

HealthSouth Reports Solid Results for Second Quarter 2010 and Increases 2010 Guidance

Strong Cash Flow from Operations Increased Net Operating Revenues and Disciplined Expense Management

PRNewswire-FirstCall
BIRMINGHAM, Ala.

HealthSouth Corporation, the nation's largest provider of inpatient rehabilitative healthcare services, today reported its results of operations for the quarter ended June 30, 2010.

"The positive trends we experienced in the first quarter of 2010 continued into the second quarter as good volume growth, solid pricing, and disciplined expense management resulted in growth in all key, financial metrics," said Jay Grinney, President and Chief Executive Officer of HealthSouth. "In addition to strong performance across our existing portfolio, we purchased a new hospital in Las Vegas, Nevada in the quarter and recently announced the signing of a definitive agreement to purchase another hospital in Sugar Land, Texas, as well as our plans to begin construction of a new 40-bed hospital in the Cypress area of northwest Houston during the fourth quarter of 2010. Our growth pipeline remains strong, and we will continue to pursue disciplined acquisitions that will bring high-quality rehabilitative services to new markets and value to our shareholders."

Second Quarter Results

- Consolidated net operating revenues were \$496.9 million for the second quarter of 2010 compared to \$481.6 million for the second quarter of 2009, or an increase of 3.2%. This increase was attributable to higher net patient revenue per discharge and a 2.2% increase in patient discharges. Net patient revenue per discharge increased 2.1% quarter over quarter due primarily to the Medicare pricing changes that became effective October 1, 2009. Same store discharges were 1.3% higher quarter over quarter.
- Reported net income per diluted share for the second quarter of 2010 was \$0.44 per share compared to a \$0.14 loss per diluted share for the second quarter of 2009, which included a net charge of \$48.7 million, or \$0.48 per diluted share, associated with government, class action, and related settlements. Furthermore, there was a 6.6% quarter-over-quarter increase in diluted weighted average common shares outstanding in the second quarter of 2010 due primarily to the five million shares issued on September 30, 2009 in full satisfaction of the Company's obligation to do so under the 2006 securities litigation settlement.
- Adjusted income from continuing operations (see attached supplemental information) per diluted share grew 12.8% from \$0.39 per diluted share for the second quarter of 2009 to \$0.44 per diluted share for the second quarter of 2010. The Company experienced quarter-over-quarter growth due primarily to increased revenues and effective expense management offset partially by the increased share count discussed above. Adjusted income from continuing operations for the second quarter of 2010 included a \$4.6 million increase in professional liability reserves. Adjusted income from continuing operations for the second quarter of 2009 included a \$4.9 million charge related to equity in net income of nonconsolidated affiliates.
- Cash flows provided by operating activities were \$172.7 million for the six months ended June 30, 2010 compared to \$229.2 million for the same period of 2009, which included approximately \$128 million related to the Company's settlement with UBS and the receipt of income tax refunds related to prior periods. Cash flows provided by operating activities for the six months ended June 30, 2010 included \$9.7 million of state income tax refunds associated with prior periods.
- Adjusted Consolidated EBITDA (see attached supplemental information) for the second quarter of 2010 was \$103.7 million compared to \$94.0 million in the second quarter of 2009, or an increase of 10.3%. Adjusted Consolidated EBITDA for the second quarter of 2010 included

the same \$4.6 million increase in professional liability reserves noted above. Adjusted Consolidated EBITDA for the second quarter of 2009 included the same \$4.9 million charge noted above for equity in net income of nonconsolidated affiliates.

"Our strong operating results for the quarter facilitated the further strengthening of our balance sheet," said Doug Coltharp, Executive Vice President and Chief Financial Officer of HealthSouth. "We ended the quarter with in excess of \$170 million of cash-on-hand and no borrowings under our \$400 million revolving credit facility. The continued growth in our Adjusted Consolidated EBITDA resulted in further reduction in our leverage ratio to 4.1x at the end of June 2010."

