

HealthSouth Reports Strong EPS Results for First Quarter Ended March 31, 2009

Strong Same Store Discharge Growth and Effective Expense Management Continued Progress on Debt Reduction

PRNewswire-FirstCall
BIRMINGHAM, Ala.

HealthSouth Corporation today reported its results of operations for the first quarter ended March 31, 2009. The results showed consolidated net operating revenues of \$475.1 million for the first quarter of 2009 compared to \$464.2 million for the first quarter of 2008, or an increase of 2.3%. This increase was driven by a 5.7% quarter-over-quarter increase in patient discharges offset by lower pricing. The first quarter of 2008 contained a Medicare market basket update that became effective October 1, 2007 but was "rolled-back" from our Medicare reimbursement on April 1, 2008, thus lowering our pricing quarter over quarter. On a same store basis, discharges increased 4.8% quarter over quarter. Diluted net income per share was \$0.44 per share for the first quarter of 2009 compared to \$0.17 per share for the first quarter of 2008. This increase was primarily attributable to revenue growth, lower interest expense, and effective expense management.

On an adjusted basis, income from continuing operations was \$0.39 per diluted share for the first quarter of 2009, which represents an 116.7%, or \$0.21 per share, improvement over the \$0.18 per diluted share for the first quarter of 2008. Adjusted income from continuing operations excludes amounts associated with government, class action, and related settlements, our loss on interest rate swap, and other non-recurring items, as outlined in the attached supplemental information.

"The strategy we put in place in 2007 - focusing on deleveraging, growth, and expense management - yielded solid results in 2008 and continued to generate solid results in the first quarter of 2009," said Jay Grinney, President and Chief Executive Officer of HealthSouth. "We believe these results demonstrate the strength and sustainability of HealthSouth's business model. Our ongoing emphasis on providing high quality, cost-effective patient care and enhancing our balance sheet through continued debt repayment will position HealthSouth to produce significant EPS growth in 2009."

The Company continued to deleverage its balance sheet during the first quarter of 2009. Total debt outstanding approximated \$1.7 billion as of March 31, 2009. As of March 31, 2009, no amounts were drawn on our revolving credit facility and total cash and cash equivalents approximated \$90.7 million.

"Our strong cash flow from operating activities allowed us to reduce our debt by an additional \$85 million during the first quarter of 2009," said John Workman, Executive Vice President and Chief Financial Officer of HealthSouth. "The increase in Adjusted Consolidated EBITDA and our lower debt balance brought our leverage ratio to 4.9x as of March 31, 2009, based on the trailing four quarters of Adjusted Consolidated EBITDA. We now expect to be at the 4.5x level earlier than the end of 2010 and believe our longer term goal of 3.5x to 4.0x by the end of 2012 is progressively more achievable."

2009 Guidance

In our Current Report on Form 8-K dated February 23, 2009 and related earnings release, we provided 2009 guidance which consisted of adjusted diluted earnings per share in the range of \$0.85 to \$0.90 per share and Adjusted Consolidated EBITDA in the range of \$342.0 million to \$352.0 million. Based on our results for the first quarter of 2009, we expect our 2009 full-year results to be at the higher end of this guidance range.

Other Information

On January 1, 2009, we adopted Financial Accounting Standards Board Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. As a result, we have reclassified our noncontrolling interests (formerly known as "minority interests") as a component of equity and now report net income and comprehensive income attributable to our noncontrolling interests separately from net income and comprehensive income attributable to HealthSouth.

The information in this press release is summarized and should be read in conjunction with the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (the "March 2009 Form 10-Q"), when filed, as well as the Company's Current Report on Form 8-K filed on May 4, 2009. In addition, the Company will post supplemental slides today on its website at <http://investor.healthsouth.com/> for reference during its May 4, 2009 earnings call.

The Company expects to file its first quarter 2009 Form 10-Q this week. When filed, the report can be found on the Company's website at <http://investor.healthsouth.com/> and the SEC's website at www.sec.gov.

