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HEALTHSOUTH Announces Results for Quarter and Year Ending December 31, 2002

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BIRMINGHAM, Alabama

HEALTHSOUTH Corporation announced operating results for the quarter and year ended December 31, 2002. For the quarter, HEALTHSOUTH's revenues were $923.5 million, a decrease of 17.2% as compared to $1.115 billion for the fourth quarter of 2001. Operating revenues for the 2002 quarter were $1.089 billion. Operating data exclude certain items included under generally accepted accounting principles, as more fully described below. For the 2002 quarter, the company incurred a net loss of ($405.8) million, compared to net income for the 2001 quarter of $67.9 million. Operating income for the 2002 quarter was $18.6 million, compared to operating income of $88.6 million for the 2001 quarter. The company incurred a net loss per share (assuming dilution) of ($1.03) for the 2002 quarter, compared to earnings per share (assuming dilution) for the 2001 quarter of $0.17. Operating earnings per share (assuming dilution) were $0.05 for the 2002 quarter, compared to $0.22 for the 2001 quarter.

For the year ended December 31, 2002, HEALTHSOUTH's revenues were $4.311 billion, compared to $4.380 billion for 2001. Operating revenues for 2002 were $4.466 billion. The company incurred a net loss of ($270.1) million for 2002, compared to net income for 2001 of $202.4 million. Operating income for 2002 was $267.3 million, compared to operating income of $326.1 million for 2001. For the year, the company incurred a net loss per share (assuming dilution) of ($0.68), compared to earnings per share (assuming dilution) of $0.51 for 2001. Operating earnings per share (assuming dilution) for 2002 were $0.67, compared to $0.82 for 2001.

Operating revenues, operating income and operating earnings per share exclude the effects of certain items that are included in revenues and net income, including unusual items of gains or loss, the effects of changes in accounting principles, the effects of changes in estimates, and restructuring and similar charges. Management believes that operating revenues, operating income and operating earnings per share excluding such items and charges provide a clearer picture of HEALTHSOUTH's operational performance than revenues, net income and earnings per share standing alone. A reconciliation of operating revenues, operating income and operating earnings per share to revenues, net income and earnings per share as determined under generally accepted accounting principles is provided in the accompanying financial information, and a description of the items excluded from revenues and net income to calculate operating revenues and operating income in the fourth quarter of 2002 is set forth below. For the fourth quarter of 2002, the following items and charges were excluded from revenues and net income to calculate operating revenues, operating income and operating earnings per share:

* Restructuring and Other Charges: The company incurred restructuring and other charges aggregating approximately $445.0 million pretax, or $305.1 million net of taxes. Many of the components of these charges were non-cash in nature. The cash portion of the charges was approximately $58.9 million ($36.8 million net of taxes). Included in this category are:

  * Restructuring charges of approximately $255.5 million ($175.7 million net of taxes) relating to the company's decision to close, consolidate or sell approximately 220 facilities, primarily outpatient rehabilitation facilities. This decision was made primarily in response to the impact of decreased Medicare reimbursement for outpatient rehabilitation services, and the facilities involved were determined to be consistent underperformers, to represent duplicative capacity or no longer to be strategically useful to the company. The restructuring charges include employee severance expense and continuing lease obligations on closed facilities.

* Asset impairment charges under the requirements of Statement of Financial Accounting Standards No. 144 of approximately $55.6 million ($34.1 million net of taxes). The impairment charges result from a comparison of the fair value of affected long-lived assets to the carrying value of such assets, and primarily relate to the adverse impact of decreases in Medicare reimbursement for outpatient rehabilitation services.