2010 Guidance

In the Company's Current Report on Form 8-K dated February 22, 2010 and related earnings release, the Company provided 2010 guidance which consisted of adjusted income from continuing operations in the range of \$1.60 to \$1.70 per diluted share and Adjusted Consolidated EBITDA in the range of \$397 million to \$407 million. As a result of its strong operating results for the first six months of 2010, the Company is increasing its previously provided guidance for 2010. Guidance for adjusted income from continuing operations has been increased to a range of \$1.66 to \$1.74 per diluted share, while guidance for Adjusted Consolidated EBITDA has been increased to a range of \$402 million to \$410 million.

Earnings Conference Call and Webcast

The Company will host an investor conference call at 11:00 a.m. Eastern Time on Monday, August 2, 2010 to discuss its results for the second quarter of 2010. 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 (866) 406-5369 and giving the pass code 85304048. International callers should dial (973) 582-2847 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 August 2 until August 16, 2010. To access the replay, please dial 800-642-1687. International callers should dial (706) 645-9291. 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 satellite clinics, and home health agencies. HealthSouth's hospitals provide a higher level of rehabilitative care to patients who are recovering from conditions such as stroke and other neurological disorders, orthopedic, cardiac and pulmonary conditions, brain and spinal cord injury, and amputations. HealthSouth can be found on the Web at www.healthsouth.com.

Other Information

The Company's leverage ratio that is referenced in this release and elsewhere from time to time is defined in the Company's credit agreement as the ratio of consolidated total debt to Adjusted Consolidated EBITDA for the trailing four quarters. Reconciliations of net income to Adjusted Consolidated EBITDA can be found in the following schedules.

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 June 30, 2010, when filed, as well as the Company's Current Report on Form 8-K filed on August 2, 2010. In addition, the Company will post supplemental slides today on its website at <http://investor.healthsouth.com/> for reference during its August 2, 2010 earnings call.

The Company expects to file its second quarter 2010 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.

	Three Months Ended June 30, -----		Six Months Ended June 30, -----	
	2010	2009	2010	2009
	----	----	----	----
(In Millions, Except Per Share Data)				

Net operating revenues	\$496.9	\$481.6	\$987.9	\$954.5
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Operating expenses:				
Salaries and benefits	241.6	237.8	483.5	471.1
Other operating expenses	76.6	67.0	143.5	133.9
General and administrative expenses	26.7	24.9	53.0	50.4
Supplies	28.8	28.6	57.1	56.0
Depreciation and amortization	18.7	17.6	37.0	35.0
Occupancy costs	11.4	12.0	23.0	24.0
Provision for doubtful accounts	5.9	9.7	12.8	17.5
Loss on disposal of assets	0.4	1.3	0.4	2.3
Government, class action, and related settlements	-	48.7	-	32.8
Professional fees-accounting, tax, and legal	5.7	(3.3)	8.6	1.5
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Total operating expenses	415.8	444.3	818.9	824.5
Loss (gain) on early extinguishment of debt	0.1	(1.3)	0.4	(3.1)
Interest expense and amortization of debt discounts and fees	30.1	31.1	60.6	65.5
Other income	(1.4)	(1.0)	(2.1)	(0.8)
(Gain) loss on interest rate swaps	(0.3)	3.8	4.0	8.8
Equity in net (income) loss of nonconsolidated affiliates	(2.6)	2.7	(5.2)	0.2
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Income from continuing operations before income tax				
(benefit) expense	55.2	2.0	111.3	59.4
Provision for income tax (benefit) expense	(2.2)	(0.3)	0.3	0.9
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Income from continuing operations	57.4	2.3	111.0	58.5
Income (loss) from discontinued operations, net of tax	0.1	1.3	(3.0)	(1.4)
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Net income	57.5	3.6	108.0	57.1
Less: Net income attributable to noncontrolling interests	(10.2)	(9.1)	(20.0)	(17.7)
-----	----	-----	-----	
Net income (loss) attributable to HealthSouth	47.3	(5.5)	88.0	39.4
Less: Convertible perpetual preferred stock dividends	(6.5)	(6.5)	(13.0)	(13.0)
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Net income (loss) attributable to HealthSouth common shareholders	\$40.8	\$(12.0)	\$75.0	\$26.4

	=====	=====	=====	=====
Weighted average common shares outstanding:				
Basic	92.8	87.6	92.7	87.5
	=====	=====	=====	=====
Diluted	108.2	101.5	108.2	101.2
	=====	=====	=====	=====

