HEALTHSOUTH®



Bank of America Merrill Lynch 2012 Healthcare Conference
Las Vegas| May 16, 2012

Jay Grinney, President and Chief Executive Officer

Forward-Looking Statements

The information contained in this presentation includes certain estimates, projections and other forward-looking information that reflect our current outlook, views and plans with respect to future events, including legislative and regulatory developments, strategy, capital expenditures, development activities, dividend strategies, effective tax rates, financial performance, and business model. These estimates, projections and other forward-looking information are based on assumptions that HealthSouth believes, as of the date hereof, are reasonable. Inevitably, there will be differences between such estimates and actual events or results, and those differences may be material.

There can be no assurance that any estimates, projections or forward-looking information will be realized.

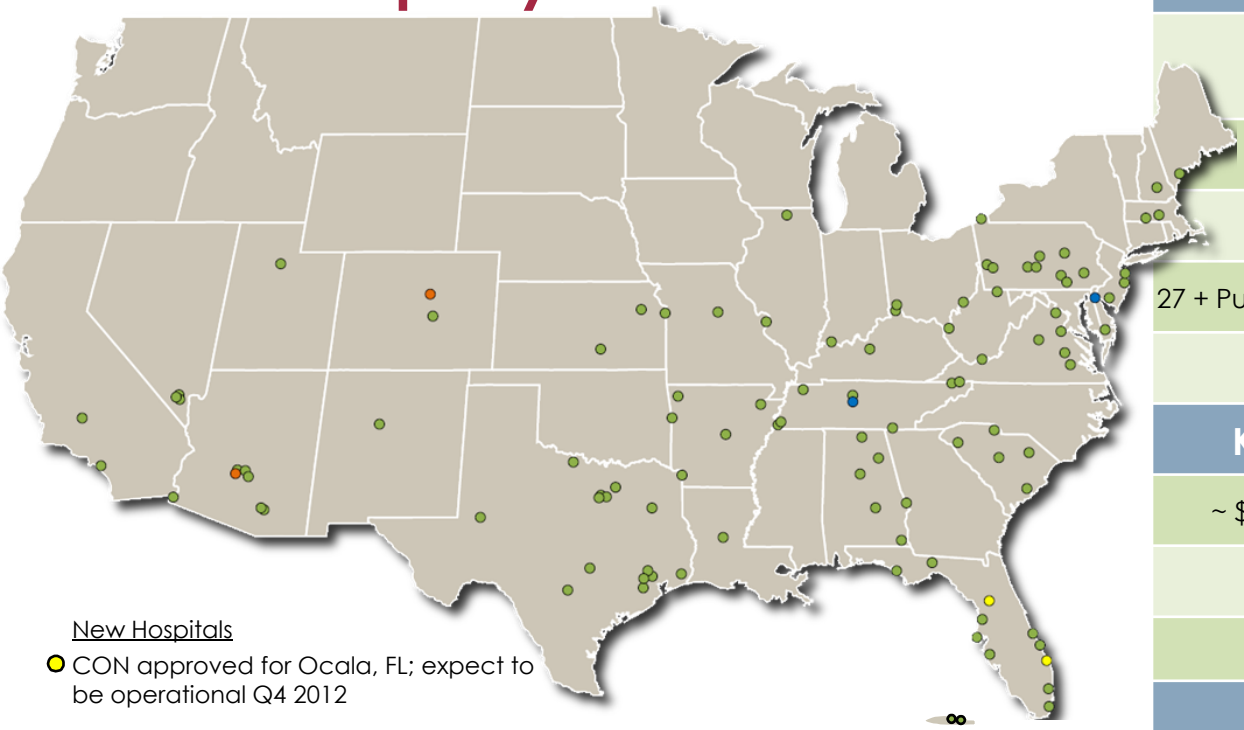
All such estimates, projections and forward-looking information speak only as of the date hereof. HealthSouth undertakes no duty to publicly update or revise the information contained herein.

