

# HEALTHSOUTH CORP

## FORM 8-K

(Current report filing)

Filed 06/09/10 for the Period Ending 05/19/10

Address	3660 GRANDVIEW PARKWAY SUITE 200 BIRMINGHAM, AL 35243
Telephone	205-967-7116
CIK	0000785161
Symbol	HLS
SIC Code	8060 - Hospitals
Industry	Healthcare Facilities
Sector	Healthcare
Fiscal Year	12/31

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, DC 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): June 9, 2010

**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  
(I.R.S. Employer  
Identification No.)

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

(205) 967-7116  
(Registrant's telephone number)

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 7.01. Regulation FD Disclosure .**

HealthSouth Corporation (“HealthSouth” or the “Company”) will host an open house and presentation at its newly built 40-bed inpatient rehabilitation hospital in Loudoun County, Virginia on June 9, 2010. The Company will distribute to attendees a copy of the handout attached to this Current Report on Form 8-K as Exhibit 99.1. The handout addresses, among other things, the Company’s strategy, financial performance, and development process as well as information related to the new hospital, such as market dynamics and the clinical information system pilot project. The handout is available at <http://investor.healthsouth.com> by clicking on an available link.

In the handout attached to this Current Report on Form 8-K as Exhibit 99.1, the Company provides the following brief update on operational performance as of June 9, 2010:

Good performance through May

- *Volume* : solid in April, softened in May, appears to be rebounding in June;
- *Expenses* : continue to be aggressively managed; and
- *Pricing* : favorable year-over-year trend.

In the handout, the Company also notes that it began integration of the newly acquired Desert Canyon Rehabilitation Hospital on June 1, 2010 and that the newly built hospital in Loudoun County will begin accepting patients in mid-June 2010.

The information in this Current Report on Form 8-K, including the information set forth in Exhibit 99.1, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor shall it be 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. The furnishing of this report is not intended to constitute a determination by the Company that the information is material or that the dissemination of the information is required by Regulation FD.

***Note Regarding Presentation of Non-GAAP Financial Measures***

The handout references the Company’s Adjusted Consolidated EBITDA, a non-GAAP financial measure. The Company continues to believe Adjusted Consolidated EBITDA as defined in its credit agreement is a measure of 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 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, 2009 (the “2009 Form 10-K”). These covenants are material terms of the credit agreement, and the credit agreement represents a substantial portion of the Company’s capitalization. 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 Consolidated EBITDA is critical to the Company’s assessment of its liquidity.

In general terms, the definition of Adjusted Consolidated EBITDA, per the credit agreement, allows the Company to add back to or subtract from consolidated net income unusual non-cash or non-recurring items. These items include, 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

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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 22, *Settlements*, and Note 23, *Contingencies and Other Commitments*, to the consolidated financial statements accompanying the 2009 Form 10-K and Note 8, *Contingencies*, to the condensed consolidated financial statements included in Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (the "March 2010 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 is allowed to add certain other items to the calculation of Adjusted Consolidated EBITDA, and there may also be certain other deductions required. This includes the interest income associated with income tax recoveries, as discussed in Note 19, *Income Taxes*, to the consolidated financial statements included in the 2009 Form 10-K. In addition, the Company is allowed to add non-recurring cash gains, such as the cash proceeds from the UBS Settlement (see Note 22, *Settlements*, to the consolidated financial statements included in the 2009 Form 10-K) to the calculation of Adjusted Consolidated EBITDA. As these adjustments may not be indicative of the Company's ongoing performance, they have been excluded from Adjusted Consolidated EBITDA presented herein and included in the handout attached as Exhibit 99.1.

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 income or cash flows from operating, investing, or financing activities. The Company reconciles Adjusted Consolidated EBITDA to net income, which reconciliation is set forth in the handout attached as Exhibit 99.1, and to net cash provided by 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 2009 Form 10-K.

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**Reconciliation of Net Cash Provided by Operating Activities to Adjusted Consolidated EBITDA**

	Three Months Ended March 31,		Year Ended December 31,	Year Ended December 31,
	2010	2009	2009	2008
<b>Net cash provided by operating activities</b>	\$ 84.8	\$ 183.1	\$ 406.1	\$ 227.2
Provision for doubtful accounts	(6.9)	(7.8)	(33.1)	(27.0)
Professional fees-accounting, tax, and legal	2.9	4.8	8.8	44.4
Interest expense and amortization of debt discounts and fees	30.5	34.4	125.8	159.5
UBS Settlement proceeds, gross	-	(100.0)	(100.0)	-
Equity in net income of nonconsolidated affiliates	2.6	2.5	4.6	10.6
Net income attributable to noncontrolling interests in continuing operations	(9.8)	(8.3)	(33.4)	(29.8)
Amortization of debt discounts and fees	(1.7)	(1.6)	(6.6)	(6.5)
Distributions from nonconsolidated affiliates	(2.1)	(1.5)	(8.6)	(10.9)
Current portion of income tax expense (benefit)	2.1	(0.3)	(7.3)	(73.8)
Change in assets and liabilities	0.7	(9.0)	0.8	53.1
Change in government, class action, and related settlements liability	0.8	1.7	11.2	7.4
Other operating cash used in (provided by) discontinued operations	2.2	0.5	13.5	(11.4)
Other	0.3	(0.1)	1.2	(1.6)
<b>Adjusted Consolidated EBITDA</b>	<b>\$ 106.4</b>	<b>\$ 98.4</b>	<b>\$ 383.0</b>	<b>\$ 341.2</b>