HealthSouth Corporation and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31,	
	2009	2008
	(As Adjusted)	
	(In Millions, Except Per Share Data)	
Net operating revenues	\$475.1	\$464.2
Operating expenses:		
Salaries and benefits	234.7	230.4
Other operating expenses	67.2	68.8
General and administrative expenses	25.5	28.1
Supplies	27.5	27.2
Depreciation and amortization	17.6	29.6
Occupancy costs	12.0	12.0
Provision for doubtful accounts	7.9	7.8
Loss (gain) on disposal of assets	1.0	(0.4)
Government, class action, and related settlements expense	(15.9)	(36.4)
Professional fees- accounting, tax, and legal	4.8	3.6
Total operating expenses	382.3	370.7
(Gain) loss on early extinguishment of debt	(1.8)	0.3
Interest expense and amortization of debt discounts and fees	34.4	47.4
Other expense (income)	0.2	(0.7)
Loss on interest rate swap	5.0	36.6
Equity in net income of nonconsolidated affiliates	(2.5)	(2.4)
Income from continuing operations before income tax expense	57.5	12.3
Provision for income tax expense	1.2	0.1
Income from continuing operations	56.3	12.2
(Loss) income from discontinued operations, net of income tax benefit	(2.8)	14.2
Net income	53.5	26.4
Less: Net income attributable to noncontrolling interests	(8.6)	(6.6)
Net income attributable to HealthSouth	44.9	19.8
Less: Convertible perpetual preferred stock dividends	(6.5)	(6.5)
Net income available to common shareholders	\$38.4	\$13.3
Weighted average common shares outstanding:		
Basic	87.5	78.9
Diluted	100.9	92.3

Basic and diluted earnings per common

share:

Income (loss) from continuing operations attributable to HealthSouth common shareholders	\$0.47	\$(0.02)
(Loss) income from discontinued operations, net of tax, attributable to HealthSouth common shareholders	(0.03)	0.19
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Net income per share available to HealthSouth common shareholders	\$0.44	\$0.17
	=====	=====

Amounts attributable to HealthSouth common shareholders:

Income from continuing operations, net of tax	\$48.0	\$4.6
(Loss) income from discontinued operations, net of tax	(3.1)	15.2
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Net income attributable to HealthSouth	\$44.9	\$19.8
	=====	=====

HealthSouth Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

March 31, December 31
2009 2008

(As Adjusted)
(In Millions)

Assets

Current assets:

Cash and cash equivalents	\$90.7	\$32.2
Restricted cash	59.5	154.0
Restricted marketable securities	20.0	20.3
Accounts receivable, net of allowance for doubtful accounts of \$31.3 in 2009; \$31.1 in 2008	241.4	235.8
Insurance recoveries receivable	181.8	182.8
Other current assets	61.1	57.6
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Total current assets	654.5	682.7
Property and equipment, net	670.5	673.9
Goodwill	414.7	414.7
Intangible assets, net	41.0	42.8
Investments in and advances to nonconsolidated affiliates	37.6	36.7
Income tax refund receivable	8.3	55.9
Other long-term assets	95.1	91.5
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Total assets	\$1,921.7	\$1,998.2
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Liabilities and Shareholders' Deficit

Current liabilities:

Current portion of long-term debt	\$21.7	\$23.6
Accounts payable	44.0	45.6
Accrued expenses and other current liabilities	389.7	408.5
Government, class action, and related settlements	252.6	268.5
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Total current liabilities	708.0	746.2
Long-term debt, net of current portion	1,706.4	1,789.6
Other long-term liabilities	163.9	162.2
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	2,578.3	2,698.0
Commitments and contingencies		
Convertible perpetual preferred stock	387.4	387.4
Shareholders' deficit:		
HealthSouth shareholders' deficit	(1,128.4)	(1,169.4)
Noncontrolling interests	84.4	82.2
Total shareholders' deficit	(1,044.0)	(1,087.2)
Total liabilities and shareholders' deficit	\$1,921.7	\$1,998.2
	=====	=====