You are cautioned not to place undue reliance on the estimates, projections and other forward-looking information in this presentation as they are based on current expectations and general assumptions and are subject to various risks, uncertainties and other factors, including those set forth in the Form 10-K for the year ended December 31, 2011, the Form 10-Q for quarter ended March 31, 2012, and in other documents we previously filed with the SEC, many of which are beyond our control, that may cause actual results to differ materially from the views, beliefs and estimates expressed herein.

Note Regarding Presentation of Non-GAAP Financial Measures

The following presentation includes certain "non-GAAP financial measures" as defined in Regulation G under the Securities Exchange Act of 1934. Schedules are attached that reconcile the non-GAAP financial measures included in the following presentation to the most directly comparable financial measures calculated and presented in accordance with Generally Accepted Accounting Principles in the United States. Our Form 8-K, dated May 7, 2012, provides further explanation and disclosure regarding our use of non-GAAP financial measures and should be read in conjunction with these supplemental slides.

Our Company



New Hospitals

- CON approved for Ocala, FL; expect to be operational Q4 2012
- CON approved for Stuart, FL (Martin County); expect to be operational Q2 2013
- Purchased land for Littleton, CO; expect to be operational Q2 2013
- Purchased land for southwest Phoenix, AZ; expect to be operational Q3 2013
- CON approved for Middletown, DE; being contested
- CON approved for Williamson Co, TN; being contested

Portfolio – As of March 31, 2012

99	Inpatient Rehabilitation Hospitals ("IRF") • 29 operate as JV's with Acute Care Hospitals
26	Outpatient Rehabilitation Satellite Clinics
25	Hospital-Based Home Health Agencies
27 + Puerto Rico	Number of States
~ 22,000	Employees

Key Statistics – Trailing 4 Quarters

~ $2.1 Billion	Revenue
120,098	Inpatient Discharges
937,921	Outpatient Visits

Patients Served

Most Common Conditions (Q1 2012):

1. Neurological	18.7%
2. Stroke	17.2%
3. Fracture of the lower extremity	10.2%
4. Debility	9.9%
5. Other orthopedic conditions	9.5%

Marketshare

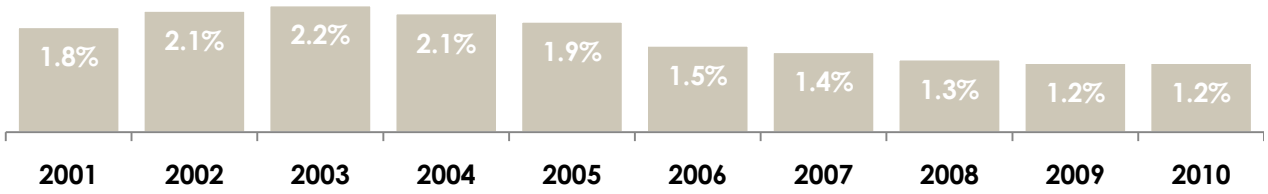
~ 8% of IRFs (Total in U.S. = 1,152)

~ 18% of Licensed Beds

~ 23% of Patients Served

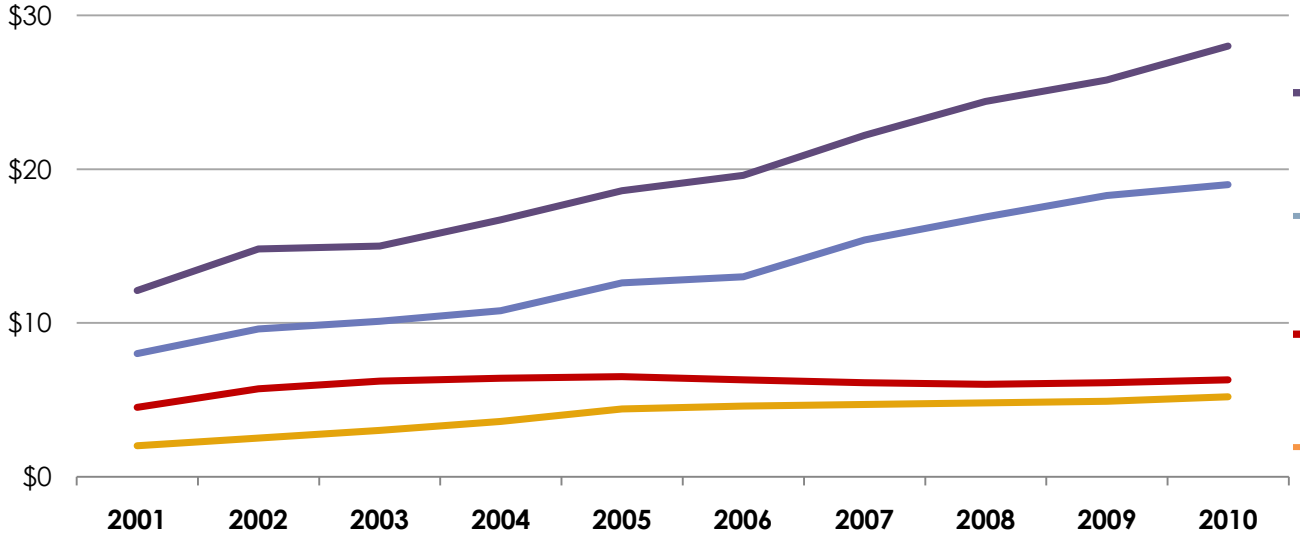
Largest Owner and Operator of Inpatient Rehabilitation Hospitals in the U.S.