For the three months ended March 31, 2010, net cash used in investing activities was \$26.2 million and resulted primarily from capital expenditures, net settlement payments related to interest rate swaps, and an increase in restricted cash offset by proceeds from the sale of a hospital in Baton Rouge, Louisiana. Net cash used in financing activities during the three months ended March 31, 2010 was \$22.7 million and resulted primarily from distributions paid to noncontrolling interests of consolidated affiliates, dividends paid on the Company's convertible perpetual preferred stock, and net debt payments.

For the three months ended March 31, 2009, net cash used in investing activities was \$30.2 million and resulted primarily from capital expenditures and net settlement payments related to an interest rate swap. Net cash used in financing activities during the three months ended March 31, 2009 was \$94.4 million and resulted primarily from net debt payments made during the period, as well as distributions paid to noncontrolling interests of consolidated affiliates and dividends paid on the Company's convertible perpetual preferred stock.

For the year ended December 31, 2009, net cash used in investing activities was \$133.0 million and resulted primarily from capital expenditures and net settlement payments related to interest rate swaps. Net cash used in financing activities during the year ended December 31, 2009 was \$224.3 million and resulted primarily from net debt payments made during the period, as well as distributions paid to noncontrolling interests of consolidated affiliates, dividends paid on the Company's convertible perpetual preferred stock, and debt amendment and issuance costs.

For the year ended December 31, 2008, net cash used in investing activities was \$40.0 million and resulted primarily from capital expenditures, including expenditures associated with development activities, and net settlement payments related to an interest rate swap offset by proceeds from asset disposals, including the Company's corporate campus. Net cash used in financing activities during the year ended December 31, 2008 was \$176.0 million and resulted primarily from net debt payments made during the period, as well as distributions paid to noncontrolling interests of consolidated affiliates and dividends paid on the Company's perpetual preferred stock, offset by proceeds from the issuance of common stock.

***Forward-Looking Statements***

The information contained in this Current Report on Form 8-K and the handout attached as Exhibit 99.1 includes certain estimates, projections, and other forward-looking information that reflect the Company's current views with respect to future events and financial performance. These estimates, projections, and other forward-looking information are based on assumptions the Company believes, as of the date hereof, are reasonable. Inevitably, there will be differences between such estimates and actual 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. The Company undertakes no duty to publicly update or revise the information contained herein or in the handout.

You are cautioned not to place undue reliance on the estimates, projections, and other forward-looking information in this Current Report on Form 8-K or the handout 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 2009 Form 10-K, the March 2010 Form 10-Q, and other documents the Company previously filed with the SEC, many of which are beyond the Company's control. These factors may cause actual results to differ materially from the views, beliefs and estimates expressed herein.

**ITEM 9.01. *Financial Statements and Exhibits***

(d) Exhibits

99.1 Handout of HealthSouth Corporation used in connection with the June 9, 2010 open house and presentation at its new inpatient rehabilitation hospital in Loudoun County, Virginia.

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**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.

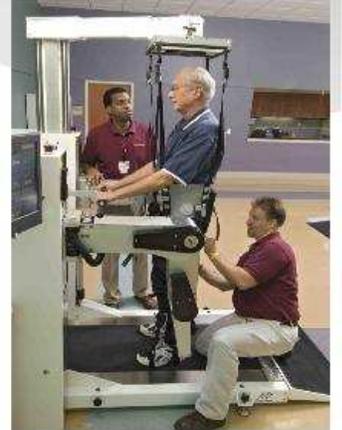
**HEALTHSOUTH Corporation**

By: /s/ DOUGLAS E. COLTHARP

Name: Douglas E. Coltharp

Title: Executive Vice President and Chief Financial Officer

Dated: June 9, 2010



# HealthSouth Rehabilitation Hospital of Northern Virginia

June 9, 2010

**HEALTHSOUTH**

# Cautionary Statements

## **Note Regarding Forward-Looking Statements**

*The information contained in this presentation includes certain estimates, projections and other forward-looking information that reflect our current views with respect to future events and financial performance. 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 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 our Form 10-K for the year ended December 31, 2009, and our Form 10-Q for the quarter ended March 31, 2010, 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. The Appendix at the end of this presentation includes reconciliations of the non-GAAP financial measures found 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 June 9, 2010, provides further explanation and disclosure regarding our use of non-GAAP financial measures and should be read in conjunction with these presentation slides.*

## Welcome

<b>Christina Stover:</b>	CEO, HealthSouth Rehabilitation Hospital of Northern Virginia
<b>Jay Grinney:</b>	President and Chief Executive Officer
<b>Doug Coltharp:</b>	EVP and Chief Financial Officer
<b>Mark Tarr:</b>	EVP of Operations
<b>Randy Carpenter:</b>	Chief Information Officer
<b>Steve Royal:</b>	Chief Development Officer
<b>Mary Ann Arico:</b>	Chief Investor Relations Officer
<b>Terry Maxhimer:</b>	President, MidAtlantic Region
<b>Jeff Ruskin:</b>	Vice President, Operations
<b>Rusty Yeager:</b>	Vice President, Deputy CIO
<b>Dayle Unger:</b>	Director, Clinical Transformation

