

## HEALTHSOUTH Reports Third Quarter Results

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BIRMINGHAM, Ala.

HEALTHSOUTH Corporation announced operating results for the quarter and nine months ended September 30, 2002. For the third quarter, HEALTHSOUTH's revenues were \$1.094 billion, an increase of 2% as compared to \$1.076 billion for the second quarter of 2001 and an increase of 3% after adjusting for divestitures in 2001. Net income for the quarter was \$53.6 million, a decrease of 32% compared to net income of \$79.1 million in the 2001 quarter. Earnings per share (assuming dilution) were \$0.13 for the 2002 quarter, a decrease of 35% as compared to earnings per share (assuming dilution) of \$0.20 in the 2001 quarter. Earnings per share for the 2002 quarter include the effects of a one-time pretax gain of approximately \$25 million on the early extinguishment of debt, relating to HEALTHSOUTH's repurchase of over \$440 million of its public debt in the quarter. Operating earnings for the quarter, excluding this one-time gain, were \$38.3 million, or \$0.10 per share (assuming dilution)

For the nine months ended September 30, 2002, HEALTHSOUTH's revenues were \$3.387 billion, compared to \$3.265 billion for the 2001 period. Net income for the 2002 period was \$135.7 million, compared to net income of \$134.5 million for the 2001 period. Earnings per share (assuming dilution) were \$0.34 for the 2002 period, compared to \$0.34 for the 2001 period. Operating earnings for the 2002 period were \$259.7 million, compared to operating earnings of \$237.5 million for the 2001 period. Operating earnings per share (assuming dilution) were \$0.65 for the 2002 period, compared to \$0.60 for the 2001 period.

Operating earnings exclude the effects of certain items that are included in net income, including unusual and non-recurring items of gain or loss and changes in accounting principles. Operating earnings for the third quarter of 2002 exclude the effects of the \$25 million gain on early extinguishment of debt described above. Operating earnings for the nine months ended September 30, 2002 exclude the effects of such gain as well as the effects of a loss on the sale of assets, a loss on the early extinguishment of debt and the cumulative effect of a change in accounting principle relating to the impairment of assets under the requirements of Financial Accounting Standards Board Statement No. 142, all of which were incurred in the second quarter of 2002 and described in HEALTHSOUTH's second quarter earnings release. 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 gains or losses and non-cash impairment charges provide a clearer picture of the Company's operational performance than net income and earnings per share standing alone.

"The third quarter was a challenging one, and we are glad to have it behind us," said Richard M. Scrusby, Chairman of the Board of HEALTHSOUTH. "However, in the midst of all the difficulties, there were positive things happening. While our outpatient rehabilitation business showed a 17% decrease in revenue and a decline in volumes, we saw higher revenues in each of our other lines of business, including a 12% increase in inpatient rehabilitation revenue over the third quarter of 2001. We also saw same-store volume growth in our inpatient rehabilitation, diagnostic and surgery center businesses, including a 10% same-store increase in inpatient rehabilitation discharges. In addition, we added 52 new physician partners in our surgery centers during the quarter, resulting in our ninth consecutive quarter of same-store growth in that division."

William T. Owens, President and Chief Executive Officer of HEALTHSOUTH, said, "Our revenue decline in the third quarter was driven by a decrease in reimbursement in our outpatient rehabilitation business of approximately \$23 million as compared to the second quarter, primarily related to the impact of Medicare Program Transmittal 1753 and its policies regarding the use of the group therapy billing code, and a decline in volumes in our outpatient rehabilitation business that resulted in approximately a \$34 million decrease in revenue. This decline in volumes related to several factors. First, we closed or consolidated outpatient facilities in some markets to eliminate duplication and enhance efficiency, so we operated fewer facilities during the quarter. In addition, our number of referrals and visits per referral were both down. Finally, the demands on management resources in the quarter, combined with confusion among our therapists on scheduling and staffing requirements under the new Medicare policy, negatively affected our ability to restore lost volumes during the quarter. All of these factors contributed to a decline of about two patient visits per outpatient facility per day as compared to the second quarter of 2002. In addition, we saw increases of approximately \$39 million in operating unit expenses as compared to the second quarter of 2002, primarily attributable to field training for therapists in the new policies, increased recruiting and labor costs, higher insurance premiums and new marketing initiatives, and an approximately \$12 million increase in corporate general and administrative expenses from the second quarter. This increase in corporate-level expenses resulted primarily from increased legal, accounting and other professional fees related both to pending litigation and the proposed tax-free separation of our surgery center division and corporate-level marketing initiatives aimed at restoring patient volumes."

