IRFs
- Highly fragmented industry

Industry Leading Position
- #1 market share: above industry same-store growth and margins
- Consistent achievement of high-quality, cost-effective care
- Roll-out of state-of-the-art clinical information system

Cost-Effectiveness
- Focused labor management
- Continued improvements in supply chain
- Significant operating leverage of G&A expense

Real Estate Portfolio
- Portfolio of strategically located, well-designed physical assets
- 100 IRFs [(1)]; 66 owned and 34 long-term, real estate leases
- Ability to purchase a number of leased assets

Financial Strength
- Strong balance sheet; ample liquidity, no near-term maturities
- Minimal cash income tax expense ($8 - $12 million / year) attributable to NOLs
- Substantial free cash flow generation

Growth Opportunities
- Bed expansions at existing hospitals
- Flexible de novo strategy
- Flexible IRF acquisition and unit consolidation strategy
- Ability to pursue other post-acute sectors opportunistically

(1) Inclusive of nonconsolidated entities

Appendix

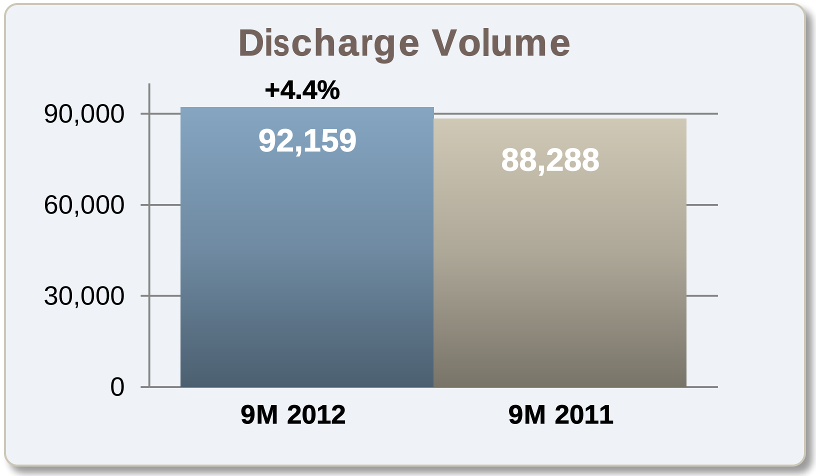
2012 Milestones

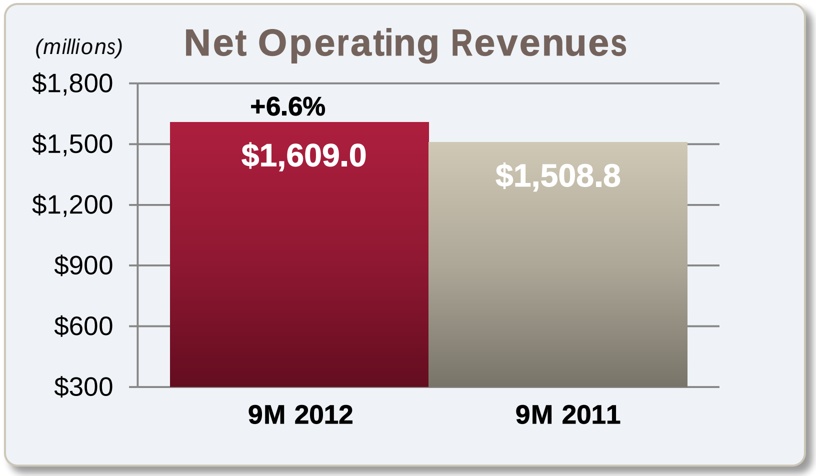
- **Volume**
  - 2012 full-year discharge growth of approximately 4.6%; New-store discharge growth of 1.7% (110 bps from the consolidation of St. Vincent in Sherwood, AR)
- **Growth – De novos**
  - Opened HealthSouth Rehabilitation Hospital of Ocala, FL (40 beds)
  - Started construction on 34-bed inpatient rehabilitation hospital in Stuart, FL and 40-bed inpatient rehabilitation hospital in Littleton, CO
  - Received CON approval to build a 50-bed inpatient rehabilitation hospital in the greater Orlando, FL, area
  - Received CON approval to build a 50-bed inpatient rehabilitation hospital in Newnan,GA
- **Growth – Acquisition/unit consolidation**
  - Entered into a letter of intent to acquire Walton Rehabilitation Hospital (58 beds) in Augusta, GA (expected to close Q1 2013)
  - Acquired a 34-bed inpatient rehabilitation unit (consolidated into our existing hospital in San Antonio, TX)
  - Purchased 12 inpatient rehabilitation beds in Andalusia, AL (to be added to our existing hospital in Dothan, AL in 2013)
- **Growth – Bed expansion**
  - Added 95 beds to existing hospitals