Basic and diluted
earnings per common
share:

Income (loss) from
continuing operations
attributable to
HealthSouth common
shareholders \$0.44 \$(0.15) \$0.84 \$0.32

Income (loss) from
discontinued operations,
net of tax,
attributable to
HealthSouth common
shareholders 0.00 0.01 (0.03) (0.02)

Net income (loss)
attributable to
HealthSouth
common shareholders \$0.44 \$(0.14) \$0.81 \$0.30

Amounts attributable to
HealthSouth common
shareholders:
Income (loss) from
continuing operations \$47.2 \$(6.6) \$91.0 \$41.3
Income (loss) from
discontinued operations,
net of tax 0.1 1.1 (3.0) (1.9)

Net income (loss)
attributable to
HealthSouth \$47.3 \$(5.5) \$88.0 \$39.4

HealthSouth Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

	December June 30, 2010	31, 2009	
	----	---	
	(In Millions, Except Share Data)		
Assets			
Current assets:			
Cash and cash equivalents	\$172.6	\$80.9	
Restricted cash	49.7	67.8	
Accounts receivable, net of allowance for doubtful accounts of \$32.0 in 2010;	\$33.1 in 2009	224.8	219.7
Other current assets	56.8	57.6	
	----	----	
Total current assets	503.9	426.0	
Property and equipment, net	664.5	664.8	
Goodwill	423.7	416.4	
Intangible assets, net	35.5	37.4	

Investments in and advances to nonconsolidated affiliates	31.0	29.3
Other long-term assets	97.5	107.6
Total assets	\$1,756.1	\$1,681.5
	=====	=====
Liabilities and Shareholders' Deficit		
Current liabilities:		
Current portion of long-term debt	\$21.5	\$21.5
Accounts payable	47.3	50.2
Accrued expenses and other current liabilities	322.6	319.5
	-----	-----
Total current liabilities	391.4	391.2
Long-term debt, net of current portion	1,633.0	1,641.0
Other long-term liabilities	161.6	159.5
	2,186.0	2,191.7
	-----	-----
Commitments and contingencies		
Convertible perpetual preferred stock	387.4	387.4
	-----	-----
Shareholders' deficit:		
HealthSouth shareholders' deficit	(896.3)	(974.0)
Noncontrolling interests	79.0	76.4
Total shareholders' deficit	(817.3)	(897.6)
	-----	-----
Total liabilities and shareholders' deficit	\$1,756.1	\$1,681.5
	=====	=====

HealthSouth Corporation
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2010	2009
	----	----
	(In Millions)	
Cash flows from operating activities:		
Net income	\$108.0	\$57.1
	-----	-----
Loss from discontinued operations	3.0	1.4
	---	---
Adjustments to reconcile net income to net cash provided by operating activities-		
Provision for doubtful accounts	12.8	17.5
Provision for government, class action, and related settlements	-	32.8
UBS Settlement proceeds, gross	-	100.0
Depreciation and amortization	37.0	35.0
Loss on interest rate swaps	4.0	8.8
Equity in net (income) loss of nonconsolidated affiliates	(5.2)	0.2
Distributions from nonconsolidated affiliates	3.3	3.9
Stock-based compensation	7.8	6.6
Deferred tax provision	2.1	1.9
Other	2.7	3.1
(Increase) decrease in assets-		
Accounts receivable	(17.9)	(25.8)
Other assets	(5.8)	(0.7)
Income tax refund receivable	4.3	45.4
(Decrease) increase in liabilities-		
Accounts payable	(2.8)	2.2
Accrued fees and expenses for derivative plaintiffs' attorneys in		

UBS Settlement	-	(26.2)
Other liabilities	24.4	(18.3)
Government, class action, and related settlements	(0.8)	(8.7)
Net cash used in operating activities of discontinued operations	(4.2)	(7.0)
Total adjustments	61.7	170.7
	----	-----
Net cash provided by operating activities	172.7	229.2
	-----	-----

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

Six Months Ended June
30,

2010 2009

(In Millions)