Owens added, "We are in the midst of our 2003 budget process, and we are intensely focused on both corporate and field expenses as well as on efforts to rebuild our outpatient volumes. We will also be evaluating some of our facilities for any necessary impairment charges under FASB Statement No. 142, and we expect the results of that evaluation to be complete in the fourth quarter. While the overall results of the third quarter were below what we had expected due to the impact of the factors we have described, it is important to note that we had an \$8.4 million sequential-quarter increase in revenues in our

inpatient rehabilitation operations due to our successful response to the inpatient rehabilitation prospective payment system and strong same-store growth, despite the impact of Transmittal 1753 on outpatient services provided in our inpatient division. We also repurchased over \$440 million in public debt, including approximately \$214 million of our \$567.7 million in convertible subordinated debentures that mature in April 2003. Outside of those debentures, we have no significant debt maturities until 2005, and we had over \$1 billion in availability under our revolving credit facility at the end of the quarter. We have ample liquidity to meet our foreseeable needs at this time."

At September 30, 2002, the Company's balance sheet reflected total debt of \$3.212 billion and cash and cash equivalents of \$390.4 million, resulting in net debt of \$2.822 billion, a decline of \$111.3 million from June 30, 2002. Accounts receivable days increased 7.5 days, to 86.5 days, from the second quarter of 2002, primarily as a result of decreased revenues in the third quarter.

Cash flow from operations totaled approximately \$141 million, compared to \$170 million in the 2001 quarter. Capital spending was approximately \$75.0 million in the quarter.

In conclusion, Scrushy noted, "During the third quarter, we have taken a number of steps to respond to issues that are important to our investors. We added two new independent members to our Board of Directors, and formed a special corporate governance committee to review our governance policies and recommend changes to ensure that we are responsive to all of our constituencies. We have also undertaken an extensive review, led by highly respected outside counsel, of concerns that have been raised in the press and elsewhere, and we have fully cooperated with the Securities and Exchange Commission in their previously announced investigation, volunteering to provide the Commission with information even before we had been advised of any investigation. We have devoted a great deal of time to meeting with our stockholders and bondholders, and we have responded to their concerns. This quarter has been difficult, and the difficulties will not go away overnight. However, our Board of Directors and our management team are fully committed to overcoming the challenges that face us and to continuing to act in the best interests of our stockholders, our dedicated employees and the other constituencies that we serve."

HEALTHSOUTH is the nation's largest provider of outpatient surgery, diagnostic imaging and rehabilitative healthcare services, with approximately 1,800 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 9:00 a.m. Central Standard Time on Tuesday, November 5, 2002. 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	
	Sept 30,	
	2002	2001
Revenues	\$ 1,093,785	\$ 1,075,874
Operating unit expenses	786,947	714,750
Corporate general and administrative expenses	55,125	38,958
Provision for doubtful accounts	23,898	23,980
Depreciation and amortization	79,505	95,790
Early extinguishment of debt	(25,078)	0
Loss on sale of assets	0	0
Interest expense	57,972	50,914
Interest income	(1,938)	(1,430)

	976,431	922,962	
Income before income taxes and minority interests	117,354	152,912	
Provision for income taxes	33,919	51,659	
Income before minority interests	83,435	101,253	
Minority interests	(29,821)	(22,127)	
Income before cumulative effect of accounting change	53,614	79,126	
Cumulative effect of accounting change	--	--	
Net income	\$ 53,614	\$ 79,126	
Weighted average common shares outstanding	397,237	390,455	
Income per common share before cumulative effect of accounting change	0.14	0.20	
Cumulative effect of accounting change	--	--	
Net income per common share	\$ 0.14	\$ 0.20	

Weighted average common shares outstanding -- assuming dilution 399,352 401,074

Income per common share before cumulative effect of accounting change -- assuming dilution	0.13	0.20
Cumulative effect of accounting change	--	--
Net income per common share -- assuming dilution	\$ 0.13	\$ 0.20

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

\* \*

\* The effect of these securities was antidilutive.

