

HEALTHSOUTH Reports Second Quarter Operating EPS Up 33% To \$0.28

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BIRMINGHAM, Ala.

HEALTHSOUTH Corporation announced operating results for the quarter and six months ended June 30, 2002. For the second quarter, HEALTHSOUTH's revenues were \$1.164 billion, an increase of 5.9% as compared to \$1.099 billion for the second quarter of 2001 and an increase of 8.6% after adjusting for divestitures in 2001. Operating earnings for the 2002 quarter were \$113.7 million, an increase of 36.8% compared to operating earnings of \$83.1 million in the 2001 quarter. Operating earnings per share (assuming dilution) were \$0.28 for the 2002 quarter, consistent with consensus Wall Street estimates, an increase of 33.3% as compared to operating earnings per share (assuming dilution) of \$0.21 in the 2001 quarter. For the quarter, the Company's earnings before interest, taxes, depreciation and amortization (EBITDA) margin, excluding unusual and non-recurring items, was 29.8%, compared to 28.1% in the second quarter of 2001.

For the six months ended June 30, 2002, HEALTHSOUTH's revenues were \$2.293 billion, compared to \$2.189 billion for the 2001 period. Operating earnings for the 2002 period were \$221.4 million, an increase of 39.8% compared to operating earnings of \$158.4 million for the 2001 period. The comparable operating earnings per share (assuming dilution) for the 2002 period were \$0.55, compared to operating earnings per share (assuming dilution) of \$0.40 for the 2001 period.

Operating earnings exclude the effects of certain items that are included in net income, including unusual and non-recurring items and changes in accounting principles. Including the effects of these items, net income was \$57.5 million or \$0.14 per diluted share versus a net loss of \$19.9 million or (\$0.05) per diluted share for the 2001 quarter. For the six months ended June 30, 2002, net income was \$82.1 million or \$0.20 per diluted share compared to \$55.4 million or \$0.14 per diluted share in the 2001 period. A reconciliation of operating earnings to net income as determined under generally accepted accounting principles is provided in the accompanying financial information.

Management believes that operating earnings and operating earnings per share excluding such unusual and non-recurring items and non-cash impairment charges provide a clearer picture of the Company's operational performance than net income and earnings per share standing alone. Unusual and non-recurring items in the second quarter totaled approximately \$56.2 million, net of income taxes. These items included a loss of approximately \$52.8 million on the previously announced disposition of five nursing homes and a loss of \$3.4 million related to the early extinguishment of debt.

"The second quarter showed strength across all product lines with each of our businesses demonstrating continued positive volume and pricing trends," said Richard M. Scrusy, Chairman of the Board and Chief Executive Officer of HEALTHSOUTH. "We were especially pleased with the performance of our inpatient rehabilitation facilities as they generated an 11% increase in revenue. This clearly demonstrates the success we are having under the new Prospective Payment System."

Scrusy added, "Additionally, we completed the final stage of our refinancing plan with the successful completion of a \$1 billion note offering and a \$1.25 billion revolving credit facility. This financing provides us with ample liquidity to meet the 2003 maturity of our convertible debentures. Subsequent to quarter-end, we have repurchased approximately \$220 million of our outstanding debt securities, and we still have availability of \$1.2 billion under our new credit facility. We have also used the recent weakness in our stock price to reactivate our share repurchase program and have been actively accumulating shares."

At June 30, 2002, the Company's balance sheet reflected total debt of \$3.480 billion and cash and cash equivalents of \$547 million, resulting in net debt of \$2.933 billion. Total debt and net debt at June 30, 2002 reflect the funding of \$207 million in expenditures during the quarter to acquire certain properties previously held under synthetic operating leases. Excluding the effect of funding such expenditures, net debt decreased \$55 million in the quarter in comparison to net debt at March 31, 2002. Accounts receivable days declined 2.5 days to 79 days from the first quarter of 2002.

Cash flow from operations totaled approximately \$235 million compared to \$159 million in the 2001 quarter. Capital spending was approximately \$137 million in the quarter, excluding the \$207 million expenditure to acquire the properties held under synthetic operating leases.