# Agenda

**1:00 p.m. Overview, Strategy and Performance Update**

Development Process, De novo Trends and  
Market Dynamics for Loudoun County  
Clinical Information System

**Jay Grinney**

Mark Tarr

Randy Carpenter

**2:00 p.m. Tour**

Group 1 (Christina Stover, Mark Tarr, Dayle Unger)  
Group 2 (Jeff Ruskan, Jay Grinney, Randy Carpenter)  
Group 3 (Terry Maxhimer, Doug Coltharp, Rusty Yeager)

**2:30 p.m. Wrap-up and Q&A**

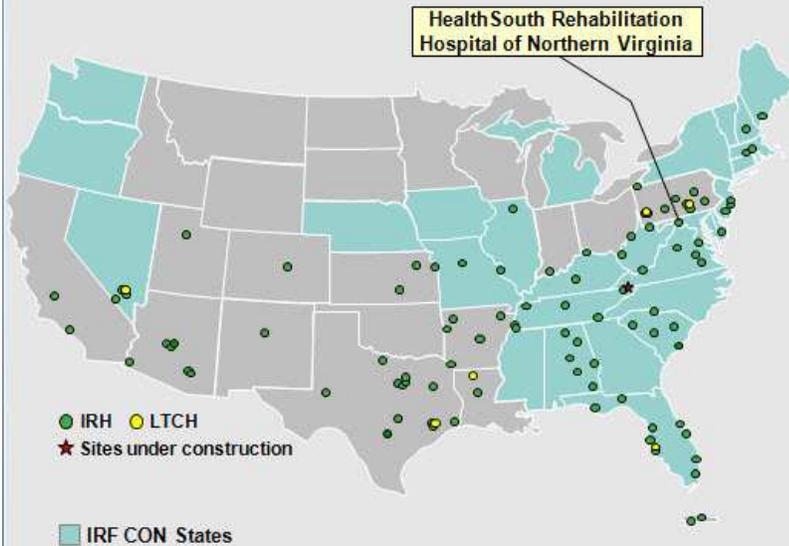
**3:00 p.m. Transportation to Dulles Airport**

# Operating Performance Update

- Reminder: Based on the results of Q1, the Company raised its 2010 full-year performance forecast to the high end of the guidance ranges.
- Good performance through May (volume, expense management and pricing).
  - Volume: solid in April, soft in May, appears to be rebounding in June
  - Expenses: continue to be aggressively managed
  - Pricing: favorable year-over-year trend
- New Hospitals:
  - Began integration of Desert Canyon Rehabilitation Hospital on June 1, 2010
  - Will begin taking patients mid-June at HealthSouth Rehabilitation Hospital of Northern Virginia
- As is our policy, full-year guidance will be addressed as part of our quarterly earnings release.

# HEALTHSOUTH

Largest Provider of Inpatient Rehabilitative Healthcare Services in the U.S.



## Portfolio

- 22,000 Employees
- 95 Rehabilitation Hospitals
- 38 Outpatient Rehab Satellite Clinics
- 6 Long-Term Acute Care Hospitals
- 25 Hospital-Based Home Health Agencies