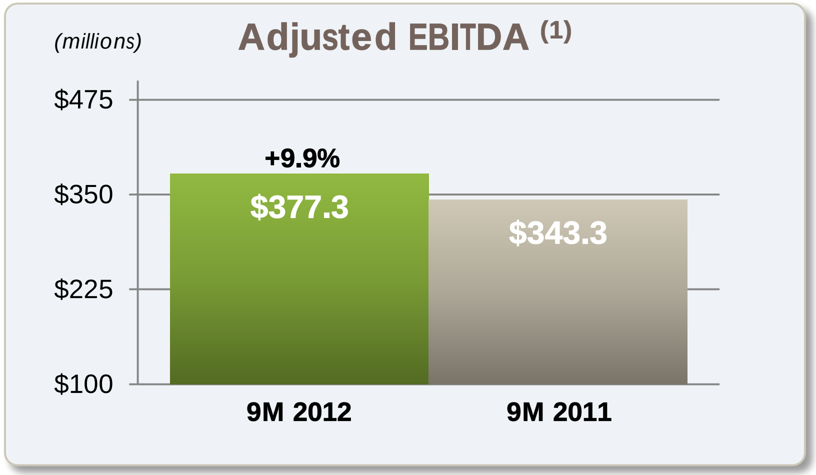
2012 Milestones

- **Lease buy-out/termination**
  - Purchased real estate (previously subject to an operating lease) associated with our joint venture hospital in Fayetteville, AR
  - Broke ground on replacement hospital for our currently leased hospital in Ludlow, MA
- **Operations enhancements**
  - Installed clinical information system (CIS) in 13 additional hospitals
- **Strengthened balance sheet**
  - Upgraded to Ba3 and BB- by Moody's and S&P, respectively
  - Amended and extended senior secured credit facility
  - Issued $275 million of 5.75% Senior Notes maturing 2024
  - Purchased 46,645 shares of our convertible perpetual preferred stock for $46.5 million
  - Redeemed 10% of the 2018 and 2022 Senior Notes (~$65 million)

9 Months 2012 Highlights







(1) Reconciliation to GAAP provided on slides 25, 26, 28, and 29.

(2) Income from continuing operations attributable to HealthSouth per diluted share for the first nine months of 2012 was $1.23 per share compared to $0.90 per share for the same period of 2011. Earnings per share for the first nine months of 2012 reflected strong operating results and an effective income tax rate of approximately 38%. Earnings per share in the first nine months of 2011 reflected a $0.30 per share income tax benefit that resulted from a settlement of federal income tax claims with the Internal Revenue Service for tax years 2007 and 2008 and a reduction in unrecognized tax benefits due to the lapse of the statute of limitations for certain federal and state claims.

Adjusted Free Cash Flow [1] Considerations

We expect 2012 Adjusted Free Cash Flow to reflect Adjusted EBITDA growth offset by the working capital change.

- **Higher maintenance capital expenditures were offset by lower cash interest expense and swap–related settlements**

2013 maintenance CAPEX is driven by the clinical information system roll-out, hospital renovations, and hospital refresh projects.