Income per common share before cumulative effect of accounting change	\$ 53,614	\$ 79,126
Add back non-recurring items		
Non-recurring items	(25,078)	--
Tax benefit (provision)	9,718	--

Operating income \$ 38,254 \$ 79,126

Weighted average common shares outstanding 397,237 390,455

Weighted average common shares outstanding -- assuming dilution 399,352 401,074

Operating income per common share \$ 0.10 \$ 0.20

Operating income per common share -- assuming dilution \$ 0.10 \$ 0.20

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

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\* The effect of these securities was antidilutive.

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

Nine Months Ended  
Sept 30, Sept 30,  
2002 2001

Revenues	\$ 3,387,243	\$ 3,265,324
Operating unit expenses	2,270,760	2,173,500
Corporate general and administrative		

expenses	138,382	122,827
Provision for doubtful accounts	74,534	83,221
Depreciation and amortization	242,428	280,231
Early extinguishment of debt	(25,078)	6,475
Loss on sale of assets	76,690	139,883
Interest expense	158,907	165,580
Interest income	(4,205)	(5,742)
	2,932,418	2,965,975
Income before income taxes and minority interests	454,825	299,349
Provision for income taxes	147,869	93,193
Income before minority interests	306,956	206,156
Minority interests	(88,087)	(71,667)
Income before cumulative effect of accounting change	218,869	134,489
Cumulative effect of accounting change	(83,165)	--
Net income	\$ 135,704	\$ 134,489

Weighted average common shares outstanding 394,867 389,135

Income per common share before cumulative effect of accounting change	0.55	0.35
Cumulative effect of accounting change	(0.21)	--
Net income per common share	\$ 0.34	\$ 0.35

Weighted average common shares outstanding -- assuming dilution 400,334 399,077

Income per common share before cumulative effect of accounting change -- assuming dilution	0.55	0.34
Cumulative effect of accounting change	(0.21)	--
Net income per common share -- assuming dilution	\$ 0.34	\$ 0.34

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

\* \*

\* The effect of these securities was antidilutive.

Income per common share before cumulative effect of accounting change	\$ 218,869	\$ 134,489
Add back non-recurring items		
Non-recurring items	57,146	164,906
Tax benefit (provision)	(16,331)	(61,880)

Operating income \$ 259,684 \$ 237,515

Weighted average common shares outstanding 394,867 389,135

Weighted average common shares outstanding -- assuming dilution 415,836 397,993

Operating income per common share \$ 0.66 \$ 0.61

Operating income per common share -- assuming dilution \$ 0.65 \$ 0.60

Add-back to income for diluted earnings per share: Interest and amortization on convertible debt. \$ 9,459 \$ --

\* \*

\* The effect of these securities was antidilutive.

Nine Months  
 Ended  
 September  
 Less 30, 2002  
 Unusual Before  
 Nine Months and Unusual and  
 Ended Non- Non-  
 September Recurring Recurring  
 30, 2002 Items Items

Revenues	\$ 3,387,243		\$ 3,387,243
Operating unit expenses	2,270,760		2,270,760
Corporate general and administrative expenses	138,382		138,382
Provision for doubtful accounts	74,534		74,534
Depreciation and amortization	242,428	5,534 (1)	236,894
Early extinguishment of debt	(25,078)	(25,078) (1)	-
Loss on sale of assets	76,690	76,690 (2)	-
Interest expense	158,907		158,907
Interest income	(4,205)		(4,205)
	2,932,418	57,146	2,875,272
Income before income taxes, minority interests and cumulative effect of accounting change	454,825	(57,146)	511,971
Provision for income taxes	147,869	(16,331)	164,200
Income before minority interests and cumulative effect of accounting change	306,956	(40,815)	347,771
Minority interests	(88,087)		(88,087)
Income before cumulative effect of accounting change	218,869	(40,815)	259,684
Cumulative effect of accounting change	(83,165)	(83,165)	--
Net income	\$ 135,704	\$ (123,980)	\$ 259,684

Weighted average common shares outstanding 394,867 394,867

Income per common share before cumulative effect of accounting change 0.55 0.66  
 Cumulative effect of accounting change (0.21) --  
 Net income per common share \$ 0.34 \$ 0.66

Weighted average common shares outstanding -- assuming dilution 400,334 415,836

Income per common share before cumulative effect of accounting change -- assuming dilution 0.55 0.65  
 Cumulative effect of accounting change (0.21) --  
 Net income per common share -- assuming dilution \$ 0.34 \$ 0.65

Add-back to income for diluted earnings per share:  
 Interest and amortization on convertible debt \* \$ 9,459

\* The effect of these securities was antidilutive.