## HealthSouth Market Share

- ~ 8% of IRFs
- ~ 18% of Licensed Beds
- ~ 21% of Patients Served

# Strategy Recap

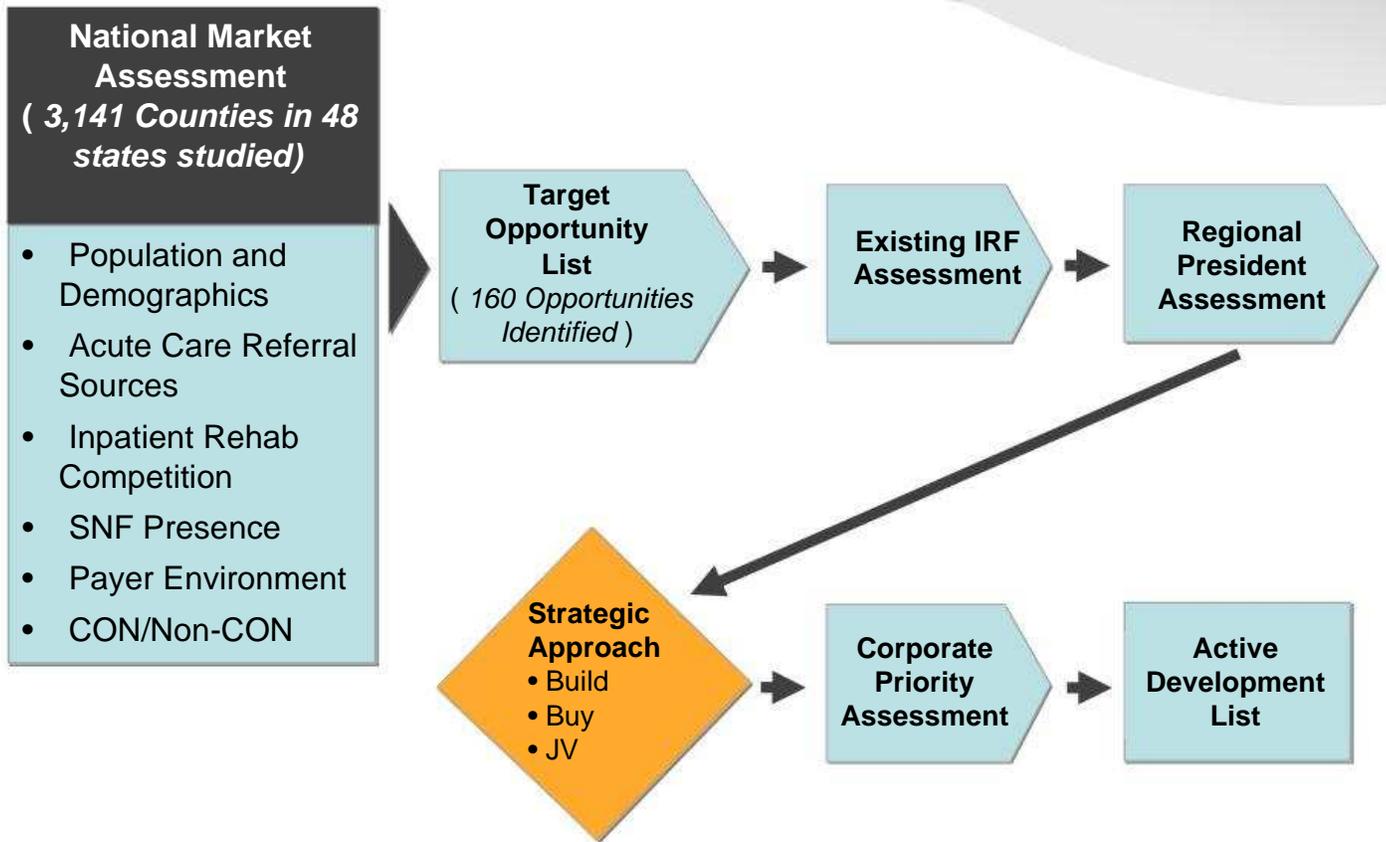
- ✓ Priority: Reduce our leverage and strengthen our balance sheet
  - No obvious near-term debt repayment opportunities
  - 10 <sup>3</sup>/<sub>4</sub> Senior Notes callable June 2011 at 105 <sup>3</sup>/<sub>8</sub>
  - 2010 focus: growing Adjusted Consolidated EBITDA <sup>(1)</sup> to reduce leverage
- ✓ Near-term: Capitalize on our market-leading position in inpatient rehabilitation
  - Continue to increase market share
  - Break ground on a minimum of two new rehabilitation hospitals each year
  - Acquire or joint venture a minimum of two IRFs per year
- ✓ Longer-term: Prepare for potential expansion into complementary post-acute segments

<sup>(1)</sup> Reconciliation to GAAP provided on slides 30 and 31.

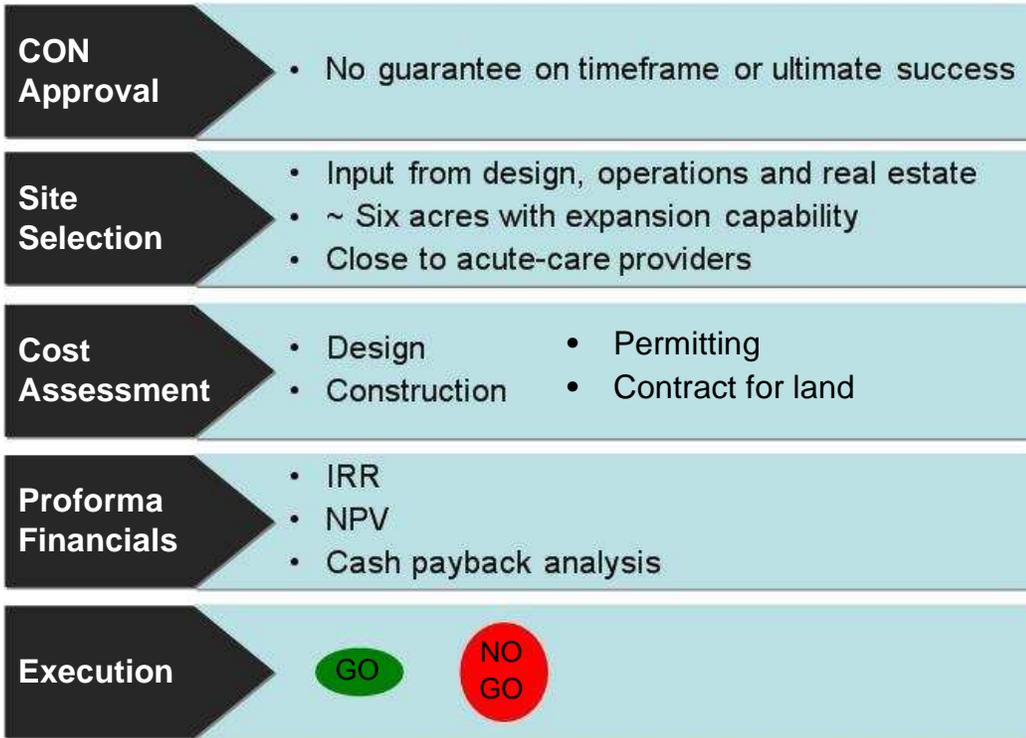
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**Development Process, De novo Trends and  
Market Dynamics for Loudoun County**  
Clinical Information System
- Jay Grinney  
**Mark Tarr**  
Randy Carpenter
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# Market Assessment Process