Certain Cash Flow Items [2] (millions)	2013 Assumptions	2012 Estimates	2011 Actuals
Cash interest expense [3]	$90 to $95	$90	$115.2
Cash payments for taxes	$8 to $12	$8 to $12	$9.1
Working capital and other	$10 to $20	$25 to $35	$10.6
Maintenance CAPEX	$85 to $90	$85	$50.8
Net cash swap-related settlements	-	-	$10.9
Dividends paid on preferred stock	$23	$25	$26

(1) Reconciliation to GAAP provided on slide 24
(2) Definition of adjusted free cash flow is net cash provided by operating activities of continuing operations minus capital expenditures for maintenance, net settlements on interest rate swaps, dividends paid on preferred stock, distributions to noncontrolling interests, and nonrecurring items.
(3) Net of amortization of debt and discounts and fees

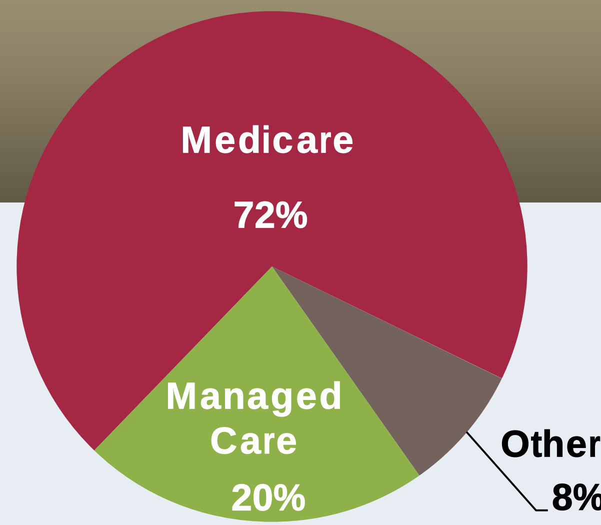
Business Outlook: Revenue Assumptions

Revenue

Volume

- 2.5% to 3.5% annual growth (excludes acquisitions)
- Includes bed expansions, de novos and unit consolidations

Pricing



Medicare Pricing	FY 2013 (3) Q4 12 - Q3 13	FY 2014 Q4 13 - Q3 14	FY 2015 Q4 14 - Q3 15
Market basket update (1)	2.7%	2.9%	2.9%
Healthcare reform reduction	10 bps	30 bps	20 bps
Productivity adjustment (1)	70 bps	~ 100 bps	~ 100 bps

Managed Care Expected Price Increases		
2013	2014	2015
2-4%	2-4%	2-4%

2% Sequestration (2)

(1) Medicare IRF-PPS Notice for FY 2013 and management's estimates for FY 2014 and FY 2015.
(2) The Budget Control Act of 2011 includes a reduction of up to 2% to Medicare payments for all providers upon executive order of the President in March 2013 (as modified by H.R. 8). The reduction would be made from whatever level of payment would otherwise be provided under Medicare law and regulation. We currently estimate this automatic reduction, known as "sequestration," will result in a net decrease to our net operating revenues of approx. $29 million annually in 2013.
(3) We believe based on the Medicare IRF-PPS Notice for FY 2013, HealthSouth should realize a net increase of approx. 2.1% in FY 2013 before applying the effect of sequestration.

Business Outlook: Expense Assumptions

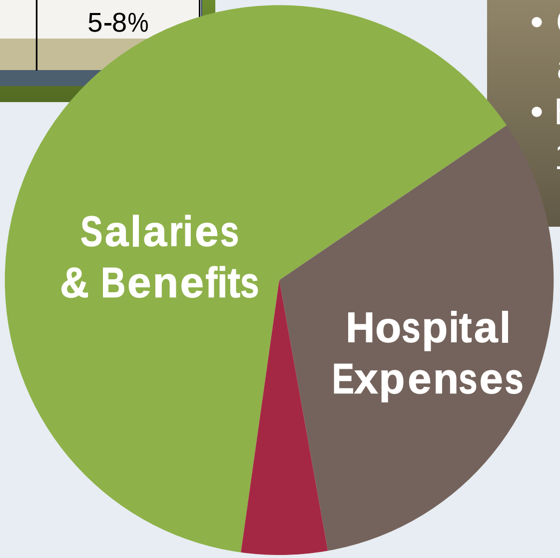
Expense

Salaries & Benefits (1)

	2013	2014	2015
Merit increases (2)	0.5-0.6%	2.0-2.5%	2.0-2.5%
Benefit costs increases	8-10% (2)	5-8%	5-8%

Hospital Expenses

- Other operating expenses and supply costs tracking with inflation
- Occupancy costs declining as a percent of revenue
- Bad debt expense of approx. 1.1% to 1.3%