HealthSouth Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2009	2008
	(As Adjusted)	
	(In Millions)	
Cash flows from operating activities:		
Net income	\$53.5	\$26.4
Loss (income) from discontinued operations	2.8	(14.2)
Adjustments to reconcile net income to net cash provided by operating activities-		
Provision for doubtful accounts	7.9	7.8
Provision for government, class action, and related settlements	(15.9)	(36.4)
UBS Settlement proceeds, gross	100.0	-
Depreciation and amortization	17.6	29.6
Loss on interest rate swap	5.0	36.6
Equity in net income of nonconsolidated affiliates	(2.5)	(2.4)
Distributions from nonconsolidated affiliates	1.5	2.2
Stock-based compensation	3.7	3.3
Deferred tax provision	1.5	0.8
Other	1.4	1.5
(Increase) decrease in assets-		
Accounts receivable	(13.5)	(27.9)
Other assets	(6.6)	(3.2)
Income tax refund receivable	47.8	3.8
(Decrease) increase in liabilities-		
Accounts payable	(1.6)	(3.2)
Accrued fees and expenses for derivative plaintiffs' attorneys in UBS Settlement	(26.2)	-
Other liabilities	8.6	25.9
Government, class action, and related settlements	(1.7)	(7.3)
Net cash used in operating activities of discontinued operations	(0.2)	(1.5)
Total adjustments	126.8	29.6
Net cash provided by operating activities	183.1	41.8

(Unaudited)
Three Months Ended March 31,

2009 2008

(As Adjusted)
(In Millions)

Cash flows from investing activities:

Capital expenditures	(17.2)	(8.7)
Proceeds from disposal of assets	0.8	43.9
Net change in restricted cash	(3.5)	(0.9)
Net settlements on interest rate swap	(8.5)	(0.2)
Other	(0.5)	(0.8)
Net cash used in investing activities of discontinued operations	(1.3)	(0.2)
Net cash (used in) provided by investing activities	(30.2)	33.1

Cash flows from financing activities:

Checks in excess of bank balance	4.1	(11.4)
Principal payments on debt, including pre-payments	(39.6)	(17.0)
Borrowings on revolving credit facility	10.0	15.0
Payments on revolving credit facility	(50.0)	-
Principal payments under capital lease obligations	(3.2)	(3.0)
Dividends paid on convertible perpetual preferred stock	(6.5)	(6.5)
Distributions paid to noncontrolling interests of consolidated affiliates	(8.5)	(10.1)
Other	0.5	(0.1)
Net cash used in financing activities of discontinued operations	(1.2)	(1.3)

Net cash used in financing activities (94.4) (34.4)

Increase in cash and cash equivalents 58.5 40.5

Cash and cash equivalents at beginning of period 32.2 19.8

Cash and cash equivalents of divisions and facilities held for sale at beginning of period - 0.4

Less: Cash and cash equivalents of divisions and facilities held for sale at end of period - (0.3)

Cash and cash equivalents at end of period \$90.7 \$60.4

HealthSouth Corporation and Subsidiaries

Supplemental Non-GAAP Disclosures

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

Three Months Ended March 31,

2009 Per Share (2) 2008 Per Share(2)

(As Adjusted)

(In Millions, Except per Share Data)

Net income	\$53.5	\$0.61	\$26.4	\$0.33
Loss (income) from discontinued operations, net of tax, attributable to HealthSouth	3.1	0.04	(15.2)	(0.19)
Net income attributable to noncontrolling interests	(8.6)	(0.10)	(6.6)	(0.08)

Income from continuing

operations attributable to HealthSouth	48.0	0.55	4.6	0.06
Government, class action, and related settlements	(15.9)	(0.18)	(36.4)	(0.46)
Professional fees - accounting, tax, and legal	4.8	0.05	3.6	0.05
Gain on early extinguishment of debt	(1.8)	(0.02)	-	-
Loss on interest rate swap	5.0	0.06	36.6	0.46
Accelerated depreciation of corporate campus (3)	-	-	10.0	0.13
Provision for income tax expense	1.2	0.01	0.1	0.00
Estimated income tax expense	(1.5)	(0.02)	(1.5)	(0.02)