* Goodwill impairment charges under the requirements of Statement of

Financial Accounting Standards No. 142 of approximately $80.5 million ($62.5 million net of taxes). The impairment charges result from a comparison of the implied fair value of the goodwill associated with various reporting units containing facilities acquired in various past transactions with the current fair value of those units in accordance with SFAS No. 142. Again, the impairment is primarily related to diminished expected future cash flows primarily relating to the adverse impact of decreases in Medicare reimbursement for outpatient rehabilitation services. HEALTHSOUTH is awaiting a final report from an independent appraisal firm to complete the detailed calculations required by SFAS No. 142; thus, the goodwill impairment charge reflected in this announcement is preliminary in nature and subject to change upon receipt of the final appraisal report and completion of such calculations. Any adjustment to management's preliminary estimate will be reflected in the audited financial statements to be included in the company's Annual Report on Form 10-K for the year ended December 31, 2002.

* Expenses of approximately $6.1 million ($3.7 million net of taxes) relating to the settlement of certain litigation relating to a contract dispute over a terminated surgery center acquisition and to a potential tax liability incurred by an entity the company sold to a third party.

* Adjustments aggregating approximately $17.1 million ($10.5 million net of taxes) relating to final post-closing settlements in connection with the sale of four rehabilitation hospitals to a third party and to the sale of certain technology assets to Source Medical Solutions, Inc.

* Losses aggregating approximately $17.3 million ($10.6 million net of taxes) representing the company's share of the losses of certain unconsolidated entities accounted for on the equity method.

* Unrealized losses on investment aggregating approximately $9.6 million ($5.9 million net of taxes) relating to unconsolidated entities in which the company has an interest accounted for on the cost method. Under generally accepted accounting principles, the company is required to report unrealized losses on such investments, but is not permitted to report unrealized gains or to offset such unrealized gains against unrealized losses.

* A loss of approximately $3.4 million ($2.1 million net of taxes) on the sale of the company's interest in a surgery center. In exchange for accepting a lower price for the sale of its interest, the company obtained relief from certain restrictive covenants relating to the surgery center and resolved a dispute over amounts owed by the surgery center to the company.

* Other Unusual Charges: In addition to the amounts described above as "Restructuring and Other Charges", during the fourth quarter the company incurred certain additional unusual charges, the effects of which are reflected in other line items on the company's income statement. These items aggregated approximately $194.8 million ($119.3 net of taxes). The cash portion of such charges was approximately $175.8 million ($107.7 million net of taxes). Those items include the following:

* The company's results of operations include the effects of a change in estimate relating to the valuation of accounts receivable and bad debt expense as a result of a detailed analysis of the collectibility of accounts receivable. During the fourth quarter, the company's enhanced focus on collection of accounts receivable resulted in a cash collection rate that was significantly higher than the company's previous experience. In the course of the intensified focus on collections, however, the company reviewed its estimates of historical reserves for contractual allowances and bad debt and determined that its estimates regarding the collectibility of some older accounts receivable should be revised. The results of this change in estimate are reflected as a reduction of approximately $100.0 million ($61.3 million net of taxes) in revenues and an increase of approximately $10.0 million ($6.1 million net of taxes)

in bad debt reserves.

* The company's fourth quarter results reflect a change in estimate relating to open cost report settlements for the company's inpatient operations. The cost report settlements relate primarily to fiscal years ending December 31, 2001 and earlier. That change in estimate is reflected as a reduction of approximately $65.8 million ($40.3 net of taxes) in revenues. During 2002, the inpatient rehabilitation facilities transitioned to the new Medicare prospective payment system.

* The company accrued a reserve of approximately $19.0 million ($11.6 million net of taxes) reflecting estimated future obligations relating to certain unfunded contractual retirement benefits. This accrual is reflected as an increase in operating expenses. The reserve will be reduced in future periods as the related benefits are paid.

In addition to the foregoing, the company incurred significant expenses in the fourth quarter relating to legal, consulting and audit fees incurred in connection with the proposed tax-free separation of the company's surgery center operations and legal, consulting and other professional fees relating to litigation, internal and external investigations and related matters. These expenses are reflected in operating expenses for the quarter and are not excluded in calculating operating income and operating earnings per share, but management believes that they are not representative of operating expenses that are expected to be incurred going forward.