General and Administrative

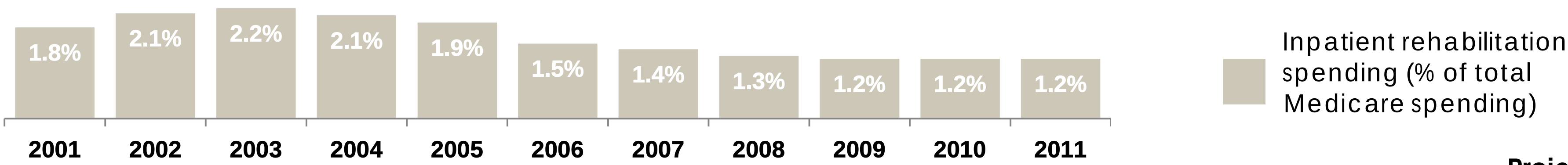
~4.2% of revenue
(excludes stock-based compensation)

(1) Salaries, Wages and Benefits: ~ 90% Salaries and Wages; ~10% Benefits.

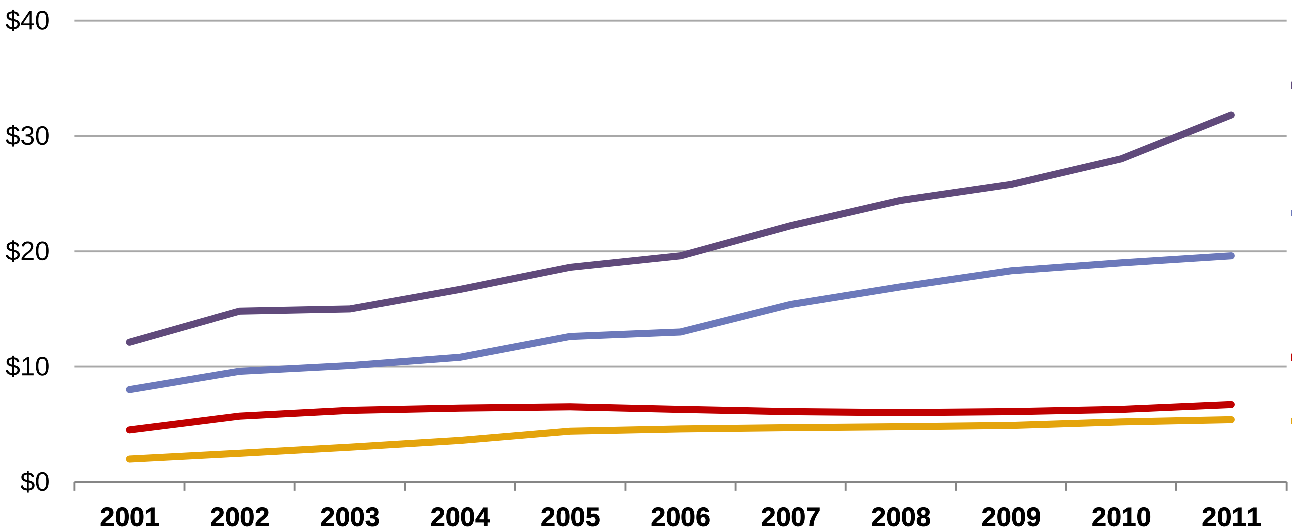
(2) In Q4 2012, the Company paid an approx. $10 million employee bonus in lieu of an October 1, 2012 merit increase for non-management employees. The 0.5-0.6% represents a 2.0-2.5% increase effective October 1, 2013. Because the October 1, 2012 merit increases were foregone, the Company will absorb all of the medical benefit cost increases in 2013.

HEALTHSOUTH

Medicare spending on Inpatient Rehabilitation has remained fairly constant as a percent of total Medicare spending.