# De Novo Evaluation Process



# Proforma 40 Bed De Novo

<b>Capital Cost (million)</b>	<b>\$ Range</b>	
	<b>Low</b>	<b>High</b>
Construction, design, permitting, etc.	\$ 11.0	\$ 14.5
Land	1.5	3.5
Equipment	2.5	3.0
	<u>\$ 15.0</u>	<u>\$ 21.0</u>

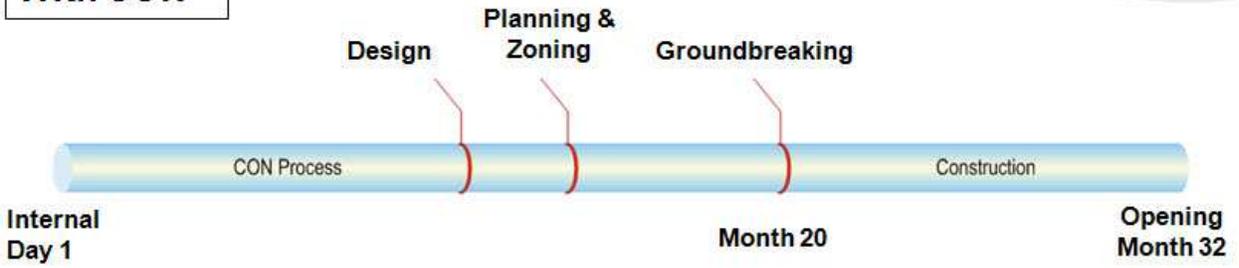
  

<b>Pre-opening Expenses (thousand)</b>	<b>Low</b>	<b>High</b>
Operating	\$ 200	\$ 300
Salaries, wages and benefits	150	200
	<u>\$ 350</u>	<u>\$ 500</u>

