

HEALTHSOUTH Announces Settlement of Cost Report Dispute

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HEALTHSOUTH Corporation today announced that it had entered into a settlement agreement with the United States Department of Justice in connection with a lawsuit alleging that HEALTHSOUTH had improperly included certain costs on Medicare cost reports submitted for various periods in 1992 through 1997. HEALTHSOUTH has not admitted liability under the lawsuit, which has been dismissed under the settlement agreement. Under the terms of the agreement, HEALTHSOUTH will pay \$7.9 million to the United States, plus interest at 7% from October 1, 2000. The allegations in the lawsuit related to the cost reporting treatment of various costs relating to three rehabilitation hospital leases, the purchase of certain computers and related goods and services and the abandonment of computer assets owned by another company acquired by HEALTHSOUTH in 1994. The complaint alleged that the treatment of these costs in the cost reports was inconsistent with Medicare regulations relating to cost limits on reimbursement for sale-and-leaseback transactions, transactions with related parties and abandonment of tangible assets, resulting in alleged overpayments to HEALTHSOUTH. The company noted that none of the allegations related to patient care issues, quality of care or billing for services not rendered.

As part of the settlement agreement, HEALTHSOUTH will enter into a corporate integrity agreement with the Office of Inspector General of the Department of Health and Human Services. HEALTHSOUTH noted that the corporate integrity agreement builds upon the company's existing corporate compliance program and will provide for certain additional employee education activities and safeguards against erroneous billing and cost reporting.

"We were pleased to cooperate with the government in this matter and are pleased to put it behind us," said Richard M. Scrushy, Chairman of the Board and Chief Executive Officer of HEALTHSOUTH. "While we devote significant resources to complying with all reimbursement regulations, the volume and complexity of those regulations make it inevitable that differences in interpretation and even errors may occur. In this case, the total amount at issue is approximately 0.1% of our total Medicare revenue for the years in question, and we believe that it is in the best interests of our stockholders to put this matter to rest and avoid the time, expense and distraction involved in litigation."

Scrushy added, "It is important to remember that we fully cooperated with the government in its investigation, voluntarily providing all the information requested of us and devoting significant efforts toward getting this matter resolved fairly and efficiently. It is also important to remember that the matters at issue here involved questions of compliance with detailed, technical reimbursement regulations and did not involve any questions of patient care or the quality or appropriateness of services we provided. Further, the allegations in this case involve only specific items in past cost reports, and this settlement does not involve any ongoing practices or policies that would impact future results of operations. While we regret that these issues ever arose, we believe that we have responded in a way that is in the best interests of our stockholders and the other constituencies that we serve and that demonstrates HEALTHSOUTH's commitment to corporate compliance and cooperation with all regulatory agencies."

HEALTHSOUTH is the nation's largest provider of outpatient surgery, diagnostic imaging and rehabilitative healthcare services, with over 1,900 locations in all 50 states, the United Kingdom, Australia and Puerto Rico. HEALTHSOUTH can be found on the Web at <http://www.healthsouth.com/>.

Statements contained in this press release which are not historical facts are forward-looking statements. Without limiting the generality of the preceding statement, all statements in this press release concerning or relating to estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results are forward-looking statements. In addition, HEALTHSOUTH, through its senior management, may from time to time make forward-looking public statements concerning the matters described herein. Such forward-looking statements are necessarily estimates reflecting the best judgment of HEALTHSOUTH's senior management based upon current information, involve a number of risks and uncertainties and are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. HEALTHSOUTH's actual results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors, including those identified in this press release and in the public filings made by HEALTHSOUTH with the Securities and Exchange Commission, including HEALTHSOUTH's Annual Report on Form 10-K for the year ended December 31, 2000 and its Quarterly Reports on Form 10-Q, and forward-looking statements contained in this press release or in other public statements of HEALTHSOUTH or its senior management should be considered in light of those factors. There can be no assurance that such factors or other factors will not affect the accuracy of such forward-looking statements.

For more information, contact Richard M. Scrushy, Chairman & CEO, or

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