Adjusted income from continuing operations (1) (4)	39.8	0.45	17.0	0.22
Adjustment for dilution (2)		(0.06)		(0.04)

Adjusted income from continuing operations per diluted share (2) (4)	\$0.39	\$0.18
	=====	=====

Estimated income tax expense	1.5	1.5
Interest expense and amortization of debt discounts and fees	34.4	47.4
Depreciation and amortization, excluding accelerated depreciation of corporate campus (3)	17.6	19.6
	93.3	85.5

Other adjustments per the Company's Credit Agreement:		
Impairment charges related to investments	0.7	-
Net noncash loss on disposal of assets	1.0	0.1
Loss on early extinguishment of debt	-	0.3
Compensation expense under FASB Statement No. 123(R)	3.7	3.3

Adjusted Consolidated EBITDA (1) (4) (5)	\$98.7	\$89.2
	=====	=====

Weighted average common shares outstanding:		
Basic	87.5	78.9
	=====	=====
Diluted	100.9	92.3
	=====	=====

HealthSouth Corporation and Subsidiaries
Supplemental Non-GAAP Disclosures
Reconciliation of Net Income to Adjusted Income from Continuing Operations
and Adjusted Consolidated EBITDA (1) (4)

Year Ended December 31,

2008 Per Share (2)

(As Adjusted)

(In Millions, Except per Share Data)

Net income	\$281.8	\$3.40
Income from discontinued operations,		

net of tax, attributable to HealthSouth	(16.9)	(0.20)
Net income attributable to noncontrolling interests	(29.4)	(0.35)

Income from continuing operations attributable to HealthSouth	235.5	2.84
Gain on UBS Settlement	(121.3)	(1.46)
Government, class action, and related settlements	(67.2)	(0.81)
Professional fees - accounting, tax, and legal	44.4	0.53
Loss on interest rate swap	55.7	0.67
Accelerated depreciation of corporate campus (3)	10.0	0.12
Interest associated with UBS Settlement (6)	(9.4)	(0.11)
Provision for income tax benefit	(70.1)	(0.84)
Estimated income tax expense	(5.0)	(0.06)

Adjusted income from continuing operations (1) (4)	72.6	0.87
Adjustment for dilution (2)		(0.12)

Adjusted income from continuing operations per diluted share (2) (4)		\$0.75
=====		
Estimated income tax expense	5.0	
Interest expense and amortization of debt discounts and fees, excluding interest associated with UBS Settlement	168.9	
Depreciation and amortization, excluding accelerated depreciation of corporate campus (3)	73.2	

	319.7	
Other adjustments per the Company's Credit Agreement:		
Impairment charges, including investments	2.4	
Net noncash loss on disposal of assets	2.0	
Loss on early extinguishment of debt	5.9	
Compensation expense under FASB Statement No. 123(R)	11.7	

Adjusted Consolidated EBITDA (1) (4) (5)		\$341.7
=====		
Weighted average common shares outstanding:		
Basic	83.0	
=====		
Diluted	96.4	
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(1) Adjusted income from continuing operations and Adjusted Consolidated EBITDA are non-GAAP financial measures. Management and some members of the investment community utilize adjusted income from continuing operations as a financial measure and Adjusted Consolidated EBITDA 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 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 shares outstanding. The diluted share counts contain approximately 13.1 million shares

related to the potential dilution of the Company's convertible perpetual preferred stock. Per share amounts do not include 5.0 million shares of common stock or warrants to purchase approximately 8.2 million shares of common stock not yet issued under the securities litigation settlement. The increase in the Company's basic and diluted weighted average common shares outstanding for the three months ended March 31, 2009 compared to the same period of 2008 was primarily the result of its equity offering of 8.8 million shares that was completed on June 27, 2008.