On January 1, 2002, HEALTHSOUTH adopted Financial Accounting Standards Board Statement No. 142, which requires the periodic testing of goodwill for impairment rather than a monthly amortization of goodwill. The results for the 2002 quarter reflect the adoption of this new policy. Had the policy been in effect in 2001, reported net income would have increased by \$12.0 million, or \$.03 per share (assuming dilution), in the second quarter of 2001. During the quarter the Company and its auditors completed their testing of goodwill for impairment under FASB 142 and the Company recognized a goodwill impairment of \$83.2 million, net of tax. The effects of this impairment are reflected as the cumulative effect of a change in accounting principle in the Company's results of operations for the six months ended June 30, 2002.

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

HEALTHSOUTH will hold a conference call to discuss its second quarter results at 9:00 a.m. Central Daylight Time on Wednesday, August 7. 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		Six Months Ended	
	June 30,		June 30,	
	2002	2001	2002	2001
Revenues	\$1,163,683	\$1,098,989	\$2,293,458	\$2,189,451
Operating unit expenses	747,412	722,705	1,483,813	1,458,750
Corporate general and administrative expenses	43,291	51,214	83,257	83,868
Provision for doubtful accounts	25,642	34,858	50,636	59,241
Depreciation and amortization	79,807	93,223	157,389	184,442
Early extinguishment of debt	5,534	6,475	5,534	6,475
Loss on sale of assets	76,690	139,883	76,690	139,883
Interest expense	52,892	55,247	100,935	114,667
Interest income	(1,204)	(1,591)	(2,267)	(4,312)
	1,030,064	1,102,014	1,955,987	2,043,014
Income (loss) before income taxes and minority interests	133,619	(3,025)	337,471	146,437
Provision (benefit) for income taxes	45,782	(7,636)	113,950	41,534
Income before minority interests	87,837	4,611	223,521	104,903
Minority interests	(30,331)	(24,558)	(58,266)	(49,539)
Income (loss) before cumulative effect of accounting change	57,506	(19,947)	165,255	55,364
Cumulative effect of accounting change	--	--	(83,165)	--
Net income (loss)	\$57,506	\$(19,947)	\$82,090	\$55,364
Weighted average common shares outstanding	395,302	388,665	393,559	388,463
Income (loss) per common share before cumulative effect of accounting change	0.15	(0.05)	0.42	0.14
Cumulative effect of accounting change	--	--	(0.21)	--
Net income (loss) per common share	\$0.15	\$(0.05)	\$0.21	\$0.14
Weighted average common shares outstanding -- assuming dilution	402,472	388,665	400,896	397,993

Income (loss) per common share before cumulative effect of accounting change -- assuming dilution	0.14	(0.05)	0.41	0.14
Cumulative effect of accounting change	--	--	(0.21)	--
Net income (loss) per common share -- assuming dilution	\$0.14	\$(0.05)	\$0.20	\$0.14

Add-back to income for diluted earnings per share: Interest and amortization on convertible debt.	\$--	\$--	\$--	\$--
	*	*	*	*

* The effect of these securities was antidilutive.

Income (loss) per common share before cumulative effect of accounting change	\$57,506	\$(19,947)	\$165,255	\$55,364
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Add back non-recurring items				
Non-recurring items	82,224	164,906	82,224	164,906
Tax benefit	(26,049)	(61,880)	(26,049)	(61,880)

Adjusted net income	\$113,681	\$83,079	\$221,430	\$158,390
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Weighted average common shares outstanding	395,302	388,665	393,559	388,463
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Weighted average common shares outstanding -- assuming dilution	417,973	397,500	416,398	397,993
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Net income per common share	\$0.29	\$0.21	\$0.56	\$0.41
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Net income per common share -- assuming dilution	\$0.28	\$0.21	\$0.55	\$0.40
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Add-back to income for diluted earnings per share: Interest and amortization on convertible debt	\$3,164	\$--	\$6,294	\$--
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* The effect of these securities was antidilutive.