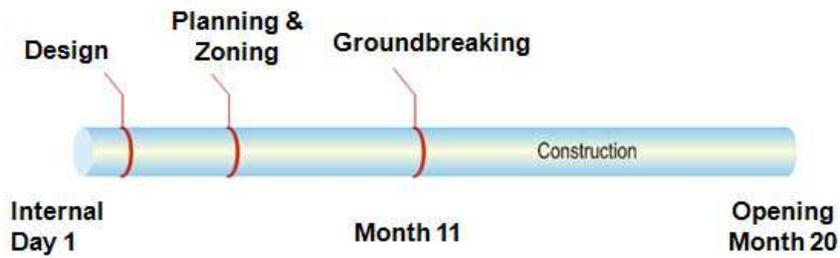
**Target Cash Pay-back 6-7 years**

# De Novo Timeline

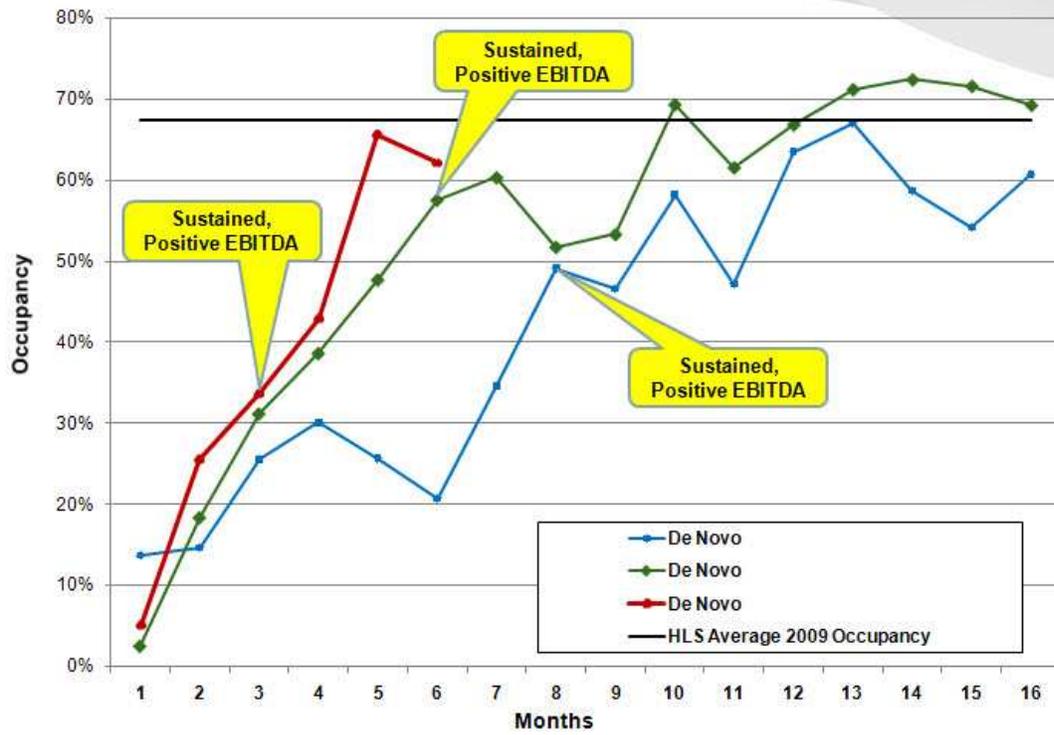
## With CON



## Without CON



# De Novo Occupancy and Hospital EBITDA <sup>(1)</sup> Trends



<sup>(1)</sup> Hospital EBITDA = earnings before interest, taxes, depreciation and amortization directly attributable to the related hospital.



# Agenda

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# Clinical Information Systems in Healthcare

## The Facts

- Clinical information systems (CIS) are a key component of successful quality, safety and patient satisfaction initiatives in healthcare
- Hospitals that implemented Computerized Physician Order Entry (CPOE) reported better quality of care and lower mortality rates according to a recent study\*
- 2008 100 Most Wired Hospitals achieved significantly better quality indicators than other hospitals\*\*
  - Mortality rate
  - Patient safety index
  - Core measures index
- CIS adoption is not solely responsible for these results
- **HOWEVER...** adoption of CIS in healthcare is very slow!

\* Source: Joint Commission Journal on Quality and Patient Safety, June 2008

\*\* Source: The 100 Most Wired Hospitals and Health Systems 2008, Hospitals and Health Networks, July 2008

# 2005-2009 EMR Adoption Model Trends

(5,235 non-federal acute care U.S. hospitals)

		2005 Final	2009 Final
Stage 7	Complete EMR; standardized transactions to share data; Data warehousing; Data continuity with Emergency Dept, ambulatory	0.0%	0.7%
Stage 6	Physician documentation (structured templates), full Clinical Decision Support (variance & compliance), full Digital Imaging	0.0%	1.6%
Stage 5	Closed loop medication administration, 5 rights with bar code	.001%	3.8%
Stage 4	Computerized Physician Order Enter, Clinical Decision Support (clinical protocols)	2.5%	7.4%
Stage 3	Nursing/clinical documentation , Clinical Decision Support(error check), Digital Radiology	10.0%	50.9%
Stage 2	Clinical Data Repository, Controlled Medical Vocabulary, may have Document Imaging; Health Info Exchange capable	48.8%	16.9%
Stage 1	Ancillaries - Lab, Radiology, Pharmacy - All Installed	19.6%	7.2%
Stage 0	All Three Ancillaries - Lab, Radiology, Pharmacy Not Installed	18.4%	11.5%

Source: HIMSS Analytics™ Database

N = 5,235

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**HEALTHSOUTH**

# Electronic Medical Record (EMR) Adoption Model

- Most U.S. hospitals are at Stage 3 (Foundation Stage) or below
- Stages 0, 1 and 2 are slowing
- Stage 3 is growing the fastest
  - 10% in 2005 - 50.9% in 2009
- Advanced Stages 3 through 7
  - Require only one service or unit to be implemented
  - Reduce medical errors and improve clinical outcomes
- Stage 5 is the most difficult to achieve
  - Integration, technology and reengineering requirements
  - Significant investment in capital, executive commitment and culture adoption
- Over 86% of U.S. Hospitals do NOT have CPOE (computerized physician order entry) implemented

# HealthSouth Clinical Information Technology

## Current State

Item	Current State	Comments
Clinical Documentation	Mostly manual	Some MS Word templates
Order Management	Manual	Team working on automation with pilot in multiple hospitals.
Pharmacy	Automated	All HealthSouth IRFs, primary product is lacking functionality.
Lab/Radiology Imaging	N/A	In house not required in most hospitals
Document Management	Basic	Business office imaging capabilities exist
Clinical Outcomes	Mostly manual	Clinical data repository not available

# Vendor Selection Process

## Selection Process

- 2005 - Request for Proposal (13 vendors responded; 3 finalists)
- 2007 Project on hold due to business unit divestitures
- 2009 Cerner final selection
- July 2009 Core team assembled



## Why Cerner?

- Integrated solution meeting all functional requirements
- Enterprise capable vendor with scalability
- Positive references
- Experience in inpatient rehabilitation setting

# Key Features

## Patient Safety Features:

Focused online documentation (physician, nursing, therapy)

Real time patient condition awareness (medical and functional) from any team member support device

Clinical data repository (reporting and outcomes)

Electronic Medical Record

Medication administration system with Point of Care bar-coding

Computerized physician order entry with clinical decision support alerts (Dec 2010)

## Operational Efficiency:

Point of care charge capture (therapy intensity)