Total Medicare Spending on Post-Acute Services **$63.5 billion** in 2011



Post-Acute Settings	2011 Medicare Margin	Projected 2013 Medicare Margins
Skilled nursing facilities	22 - 24%	11 to14%
Home health agencies	14.8%	11.8%
Inpatient rehabilitation hospitals	9.6%	8.3%
Long-term acute care hospitals	6.9%	5.9%

Note: These numbers are program spending only and do not include beneficiary copayments.
Sources: Center for Medicare & Medicaid Services, Medicare Trustees Report May 2012 – Page 6, MedPAC December 2012 Public Meetings transcript (IRF section) pages 321 and 322; (SNF section) page 232; (Home Health section) pages 254 and 256; (LTCH section) pages 376 and 378

HEALTHSOUTH

MedPAC IRF Assessment Summary (December 2012)

- **Capacity**
  - IRF capacity and supply were relatively stable in 2011
- **Volume**
  - Volume increased in 2011(volume declined in 2010)
- **Mix**
  - Increase in share of IRF cases that meet the compliance threshold (stroke, brain injury, neurological disorders)
  - Increasing average patient severity
- **Margins**
  - Medicare margins were 9.6% in 2011, up from 8.7% in 2010; projected to be 8.3% in 2013.
- **Quality**
  - Risk-adjusted quality remains stable.
- **Access to capital**
  - Access to capital appears to be adequate.
- **MedPAC price recommendation**
  - 0% update for FY 2014 on the base rate[1]

(1) MedPAC makes recommendations in terms of percentage change up and down of the base rate. They do not use formulas like market basket minus productivity and do not take into account the potential effect of sequestration.

Sources: MedPAC December 2012 Public Meeting, Assessing Payment Adequacy

Adjusted Free Cash Flow

Reconciliation of Net Cash Provided by Operating Activities to Adjusted Free Cash Flow

	Q3		9 Months		Full Year				
(Millions)	2012	2011	2012	2011	2011	2010	2009	2008	2007
Net cash provided by operating activities	$ 107.2	$ 55.1	$ 302.2	$ 213.2	$ 342.7	$ 331.0	$ 406.1	$ 227.2	$ 230.6
Impact of discontinued operations	0.2	(2.2)	(1.5)	(9.4)	(9.1)	(13.2)	(5.7)	(32.5)	(3.3)
Net cash provided by operating activities of continuing operations	107.4	52.9	300.7	203.8	333.6	317.8	400.4	194.7	227.3
Capital expenditures for maintenance [1]	(17.9)	(12.8)	(68.0)	(35.1)	(50.8)	(37.9)	(33.2)	(41.5)	(22.4)
Net settlements on interest rate swaps [2]	-	-	-	(10.9)	(10.9)	(44.7)	(42.2)	(20.7)	0.1
Dividends paid on convertible perpetual preferred stock	(5.8)	(6.5)	(18.9)	(19.5)	(26.0)	(26.0)	(26.0)	(26.0)	(26.0)
Distributions paid to noncontrolling interests of consolidated affiliates	(13.6)	(10.7)	(37.6)	(34.0)	(44.2)	(34.4)	(32.6)	(33.4)	(23.4)
Non-recurring items:									
UBS Settlement proceeds, less fees to derivative plaintiffs' attorneys	-	-	-	-	-	-	(73.8)	-	-
Net premium (received) paid on bond issuance/redemption	-	8.9	-	22.8	22.8	-	-	-	-
Cash paid for professional fees - accounting, tax and legal	4.1	4.0	13.2	16.2	21.0	17.2	15.3	18.2	51.6
Cash paid for government, class action and related settlements	(2.6)	-	(2.6)	7.7	5.7	2.9	11.2	7.4	171.4
Income tax refunds related to prior periods	-	(3.5)	-	(6.9)	(7.9)	(13.5)	(63.7)	(89.4)	(457.7)
Adjusted free cash flow	**$ 71.6**	**$ 32.3**	**$ 186.8**	**$ 144.1**	**$ 243.3**	**$ 181.4**	**$ 155.4**	**$ 9.3**	**$ (79.1)**

(1) Maintenance capital expenditures are expected to be approx. $85 million in 2012 and $85 to $90 million in 2013.
(2) Final swap payment of $10.9 million was made in March 2011.