(3) In the first quarter of 2008, and in accordance with Financial Accounting Standards Board Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company accelerated the depreciation of its corporate campus so that the net book value of the campus equaled the estimated net proceeds the Company expected to receive on the sale transaction's closing date. The year-over-year impact of this acceleration of depreciation approximated \$10 million. No similar charges are expected in 2009.

(4) Adjusted income from continuing operations per diluted share and Adjusted Consolidated EBITDA are two components of the Company's guidance.

(5) The Company's Credit Agreement allows unusual non-cash or non-recurring items to be added to arrive at Adjusted Consolidated EBITDA. In addition, certain other deductions may be required. Such amounts have not been included in the above calculation as it would not be indicative of the Company's Adjusted Consolidated EBITDA for future periods.

(6) Interest expense and amortization of debt discounts and fees in the Company's consolidated statement of operations for the year ended December 31, 2008 included the reversal of approximately \$9.4 million of accrued interest related to the loan guarantee for which the Company received a release as part of the UBS Settlement.

The Company will host an investor conference call at 9:00 a.m. Eastern Time on Tuesday, May 5, 2009 to discuss its results for the first quarter of 2009. For reference during the call, the Company will post certain supplemental slides at <http://investor.healthsouth.com/>.

The conference call may be accessed by dialing 8664065369 and giving the pass code 91485741. International callers should dial 9735822847 and give the same pass code. Please call approximately ten minutes before the start of the call to ensure you are connected. The conference call will also be webcast live and will be available at <http://investor.healthsouth.com/> by clicking on an available link.

A replay of the conference call will be available, beginning approximately two hours after the completion of the conference call, from May 5 until May 19, 2009. To access the replay, please dial 8006421687. International callers should dial 7066459291. The webcast will also be archived for replay purposes after the live broadcast at <http://investor.healthsouth.com/>.

About HealthSouth

HealthSouth is the nation's largest provider of inpatient rehabilitative healthcare services. Operating in 26 states across the country and in Puerto Rico, HealthSouth serves patients through its network of inpatient rehabilitation hospitals, long-term acute care hospitals, outpatient rehabilitation satellites, and home health agencies. HealthSouth strives to be the nation's preeminent provider of inpatient rehabilitative healthcare services and can be found on the Web at www.healthsouth.com.

Statements contained in this press release which are not historical facts 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. All such estimates, projections, and forward-looking information speak only as of the date hereof, and HealthSouth undertakes no duty to publicly update or revise such forward-looking information, whether as a result of new information, future events, or otherwise. Such forward-looking statements are necessarily estimates based upon current information and involve a number of risks and uncertainties. HealthSouth's actual results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, factors which could cause actual results to differ materially from those estimated by HealthSouth include, but are not limited to, any adverse outcome of various lawsuits, claims, and legal or regulatory proceedings that may be brought against the Company; significant changes in HealthSouth's management team; HealthSouth's ability to continue to operate in the ordinary course and manage its relationships with its creditors, including its lenders, bondholders, vendors and suppliers, employees, and customers; changes, delays in, or suspension of reimbursement for HealthSouth's services by governmental or private payors; changes in the regulation of the healthcare industry at either or both of the federal and state levels; competitive pressures in the healthcare industry and HealthSouth's response thereto; HealthSouth's ability to obtain and retain favorable arrangements with third-party payors; HealthSouth's ability to attract and retain nurses, therapists, and other healthcare professionals in a highly competitive environment with often severe staffing shortages and the impact on

HealthSouth's labor expenses from potential union activity and staffing shortages; general conditions in the economy and capital markets; and other factors which may be identified from time to time in HealthSouth's SEC filings and other public announcements, including HealthSouth's Form 10K for the year ended December 31, 2008 and Form 10-Q for the quarterly period ended March 31, 2009, which is expected to be filed later this week.

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Web Site: <http://www.healthsouth.com/>

<http://healthsouth.mediaroom.com/2009-05-04-HealthSouth-Reports-Strong-EPS-Results-for-First-Quarter-Ended-March-31-2009>