Cash flows from investing activities:		
Capital expenditures	(29.9)	(34.4)
Acquisition of a business, net of cash acquired	(9.9)	-
Proceeds from sale of restricted investments	10.0	1.6
Purchase of restricted investments	(13.3)	(1.6)
Net change in restricted cash	18.1	(15.7)
Net settlements on interest rate swaps	(23.1)	(19.1)
Net investment in interest rate swap	-	(6.4)
Other	(0.1)	(0.8)
Net cash provided by (used in) investing activities of discontinued operations	8.5	(1.4)
Net cash used in investing activities	(39.7)	(77.8)
	-----	-----

Cash flows from financing activities:		
Principal payments on debt, including pre-payments	(3.8)	(60.9)
Borrowings on revolving credit facility	-	10.0
Payments on revolving credit facility	-	(50.0)
Principal payments under capital lease obligations	(7.2)	(6.6)
Dividends paid on convertible perpetual preferred stock	(13.0)	(13.0)
Distributions paid to noncontrolling interests of consolidated affiliates	(18.3)	(15.8)
Other	0.9	0.7
Net cash provided by financing activities of discontinued operations	-	1.8
Net cash used in financing activities	(41.4)	(133.8)
	-----	-----

Increase in cash and cash equivalents	91.6	17.6
Cash and cash equivalents at beginning of period	80.9	32.1
Cash and cash equivalents of facilities held for sale at beginning of period	0.1	0.1
Less: Cash and cash equivalents of facilities held for sale at end of period	-	-
Cash and cash equivalents at end of period	\$172.6	\$49.8
	=====	=====

HealthSouth Corporation and Subsidiaries
Supplemental Non-GAAP Disclosures
Reconciliation of Net Income to Adjusted Income from
Continuing Operations
and Adjusted Consolidated EBITDA (1) (3)

Three Months Ended June 30,				
	Per Share		Per	
	2010	(2)	2009	Share(2)
	-----	-----	-----	-----
(In Millions, Except per Share Data)				
Net income	\$57.5	\$0.62	\$3.6	\$0.04
Income from discontinued operations, net of tax, attributable to HealthSouth	(0.1)	(0.00)	(1.1)	(0.01)
Net income attributable to noncontrolling interests	(10.2)	(0.11)	(9.1)	(0.10)
	-----	-----	-----	-----
Income (loss) from continuing operations attributable to HealthSouth	47.2	0.51	(6.6)	(0.08)
Government, class action, and related settlements	-	-	48.7	0.56
Professional fees - accounting, tax, and legal	5.7	0.06	(3.3)	(0.04)
Gain on early extinguishment of debt	-	-	(1.3)	(0.01)
(Gain) loss on interest rate swaps	(0.3)	(0.00)	3.8	0.04
Adjustment for prior period amounts in tax provision	(5.2)	(0.06)	(1.4)	(0.02)
	-----	-----	-----	-----
Adjusted income from continuing operations (1) (3)	47.4	0.51	39.9	0.46
Adjustment for dilution (2)		(0.07)		(0.07)
	-----	-----	-----	-----
Adjusted income from continuing operations per diluted share (2) (3)		\$0.44		\$0.39
		=====		=====
Current period amounts in tax provision	3.0		1.1	
Interest expense and amortization of debt discounts and				

fees	30.1	31.1
Depreciation and amortization	18.7	17.6
	----	----
	99.2	89.7
Other adjustments per the Company's Credit Agreement: Impairment charges, including investments	-	0.1
Net noncash loss on disposal of assets	0.4	1.3
Loss on early extinguishment of debt	0.1	-
Stock-based compensation expense	4.0	2.9
Adjusted Consolidated EBITDA (1) (3) (4)	\$103.7	\$94.0
	=====	=====

Weighted average
common shares
outstanding:

Basic	92.8	87.6
	=====	=====
Diluted	108.2	101.5
	=====	=====

HealthSouth Corporation and Subsidiaries
Supplemental Non-GAAP Disclosures
Reconciliation of Net Income to Adjusted Income from
Continuing Operations
and Adjusted Consolidated EBITDA (1) (3)