Reconciliation of Net Income to Adjusted EBITDA [1]

	2012							
	Q1		Q2		Q3		9 Months	
(in millions, except per share data)	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share
Net income	$ 56.8		$ 59.9		$ 59.9		$ 176.6	
Loss (income) from disc ops, net of tax, attributable to HealthSouth	0.4		(3.5)		0.5		(2.6)	
Net income attributable to noncontrolling interests	(12.6)		(13.2)		(12.8)		(38.6)	
Income from continuing operations attributable to HealthSouth [2]	44.6	$ 0.40	43.2	$ 0.39	47.6	$ 0.44	135.4	$ 1.23
Gov't, class action, and related settlements	-		-		(3.5)		(3.5)	
Pro fees - acct, tax, and legal	3.6		5.5		4.1		13.2	
Provision for income tax expense	29.1		26.9		28.1		84.1	
Interest expense and amortization of debt discounts and fees	23.3		23.0		23.5		69.8	
Depreciation and amortization	19.5		20.0		21.3		60.8	
Loss on early extinguishment of debt	-		-		1.3		1.3	
Gain on consolidation of St. Vincent Rehabilitation Hospital	-		-		(4.9)		(4.9)	
Net noncash loss on disposal of assets	0.8		0.6		1.6		3.0	
Stock-based compensation expense	6.1		5.9		6.1		18.1	
Adjusted EBITDA [1]	$ 127.0		$ 125.1		$ 125.2		$ 377.3	
Weighted average common shares outstanding:								
Basic		94.5		94.6		94.7		94.6
Diluted		108.7		108.0		108.1		108.2

(1) (2) – Notes on page 28.

Reconciliation of Net Income to Adjusted EBITDA [1]

	2011									
	Q1		Q2		Q3		Q4		Full Year	
(in millions, except per share data)	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share
Net income	$ 91.5		$ 32.3		$ 68.3		$ 62.5		$ 254.6	
(Income) loss from disc ops, net of tax, attributable to HealthSouth	(17.6)		(2.5)		(34.8)		5.0		(49.9)	
Net income attributable to noncontrolling interests	(11.7)		(10.4)		(11.3)		(12.5)		(45.9)	
Income from continuing operations attributable to HealthSouth [2]	62.2	$ 0.57	19.4	$ 0.14	22.2	$ 0.17	55.0	$ 0.50	158.8	$ 1.42
Gov't, class action, and related settlements	-		(10.6)		-		(1.7)		(12.3)	
Pro fees - acct, tax, and legal	3.8		8.4		4.0		4.8		21.0	
Provision for income tax (benefit) expense	(7.4)		11.2		18.1		15.2		37.1	
Interest expense and amortization of debt discounts and fees	35.1		34.9		26.3		23.1		119.4	
Depreciation and amortization	19.5		19.6		19.5		20.2		78.8	
Loss on early extinguishment of debt	-		26.1		12.7		-		38.8	
Net noncash loss on disposal of assets	0.1		1.0		2.8		0.4		4.3	
Stock-based compensation expense	4.2		5.3		4.9		5.9		20.3	
Adjusted EBITDA [1]	$ 117.5		$ 115.3		$ 110.5		$ 122.9		$ 466.2	
Weighted average common shares outstanding:										
Basic		93.1		93.3		93.3		93.3		93.3
Diluted		109.0		109.5		109.2		109.1		109.2

(1) (2) – Notes on page 28.

HEALTHSOUTH

Reconciliation of Net Income to Adjusted EBITDA (1)

	Full Year					
	2008		2009		2010	
(in millions, except per share data)	Total	Per Share	Total	Per Share	Total	Per Share
Net income	$ 281.8		$ 128.8		$ 939.8	
Income from disc ops, net of tax, attributable to HealthSouth	(32.5)		(17.7)		(9.2)	
Net income attributable to noncontrolling interests	(29.4)		(34.0)		(40.8)	
Income from continuing operations attributable to HealthSouth (2)	219.9	$ 2.28	77.1	$ 0.58	889.8	$ 8.20
Gain on UBS Settlement	(121.3)		-		-	
Gov't, class action, and related settlements	(67.2)		36.7		1.1	
Pro fees - acct, tax, and legal	44.4		8.8		17.2	
Loss on interest rate swaps	55.7		19.6		13.3	
Provision for income tax benefit	(69.1)		(2.9)		(740.8)	
Interest expense and amortization of debt discounts and fees	159.3		125.7		125.6	
Depreciation and amortization	78.9		67.6		73.1	
Impairment charges, including investments	2.4		1.4		-	
Net noncash loss on disposal of assets	2.0		3.4		1.4	
Loss on early extinguishment of debt	5.9		12.5		12.3	
Stock-based compensation expense	11.7		13.4		16.4	
Other	-		0.4		0.2	
Adjusted EBITDA (1)	$ 322.6		$ 363.7		$ 409.6	
Weighted average common shares outstanding:						
Basic		83.0		88.8		92.8
Diluted		96.4		103.3		108.5

(1) (2) – Notes on page 28.