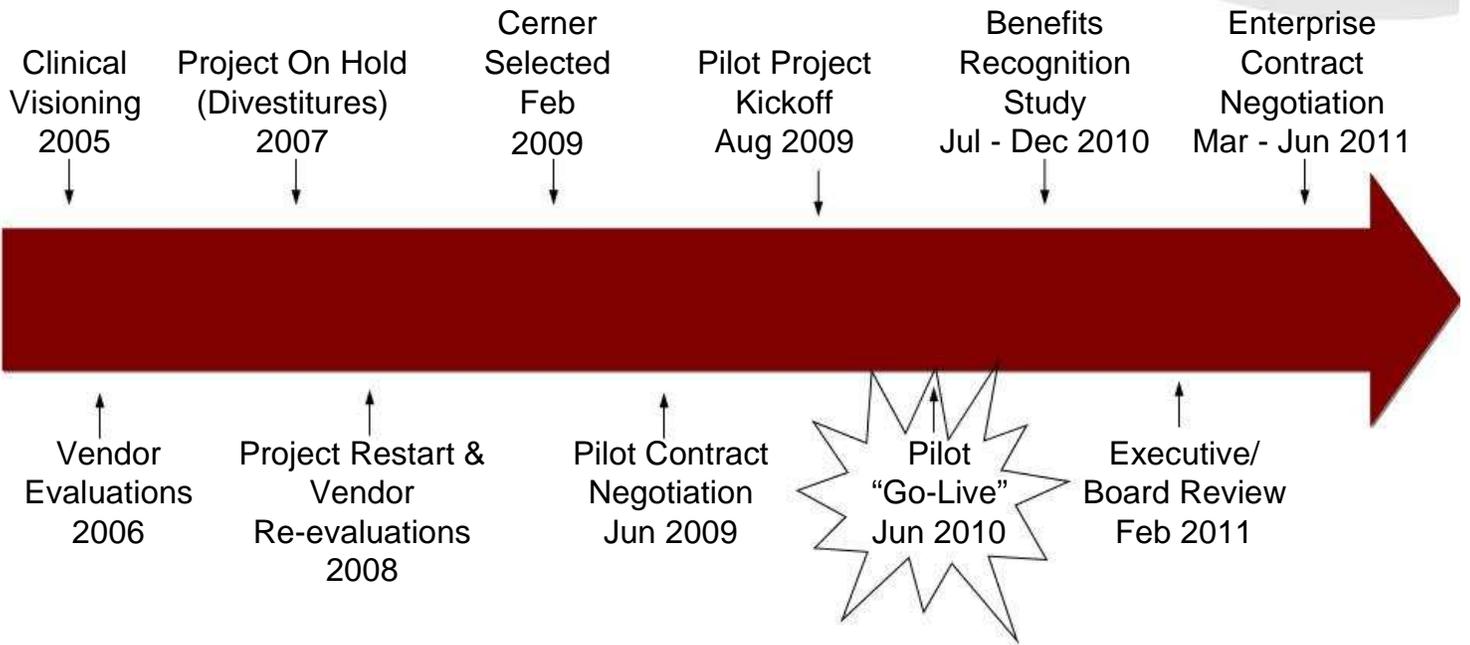
Results reporting feeds from legacy and outside systems

Workflow management

Patient/resource scheduling

Knowledge content/patient education

# Project Timeline



# Agenda

- 1:00 p.m. Overview, Strategy and Performance Update Jay Grinney  
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# Appendix

# HealthSouth Rehabilitation Hospital of Northern Virginia

- Grand Opening June 2010
- 40 private beds with flat screen televisions and wireless internet capability
- 47,500 square feet
- Expected to generate approximately 80 new, full-time jobs
- Latest rehabilitation equipment and therapy tools
- Point of care documentation using a clinical information system
- Serve patients throughout the Northern Virginia area
- Area's newest free-standing inpatient rehabilitation hospital

## Our Rehabilitation Disciplines

**Rehabilitation physician :** Daily visits by a physician trained in physical medicine and rehabilitation.

**Rehabilitation nursing :** Implement each patient's medical care program as directed by his or her physician.

**Physical therapy :** Evaluate and design a treatment program to address limitations in physical function, mobility and safety.

**Occupational therapy :** Design and deliver activity-based therapy to promote independence in the areas of self care, home management and community reintegration.

**Respiratory therapy :** Ensure proper respiratory function through services such as oxygen supplements and aerosol treatments.

## Our Rehabilitation Disciplines (cont'd)

**Speech-language pathology** : Assess and treat individuals with communication and comprehension disorders, cognitive difficulties and swallowing disorders.

**Dietary and nutritional counseling** : Supervise all meals to ensure patients receive the necessary nutrition.

**Case Management** : Coordinate with the physician to ensure the patient's needs are met and involve the family and other caregivers in the patient's rehabilitation.

**Post-discharge services** : Complete the continuum of care with outpatient therapy and home health.

# State-of-the-art rehabilitation technologies :



## VitalStim

VitalStim® Therapy is an innovative procedure that facilitates retraining of throat muscles affected by dysphagia, or difficulty swallowing.



## Experia

VitalStim with Biofeedback



## Bioness NESS H200

The innovative NESS H200 Neuroprosthetic and Rehabilitation System from Bioness Inc., helps patients improve hand function and voluntary movement, helping them return to daily activities with confidence.



## Reo Go

The Reo Go™ provides a platform for robot-assisted therapy that retrains arm movements for patients recovering from stroke or other neurological conditions.