(1) Effect of early extinguishment of debt.  
 (2) Loss related to the sale of certain facilities.

(UNAUDITED - In thousands, except per share amounts)

	Three Months Ended September 30, 2002		
	Less Unusual Three Months Ended September 30, 2002	and Non- Recurring Items	Before Unusual and Non- Recurring Items
Revenues	\$ 1,093,785		\$ 1,093,785
Operating unit expenses	786,947		786,947
Corporate general and administrative expenses	55,125		55,125
	--		--
Provision for doubtful accounts	23,898		23,898
Depreciation and amortization	79,505		79,505
Early extinguishment of debt	(25,078)	(25,078) (1)	--
Interest expense	57,972		57,972
Interest income	(1,938)		(1,938)
	976,431	(25,078)	1,001,509
Income before income taxes and minority interests	117,354	25,078	92,276
Provision for income taxes	33,919	9,718	24,201
Income before minority interests	83,435	15,360	68,075
Minority interests	(29,821)		(29,821)
Net income	\$ 53,614	\$ 15,360	\$ 38,254
Weighted average common shares outstanding	397,237		397,237
Net income per common share	\$ 0.14		\$ 0.10
Weighted average common shares outstanding -- assuming dilution	399,352		399,352
Net income per common share - assuming dilution	\$ 0.13		\$ 0.10
Add-back to income for diluted earnings per share: Interest and amortization on convertible debt *	\$ --		\$ --

\* The effect of these securities was antidilutive

(1) Effect of early extinguishment of debt.

HEALTHSOUTH Corporation and Subsidiaries  
Summary Consolidated Balance Sheets  
(UNAUDITED - In Thousands)

	September 30, 2002	December 31, 2001
	(Unaudited)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 390,441	\$ 278,456
Accounts receivable -- net	1,028,562	940,414
Other current assets	465,448	517,585
Total Current Assets	1,884,451	1,736,455
Net Property and Equipment	3,067,666	2,774,736
Net Intangibles	2,651,614	2,725,103
Other	326,734	342,943
Total Assets	\$ 7,930,465	\$ 7,579,237

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable	\$30,738	\$37,085
Other current liabilities	300,828	299,999
Current portion of long-term debt	376,112	21,912
Total Current Liabilities	707,678	358,996
Long-Term Debt	2,835,699	3,005,035
Other	261,661	263,741
Minority Interests	161,579	154,541
Stockholders' Equity	3,963,848	3,796,924
Total Liabilities and Stockholders' Equity	\$ 7,930,465	\$ 7,579,237

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

	3Q 2002	3Q 2001
<b>Outpatient Rehab</b>		
Total Visits:	2,058,005	2,243,112
Total Volume Growth (Y/Y):	-8.3 %	
Same Store Volume Growth (Y/Y):	-3.8 %	
Average Revenue per Visit:	\$89	\$98
Facility Count:	1,331	1,435
<b>Surgery Centers</b>		
Total Cases:	220,120	211,570
Total Volume Growth (Y/Y):	4.0 %	
Same Store Volume Growth (Y/Y):	5.8 %	
Average Revenue per Case:	\$1,146	\$1,104
Facility Count:	206	217
<b>Diagnostic Imaging</b>		
Total Scans:	275,791	275,908
Total Volume Growth (Y/Y):	0.0 %	
Same Store Volume Growth (Y/Y):	5.3 %	
Average Revenue per Scan:	\$300	\$300
Facility Count:	136	137
<b>Inpatient Division</b>		
Total Discharges:	30,231	27,519
Total Volume Growth (Y/Y):	9.9 %	
Same Store Volume Growth (Y/Y):	10.0 %	
Average Revenue per Discharge:	\$16,34	\$16,025
Facility Count:	118	122
<b>Medical Centers</b>		
Total Days:	25,129	24,238
Total Volume Growth (Y/Y):	3.7 %	
Same Store Volume Growth (Y/Y):	3.7 %	
Average Revenue per Day:	\$2,851	\$2,857
Facility Count:	4	4

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