Medicare Spending on Post-Acute Services



Inpatient rehabilitation spending (% of total Medicare spending)

Total Medicare Spending on Post-Acute Services **$58.5 billion** in 2010



Post-Acute Settings	2010 Medicare Margin	Projected 2012 Medicare Margins
Skilled nursing facilities	18.5%	>14%
Home health agencies	19.4%	13.7%
Inpatient rehabilitation hospitals	8.8%	8.0%
Long-term acute care hospitals	6.4%	4.8%

Note: These numbers are program spending only and do not include beneficiary copayments.
Sources: Center for Medicare & Medicaid Services, Medicare Trustees Report May 2011 – Page 45, MedPAC Data Book, June 2011 – page 122, MedPAC December 2011 Public Meeting, Assessing Payment Adequacy, MedPAC Report to Congress, Medicare Payment Policy, March 2012 – pages 193, 227, 251, and 272.

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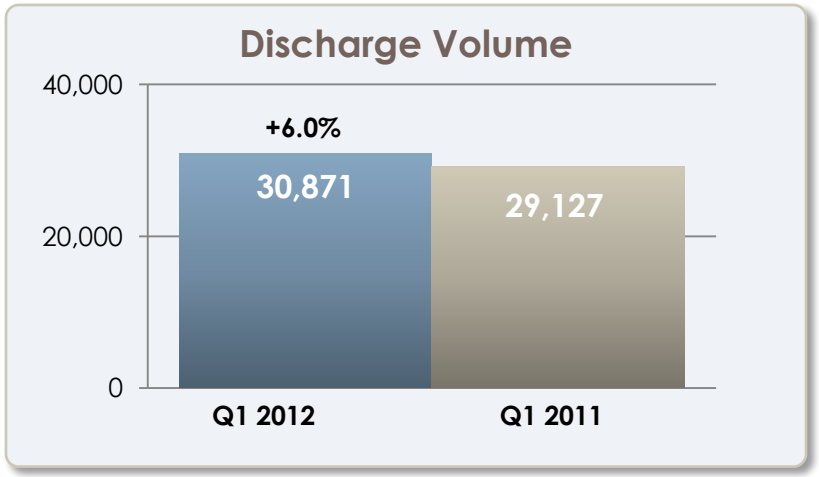
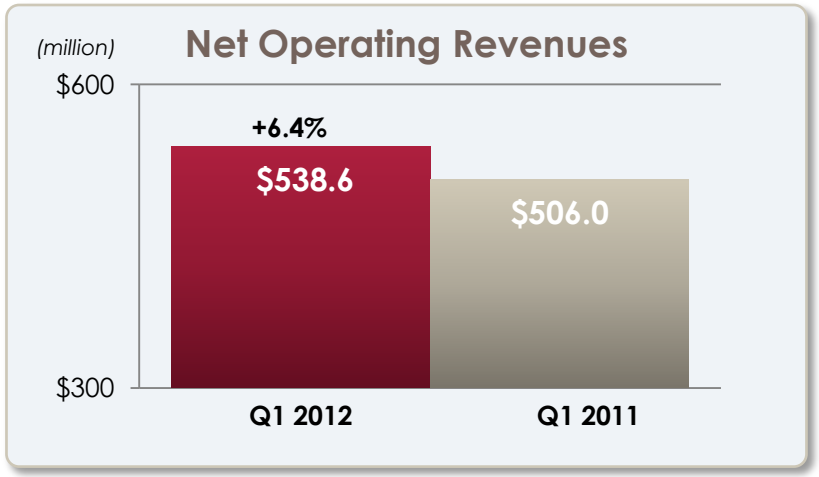
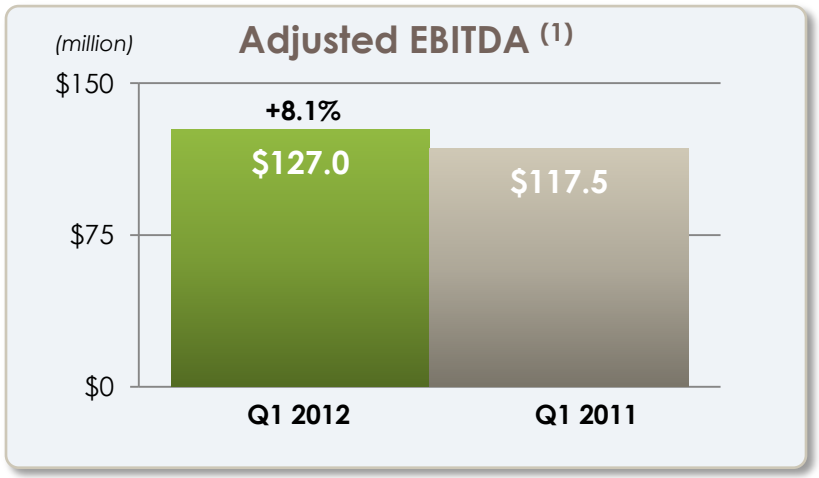