HEALTHSOUTH Corporation and Subsidiaries
Consolidated Statements of Income Before Unusual and Non-Recurring Items
(UNAUDITED - In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2002	2001	2002	2001
Revenues	\$1,163,683	\$1,098,989	\$2,293,458	\$2,189,451
Operating unit expenses	747,412	722,705	1,483,813	1,458,750
Corporate general and administrative expenses	43,291	42,966	83,257	75,620
Provision for doubtful accounts	25,642	24,558	50,636	48,941
Depreciation and amortization	79,807	93,223	157,389	184,442
Interest expense	52,892	55,247	100,935	114,667
Interest income	(1,204)	(1,591)	(2,267)	(4,312)
	947,840	937,108	1,873,763	1,878,108
Income before income taxes and minority interests	215,843	161,881	419,695	311,343
Provision for income				

taxes	71,831	54,244	139,999	103,414
Income before minority interests	144,012	107,637	279,696	207,929
Minority interests	(30,331)	(24,558)	(58,266)	(49,539)
Net income	\$113,681	\$83,079	\$221,430	\$158,390

Weighted average common shares outstanding	395,302	388,665	393,559	388,463
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Net income per common share	\$0.29	\$0.21	\$0.56	\$0.41
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Weighted average common shares outstanding - assuming dilution	417,973	397,500	416,398	397,993
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Net income per common share - assuming dilution	\$0.28	\$0.21	\$0.55	\$0.40
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Add-back to income for diluted earnings per share:				
Interest and amortization on convertible debt	\$3,164	--	\$6,294	--
	*		*	

* The effect of these securities was antidilutive.

HEALTHSOUTH Corporation and Subsidiaries
Consolidated Statements of Income
Six Months Ended June 30, 2002
(UNAUDITED - In thousands, except per share amounts)

	Six Months Ended June 30, 2002	Less Unusual Six Months Ended June 30, 2002	Before Unusual and Non-Recurring Items	
Revenues	\$2,293,458		\$2,293,458	
Operating unit expenses	1,483,813		1,483,813	
Corporate general and administrative expenses	83,257		83,257	
Provision for doubtful accounts	50,636		50,636	
Depreciation and amortization	157,389		157,389	
Early extinguishment of debt	5,534	5,534 (1)	--	
Loss on sale of assets	76,690	76,690 (2)	--	
Interest expense	100,935		100,935	
Interest income	(2,267)		(2,267)	
	1,955,987	82,224	1,873,763	
Income before income taxes, minority interests and cumulative effect of accounting change	337,471	(82,224)	419,695	
Provision for income taxes	113,950	(26,049)	139,999	
Income before minority interests and cumulative effect of accounting change	223,521	(56,175)	279,696	
Minority interests	(58,266)		(58,266)	
Income before cumulative effect of accounting change	165,255	(56,175)	221,430	
Cumulative effect of accounting change (83,165)	(83,165)		--	
Net income	\$82,090	\$(139,340)	\$221,430	
Weighted average common shares outstanding	393,559		393,559	
Income per common share before cumulative effect of accounting change	0.42		0.56	

Cumulative effect of accounting change (0.21)		--
Net income per common share	\$0.21	\$0.56

Weighted average common shares		
outstanding -- assuming dilution	400,896	416,398

Income per common share before cumulative effect of accounting change -- assuming dilution	0.41	0.55
Cumulative effect of accounting change (0.21)		--
Net income per common share -- assuming dilution	\$0.20	\$0.55

Add-back to income for diluted earnings per share:		
Interest and amortization on convertible debt *	--	\$6,294
	*	

* The effect of these securities was antidilutive.

- (1) Impairment charge related to the write-off of the unamortized balance of loan fees on retired debt.
(2) Loss related to the sale of certain facilities.