HEALTHSOUTH

Reconciliation Notes for Slides 25-27

1. Adjusted EBITDA is a non-GAAP financial measure. The Company's leverage ratio (total consolidated debt to Adjusted EBITDA for the trailing four quarters) is, likewise, a non-GAAP financial measure. Management and some members of the investment community utilize Adjusted EBITDA as a financial measure and the leverage ratio as a liquidity measure on an ongoing basis. These measures are not recognized in accordance with GAAP and should not be viewed as an alternative to GAAP measures of performance or liquidity. In evaluating Adjusted EBITDA, the reader should be aware that in the future HealthSouth may incur expenses similar to the adjustments set forth.
2. Per share amounts for each period presented are based on diluted weighted average shares outstanding unless the amounts are antidilutive, in which case the per share amount is calculated using the basic share count after subtracting the quarterly dividend on the convertible perpetual preferred stock. The difference in shares between the basic and diluted shares outstanding is primarily related to our convertible perpetual preferred stock.

Net Cash Provided by Operating Activities Reconciled to Adjusted EBITDA

(Millions)	Q3 2012	Q3 2011	9 Months 2012	9 Months 2011	Full Year 2011	Full Year 2010	Full Year 2009	Full Year 2008	Full Year 2007
Net cash provided by operating activities	$ 107.2	$ 55.1	$ 302.2	$ 213.2	$ 342.7	$ 331.0	$ 406.1	$ 227.2	$ 230.6
Provision for doubtful accounts	(7.0)	(5.1)	(19.8)	(14.9)	(21.0)	(16.4)	(30.7)	(23.0)	(28.5)
Professional fees—accounting, tax, and legal	4.1	4.0	13.2	16.2	21.0	17.2	8.8	44.4	51.6
Interest expense and amortization of debt discounts and fees	23.5	26.3	69.8	96.3	119.4	125.6	125.7	159.3	229.2
UBS Settlement proceeds, gross	-	-	-	-	-	-	(100.0)	-	-
Equity in net income of nonconsolidated affiliates	3.3	3.1	9.7	8.8	12.0	10.1	4.6	10.6	10.3
Net income attributable to noncontrolling interests in continuing operations	(12.8)	(11.4)	(38.6)	(34.5)	(47.0)	(40.9)	(33.3)	(29.8)	(31.1)
Amortization of debt discounts and fees	(0.9)	(0.9)	(2.7)	(3.3)	(4.2)	(6.3)	(6.6)	(6.5)	(7.8)
Distributions from nonconsolidated affiliates	(2.4)	(4.2)	(7.9)	(9.7)	(13.0)	(8.1)	(8.6)	(10.9)	(5.3)
Current portion of income tax (benefit) expense	(0.6)	(0.1)	3.7	(1.5)	0.6	2.9	(7.0)	(72.8)	(330.4)
Change in assets and liabilities	13.0	37.4	51.4	65.7	49.9	2.8	(2.1)	50.6	5.5
Net premium paid on bond issuance/redemption	-	8.9	-	22.8	22.8	-	-	-	-
Change in government, class action and related settlements liability	(2.6)	-	(2.6)	(6.5)	(8.5)	2.9	11.2	7.4	171.4
Cash used in (provided by) operating activities of discontinued operations	0.2	(2.2)	(1.5)	(9.4)	(9.1)	(13.2)	(5.7)	(32.5)	(3.3)
Other	0.2	(0.4)	0.4	0.1	0.6	2.0	1.3	(1.4)	14.5
Adjusted EBITDA	$ 125.2	$ 110.5	$ 377.3	$ 343.3	$ 466.2	$ 409.6	$ 363.7	$ 322.6	$ 306.7