"The fourth quarter was another very challenging one for us, but we believe that it represents a bottom from which we expect to see growth in 2003," said Richard M. Scrushy, Chairman of the Board and Chief Executive Officer of HEALTHSOUTH. "Our quarterly operating revenues decreased 2% year over year, and were essentially flat on a sequential-quarter basis, primarily as a result of decreases in outpatient rehabilitation revenues and continued weak volumes in outpatient rehabilitation as we continue to deal with the effects of Medicare Program Transmittal 1753. However, we saw some positive trends in other lines of business, as inpatient rehabilitation revenues increased 12% and surgery center revenues increased 5% over the fourth quarter of 2001. In addition, we saw year-over-year same-store volume growth in our inpatient rehabilitation facilities, surgery centers and medical centers, including our tenth consecutive quarter of same-store growth in surgery volumes. In addition, volumes were off only slightly from the third quarter in our outpatient rehabilitation and diagnostic operations, and part of that reduction was due to the closure or consolidation of some facilities in those lines of business during the quarter. We believe that this confirms that we have reached a baseline from which we can resume positive trends in those lines."

Scrushy continued, "We have responded to these challenges by initiating a plan to close, consolidate or sell a number of locations, primarily outpatient rehabilitation facilities, that are duplicative, that are no longer strategic for us or that are consistent underperformers. Some of those facilities were closed, consolidated or sold in the fourth quarter, and we are continuing to implement the plan in the first quarter of 2003. All of the costs we expect to incur with respect to the closure plan are reflected in the fourth quarter restructuring charge. We have also reduced our workforce, and we are closely monitoring other expenditures. During January 2003, we began seeing the results of our efforts, as our revenues and volumes exceeded budget in all of our business lines. Based on the trends we have seen thus far in the first quarter, we remain comfortable with our EPS guidance of $0.13 for the first quarter and $0.55 for 2003, and we reiterate our expectation that capital expenditures will not exceed $400 million for the year."

Scrushy concluded, "We believe that the fourth quarter represents a bottom from which we can grow and produce positive results. The last half of 2002 was a difficult chapter in HEALTHSOUTH's history, but we believe we are positioned to put it behind us and move forward again in 2003."

HEALTHSOUTH is the nation's largest provider of outpatient surgery, diagnostic imaging and rehabilitative healthcare services, with nearly 1,700 locations in all 50 states, the United Kingdom, Australia, Puerto Rico, Saudi Arabia and Canada. HEALTHSOUTH can be found on the Web at http://www.healthsouth.com/ .

HEALTHSOUTH will hold a conference call to discuss its third quarter results at 10:00 a.m. Central Time on Monday, March 3, 2003. Simultaneously with the conference call, a "webcast" of the call will be available to interested parties at http://www.healthsouth.com/ via an Internet link under the "Investor Relations" section. A replay of the call will be available at the same Internet site address for 15 days following the call.

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 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, 2001 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.

HEALTHSOUTH Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED - In thousands, except per share amounts)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2002	2001	2002	2001
Revenues	$923,528	$1,115,152	$4,310,771	$4,380,477
Operating unit expenses	822,369	731,542	3,093,128	2,902,833
Corporate general and administrative expenses	61,063	44,380	199,445	167,206
Provision for doubtful accounts	30,460	24,649	104,994	107,871
Depreciation and amortization	87,249	95,039	324,143	375,270
Early extinguishment of debt	(56)	--	(19,600)	6,475
Restructuring and Other Charges	445,012	34,244	521,702	176,337
Interest expense	58,537	52,519	217,444	218,100
Interest income	(2,510)	(1,607)	(6,715)	(7,349)
	1,502,124	980,766	4,434,541	3,946,743
Income before income taxes and minority interests	(578,596)	134,386	(123,770)	433,734
Provision for income taxes	(203,078)	46,274	(55,208)	139,467
Income before minority interests	(375,518)	88,112	(68,562)	294,267
Minority interests	(30,280)	(20,214)	(118,367)	(91,880)
Income before cumulative effect of accounting change	(405,798)	67,898	(186,929)	202,387
Cumulative effect of accounting change	--	--	(83,165)	--
Net income	$(405,798)	$67,898	$(270,094)	$202,387
Weighted average common shares outstanding	395,488	391,446	394,766	389,717
Income per common share before cumulative effect of accounting change	(1.03)	0.17	(0.47)	0.52
Cumulative effect of accounting change	--	--	(0.21)	--
Net income per common share	$(1.03)	$0.17	$(0.68)	$0.52
Weighted average common shares outstanding -- assuming dilution	395,894	399,940	398,330	399,227
Income per common share before cumulative				