## State-of-the-art rehabilitation technologies :



### **AutoAmbulator**

Bringing cutting-edge technology into the rehabilitation process, the AutoAmbulator is an innovative therapeutic device designed to help rehabilitate patients who experience difficulty walking.



### **LiteGait**

Ambulation training device - used with and without a treadmill.

## Reconciliation of Net Income to Adjusted Income from Continuing Operations and Adjusted Consolidated EBITDA (1) (3) (4)

	Three Months Ended March 31, 2010		Three Months Ended March 31, 2009		Year Ended December 31, 2009		Year Ended December 31, 2008	
		Per Share <sup>(2)</sup>		Per Share <sup>(2)</sup>		Per Share <sup>(2)</sup>		Per Share <sup>(2)</sup>
(In Millions, Except per Share Data)								
<b>Net income</b>	\$ 50.5	\$ 0.54	\$ 53.5	\$ 0.61	\$ 128.8	\$ 1.45	\$ 281.8	\$ 3.40
Loss (income) from discontinued operations, net of tax, attributable to HealthSouth	3.1	\$ 0.03	3.0	0.03	(1.5)	(0.02)	(16.6)	(0.20)
Net income attributable to noncontrolling interests	(9.8)	(0.11)	(8.6)	(0.10)	(34.0)	(0.36)	(29.4)	(0.35)
<b>Income from continuing operations attributable to HealthSouth</b>	<b>43.8</b>	<b>0.47</b>	<b>47.9</b>	<b>0.55</b>	<b>93.3</b>	<b>1.05</b>	<b>235.8</b>	<b>2.84</b>
Gain on UBS settlement	-	-	-	-	-	-	(121.3)	(1.46)
Government, class action, and related settlements	-	-	(15.9)	(0.18)	36.7	0.41	(67.2)	(0.81)
Professional fees – accounting, tax, and legal	2.9	0.03	4.8	0.05	8.8	0.10	44.4	0.53
Gain on early extinguishment of debt	-	-	(1.8)	(0.02)	-	-	-	-
Loss on interest rate swaps	4.3	0.05	5.0	0.06	19.6	0.22	55.7	0.67
Accelerated depreciation of corporate campus	-	-	-	-	-	-	10.0	0.12
Interest associated with UBS settlement	-	-	-	-	-	-	(9.4)	(0.11)
Adjustment for prior period amounts in tax provision	0.9	0.01	(0.3)	(0.00)	(8.8)	(0.10)	(75.1)	(0.90)
<b>Adjusted income from continuing operations</b>	<b>51.9</b>	<b>0.56</b>	<b>39.7</b>	<b>0.45</b>	<b>149.6</b>	<b>1.68</b>	<b>72.9</b>	<b>0.88</b>
Adjustment for dilution	-	(0.08)	-	(0.06)	-	(0.23)	-	(0.12)
<b>Adjusted income from continuing operations per diluted share</b>	<b>\$ 0.48</b>		<b>\$ 0.39</b>		<b>\$ 1.45</b>		<b>\$ 0.76</b>	
Current period amounts in tax provision	1.6		1.5		5.6		5.0	
Interest expense and amortization of debt discounts and fees, excluding interest associated with UBS settlement	30.5		34.4		125.8		168.9	
Depreciation and amortization, excluding accelerated depreciation of corporate campus	18.3		17.4		70.9		72.4	
	102.3		93.0		351.9		319.2	
<b>Other adjustments per the Company's credit agreement:</b>								
Impairment charges, including investments	-		0.7		1.4		2.4	
Net noncash loss on disposal of assets	-		1.0		3.5		2.0	
Loss on early extinguishment of debt	0.3		-		12.5		5.9	
Stock-based compensation expense	3.8		3.7		13.4		11.7	
Other	-		-		0.3		-	
<b>Adjusted Consolidated EBITDA</b>	<b>\$ 106.4</b>		<b>\$ 98.4</b>		<b>\$ 383.0</b>		<b>\$ 341.2</b>	
<b>Weighted average common shares outstanding:</b>								
Basic		92.7		87.5		88.8		83.0
Diluted		108.0		100.9		103.3		96.4

## Reconciliation Notes

1. Adjusted income from continuing operations and Adjusted Consolidated EBITDA are non-GAAP financial measures. The Company's leverage ratio (Total Consolidated Debt to Adjusted Consolidated EBITDA for the trailing four quarters) is, likewise, a non-GAAP financial measure. Management and some members of the investment community utilize adjusted income from continuing operations as a financial measure and Adjusted Consolidated EBITDA and leverage ratio as liquidity measures 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 these adjusted measures, the reader should be aware that in the future HealthSouth may incur expenses similar to the adjustments set forth above.
2. Per share amounts for each period presented are based on basic weighted average common shares outstanding for all amounts except adjusted income from continuing operations per diluted share, which is based on diluted weighted average shares outstanding. The difference in shares between the basic and diluted shares outstanding is primarily related to our convertible perpetual preferred stock.
3. Adjusted income from continuing operations per diluted share and Adjusted Consolidated EBITDA are two components of our guidance.
4. The Company's Credit Agreement allows certain other items to be added to arrive at Adjusted Consolidated EBITDA, and there may be certain other deductions required.