	Six Months Ended June 30,			
	Per Share		Per	
	2010	(2)	2009	Share(2)
	----	-----	----	-----
	(In Millions, Except per Share Data)			
Net income	\$108.0	\$1.17	\$57.1	\$0.65
Loss from discontinued operations, net of tax, attributable to HealthSouth	3.0	0.03	1.9	0.02
Net income attributable to noncontrolling interests	(20.0)	(0.22)	(17.7)	(0.20)
	----	-----	----	-----
Income from continuing operations attributable				

to				
HealthSouth	91.0	0.98	41.3	0.47
Government, class action, and related settlements	-	-	32.8	0.37
Professional fees - accounting, tax, and legal	8.6	0.09	1.5	0.02
Gain on early extinguishment of debt	-	-	(3.1)	(0.04)
Loss on interest rate swaps	4.0	0.04	8.8	0.10
Adjustment for prior period amounts in tax provision	(4.3)	(0.05)	(1.7)	(0.02)
	----	-----	----	-----
Adjusted income from continuing operations (1) (3)	99.3	1.07	79.6	0.91
Adjustment for dilution (2)		(0.15)		(0.12)
		-----	-----	
Adjusted income from continuing operations per diluted share (2) (3)		\$0.92		\$0.79
		=====		=====
Current period amounts in tax provision	4.6		2.6	
Interest expense and amortization of debt discounts and fees	60.6	65.5		
Depreciation and amortization	37.0		35.0	
	----	----		
	201.5		182.7	
Other adjustments per the Company's Credit Agreement: Impairment charges, including investments	-		0.8	
Net noncash loss on disposal of assets	0.4		2.3	
Loss on early extinguishment of debt	0.4		-	
Stock-based compensation expense	7.8		6.6	

Adjusted Consolidated EBITDA (1)		
(3) (4)	\$210.1	\$192.4
	=====	=====

Weighted average common shares outstanding:		
Basic	92.7	87.5
	=====	=====
Diluted	108.2	101.2
	=====	=====

HealthSouth Corporation and Subsidiaries
Supplemental Non-GAAP Disclosures
Reconciliation of Net Income to Adjusted Income from Continuing Operations
and Adjusted Consolidated EBITDA (1) (3)

	Year Ended December 31,	
	2009	Per Share (2)
	----	-----
	(In Millions, Except per Share Data)	
Net income	\$128.8	\$1.45
Income from discontinued operations, net of tax, attributable to HealthSouth	(1.5)	(0.02)
Net income attributable to noncontrolling interests	(34.0)	(0.38)
	-----	-----
Income from continuing operations attributable to HealthSouth	93.3	1.05
Government, class action, and related settlements	36.7	0.41
Professional fees - accounting, tax, and legal	8.8	0.10
Loss on interest rate swaps	19.6	0.22
Adjustment for prior period amounts in tax provision	(8.8)	(0.10)
	----	-----
Adjusted income from continuing operations (1) (3)	149.6	1.68
Adjustment for dilution (2)		(0.23)

Adjusted income from continuing operations per diluted share (2) (3)		\$1.45
		=====
Current period amounts in tax provision	5.6	
Interest expense and amortization of debt discounts and fees	125.8	
Depreciation and amortization	70.9	

	351.9	
Other adjustments per the Company's Credit Agreement:		
Impairment charges, including investments	1.4	
Net noncash loss on disposal of assets	3.5	
Loss on early extinguishment of debt	12.5	
Stock-based compensation expense	13.4	
Other	0.3	
Adjusted Consolidated EBITDA (1) (3) (4)		\$383.0

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Weighted average common shares
outstanding:

Basic	88.8
	=====
Diluted	103.3
	=====

HealthSouth Corporation and Subsidiaries
Supplemental Non-GAAP Disclosures
Notes to Reconciliations

(1) Adjusted income from continuing operations and Adjusted Consolidated EBITDA are non-GAAP financial measures. The Company's leverage ratio (consolidated total 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 the 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 common 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. The increase in the Company's basic and diluted weighted average common shares outstanding in 2010 compared to 2009 was primarily the result of the issuance of 5.0 million shares of common stock on September 30, 2009 in full satisfaction of its obligation to do so under the Company's 2006 securities litigation settlement.

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

(4) 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.

HealthSouth Corporation and Subsidiaries
Forward-Looking Statements

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 (including in connection with resolution of Medicare payment reviews or appeals), 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 10-K for the year ended December 31, 2009 and Form 10-Q for the quarters ended June 30, 2010 (expected to be filed later this week) and March 31, 2010.

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

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