effect of accounting change -- assuming dilution	(1.03)	0.17	(0.47)	0.51
Cumulative effect of accounting change	--	--	(0.21)	--
Net income per common share -- assuming dilution	$(1.03)	$0.17	$(0.68)	$0.51
Add-back to income for diluted earnings per share: Interest and amortization on convertible debt.	$ --	$ --	$10,420	$ --
	*	*	*	

* The effect of these securities was antidilutive.

Income per common share before cumulative effect of accounting change	$(405,798)	$67,898	$(186,929)	$202,387
Add back unusual items				
Unusual items	639,724	34,244	685,938	199,150
Tax benefit (provision)	(215,347)	(13,527)	(231,678)	(75,405)
Operating income	$18,579	$88,615	$267,331	$326,132
Weighted average common shares outstanding	395,488	391,446	394,766	389,717
Weighted average common shares outstanding -- assuming dilution	395,894	415,442	398,330	414,729
Operating income per common share	$0.05	$0.23	$0.68	$0.84
Operating income per common share -- assuming dilution	$0.05	$0.22	$0.67	$0.82
Add-back to income for diluted earnings per share: Interest and amortization on convertible debt.	$ --	$3,112	$ --	$12,448
	*	*		

* The effect of these securities was antidilutive.

HEALTHSOUTH Corporation and Subsidiaries
Consolidated Statements of Income
Twelve Months Ended December 31,2002
(UNAUDITED - In thousands, except per share amounts)

	Twelve Months Ended December 31, 2002	Less Unusual Items	Twelve Months Ended December 31, 2002 Before Unusual Items
Revenues	$4,310,771	$(154,883) (1)	$4,465,654
Operating unit expenses	3,093,128	18,953 (2)	3,074,175
Corporate general and administrative expenses	199,445	--	199,445
Provision for doubtful accounts	104,994	10,000 (3)	94,994
Depreciation and amortization	324,143	--	324,143
Early extinguishment of debt	(19,600)	(19,600) (4)	--
Restructuring and Other Charges	521,702	521,702 (5)	--
Interest expense	217,444	--	217,444
Interest income	(6,715)	--	(6,715)
	4,434,541	531,055	3,903,486
Income before income taxes,			

minority interests and cumulative effect of accounting change	(123,770)	(685,938)	562,168
Provision for income taxes	(55,208)	(231,678)	176,470
Income before minority interests and cumulative effect of accounting change	(68,562)	(454,260)	385,698
Minority interests	(118,367)	--	(118,367)
Income before cumulative effect of accounting change, Impairment and other one time charges	(186,929)	(454,260)	267,331
Cumulative effect of accounting change	(83,165)	(83,165)	--
Net income	$(270,094)	$(537,425)	$267,331
Weighted average common shares outstanding	394,766		394,766
Income per common share before cumulative effect of accounting change	(0.47)		0.68
Cumulative effect of accounting change	(0.21)		--
Net income per common share	$(0.68)		$0.68
Weighted average common shares outstanding -- assuming dilution	398,330		398,330
Income per common share before cumulative effect of accounting change -- assuming dilution	(0.47)		0.67
Cumulative effect of accounting change	(0.21)		--
Net income per common share -- assuming dilution	$(0.68)		$0.67

(1) Effect of change in estimate relating to the valuation of accounts receivable and final cost report settlements for the company's inpatient operations.
(2) Effect of estimated future obligations relating to certain unfunded contractual retirement benefits.
(3) Effect of detailed analysis of collectibility of accounts receivable.
(4) Effect of early extinguishment of debt.
(5) Effect of restructuring charges relating to the company's decision to close, consolidate or sell certain facilities, asset impairment charges under the requirements of Statement of Financial Accounting Standards No. 144, goodwill impairment charges under the requirements of Statement of Financial Accounting Standards No. 142, loss on sale of certain facilities and other charges.