HEALTHSOUTH Corporation and Subsidiaries
Consolidated Statements of Income
Three Months Ended June 30, 2002
(UNAUDITED - In thousands, except per share amounts)

	Three Months Ended June 30, 2002		
	Less Unusual Three Months Ended June 30, 2002	Before Unusual Recurring Items	and Non-Recurring Items
Revenues	\$1,163,683		\$1,163,683
Operating unit expenses	747,412		747,412
Corporate general and administrative expenses	43,291		43,291
Provision for doubtful accounts	25,642		25,642
Depreciation and amortization	79,807		79,807
Early extinguishment of debt	5,534	5,534 (1)	--
Loss on sale of assets	76,690	76,690 (2)	--
Interest expense	52,892		52,892
Interest income	(1,204)		(1,204)
	1,030,064	82,224	947,840
Income before income taxes and minority interests	133,619	(82,224)	215,843
Provision for income taxes	45,782	(26,049)	71,831
Income before minority interests	87,837	(56,175)	144,012
Minority interests	(30,331)		(30,331)
Net income	\$57,506	\$(56,175)	\$113,681

Weighted average common shares outstanding	395,302	395,302
Net income per common share	\$0.15	\$0.29

Weighted average common shares outstanding -- assuming dilution	402,472	417,973
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Net income per common share - assuming dilution	\$0.14	\$0.28
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Add-back to income for diluted earnings per share:		
Interest and amortization on convertible debt *	--	\$3,164
	*	

* The effect of these securities
was antidilutive

- (1) Impairment charge related to the write-off of the unamortized balance
of loan fees on retired debt.
(2) Loss related to the sale of certain facilities.

HEALTHSOUTH Corporation and Subsidiaries
BALANCE SHEET
(UNAUDITED - In thousands)

	June 30, 2002	December 31, 2001
ASSETS		
Cash and Cash Equivalents	\$546,864	\$278,456
Accounts Receivable, net	1,010,083	940,414
Other Current Assets	464,858	517,585
Total Current Assets	2,021,805	1,736,455
Net Property and Equipment	3,064,617	2,774,736
Net Intangibles	2,659,399	2,725,103
Other	385,777	342,943
Total Assets	\$8,131,598	\$7,579,237
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts Payable	29,682	37,085
Other Current Liabilities	270,161	299,999
Current Maturities of Long-Term Debt	589,662	21,912
Total Current Liabilities	889,505	358,996
Long-Term Debt	2,889,863	3,005,035
Other	257,058	263,741
Minority Interests	161,966	154,541
Stockholders' Equity	3,933,206	3,796,924
Total Liabilities and Stockholder's Equity	\$8,131,598	\$7,579,237

HEALTHSOUTH Corporation
Quarterly Statistics (Unaudited)
For Period Ending June 30, 2002

	2Q 2002	2Q 2001
Outpatient Rehab		
Total Visits:	2,400,046	2,249,908
Total Volume Growth (Y/Y):		6.7%
Same Store Volume Growth (Y/Y):		6.5%
Average Revenue per Visit:	\$100	\$95
Facility Count:	1,427	1,432
Surgery Centers		
Total Cases:	230,746	225,512
Total Volume Growth (Y/Y):		2.3%
Same Store Volume Growth (Y/Y):		4.8%
Average Revenue per Case:	\$1,146	\$1,097
Facility Count:	209	216
Diagnostic Imaging		
Total Scans:	278,262	274,623
Total Volume Growth (Y/Y):		1.3%
Same Store Volume Growth (Y/Y):		5.6%
Average Revenue per Scan:	\$318	\$318
Facility Count:	136	140
Inpatient Division		
Total Discharges:	29,873	28,307
Total Volume Growth (Y/Y):		5.5%
Same Store Volume Growth (Y/Y):		5.2%
Average Revenue per Discharge:	\$16,257	\$15,425
Facility Count:	118	120

Medical Centers (Revised to Exclude Richmond Medical Center)

Total Days:	24,293	24,243
Total Volume Growth (Y/Y):	0.2%	
Same Store Volume Growth (Y/Y):	0.2%	
Average Revenue per Day:	\$2,999	\$2,953
Facility Count:	4	4

For more information, contact Richard M. Scrushy, Chairman & CEO, or Tadd McVay, Executive Vice President and Treasurer at 205-967-7116

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SOURCE: HEALTHSOUTH Corporation

CONTACT: Richard M. Scrushy, Chairman & CEO, or Tadd McVay, Executive Vice President and Treasurer, both of HEALTHSOUTH Corporation, 205-967-7116

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