HEALTHSOUTH Corporation and Subsidiaries
Consolidated Statements of Income
Three Months Ended December 31, 2002
(UNAUDITED - In thousands, except per share amounts)

	Twelve Months Ended December 31, 2002	Less Unusual Items	Three Months Ended December 31, 2002 Before Unusual Items
Revenues	$923,528	$(165,815) (1)	$1,089,343
Operating unit expenses	822,369	18,953 (2)	803,416
Corporate general and administrative expenses	61,063	--	61,063

Provision for doubtful accounts	30,460	10,000 (3)	20,460
Depreciation and amortization	87,249	--	87,249
Early extinguishment of debt	(56)	(56) (4)	--
Restructuring and Other Charges	445,012	445,012 (5)	--
Interest expense	58,537	--	58,537
Interest income	(2,510)	--	(2,510)
	1,502,124	473,909	1,028,215
Income before income taxes and minority interests	(578,596)	(639,724)	61,128
Provision for income taxes	(203,078)	(215,347)	12,269
Income before minority interests	(375,518)	(424,377)	48,859
Minority interests	(30,280)	--	(30,280)
Net income	$(405,798)	$(424,377)	$18,579
Weighted average common shares outstanding	395,488	395,488	
Net income per common share	$(1.03)	$0.05	
Weighted average common shares outstanding -- assuming dilution	395,894	395,894	
Net income per common share - assuming dilution	$(1.03)	$0.05	

(1) Effect of change in estimate relating to the valuation of accounts receivable and final cost report settlements for the company's inpatient operations.
(2) Effect of estimated future obligations relating to certain unfunded contractual retirement benefits.
(3) Effect of detailed analysis of collectibility of accounts receivable.
(4) Effect of early extinguishment of debt.
(5) Effect of restructuring charges relating to the company's decision to close, consolidate or sell certain facilities, asset impairment charges under the requirements of Statement of Financial Accounting Standards No. 144, goodwill impairment charges under the requirements of Statement of Financial Accounting Standards No. 142 and other charges.

HEALTHSOUTH Corporation
Quarterly Statistics (Unaudited)
For Period Ending December 31, 2002

	4Q 2002	4Q 2001
Outpatient Rehab		
Total Visits:	1,951,462	2,391,459
Total Volume Growth (Y/Y):	-18.4%	
Same Store Volume Growth (Y/Y):	-11.6%	
Average Revenue per Visit:	$91	$98
Facility Count:	1,229	1,415
Surgery Centers		
Total Cases:	224,049	221,594
Total Volume Growth (Y/Y):	1.1%	
Same Store Volume Growth (Y/Y):	2.9%	
Average Revenue per Case:	$1,156	$1,116
Facility Count:	203	213
Diagnostic Imaging		
Total Scans:	266,432	275,191
Total Volume Growth (Y/Y):	-3.2%	
Same Store Volume Growth (Y/Y):	-0.6%	
Average Revenue per Scan:	$296	$307
Facility Count:	127	135
Inpatient Division		

Total Discharges:	30,602	29,297
Total Volume Growth (Y/Y):	4.5%	
Same Store Volume Growth (Y/Y):	5.7%	
Average Revenue per Discharge:	$16,183	$15,129
Facility Count:	117	120

Medical Centers

Total Days:	25,549	22,766
Total Volume Growth (Y/Y):	12.2%	
Same Store Volume Growth (Y/Y):	12.2%	
Average Revenue per Day:	$2,924	$3,042
Facility Count:	4	4

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