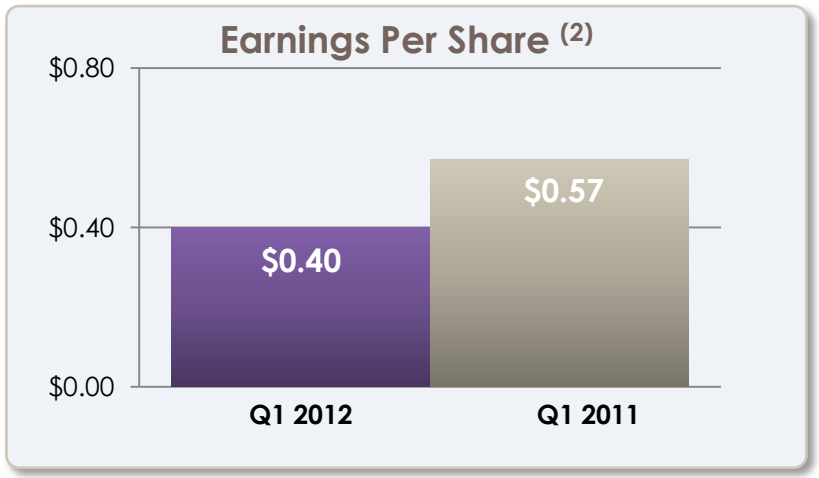
Q1 2012 Highlights









(1) Reconciliation to GAAP provided on slides 10 - 13

(2) Income from continuing operations attributable to HealthSouth per diluted share for the first quarter of 2012 was $0.40 per share compared to $0.57 per share for the same period of 2011. Earnings per share for the first quarter of 2012 reflected strong operating results and an effective income tax rate of approximately 40%. Earnings per share in the first quarter of 2011 reflected an effective income tax rate benefit of approximately (14%) due primarily to a $0.27 per diluted share income tax benefit that resulted from a settlement of federal income tax claims with the Internal Revenue Service for tax years 2007 and 2008 and a reduction in unrecognized tax benefits due to the lapse of the statute of limitations for certain federal and state claims.

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Priorities for Reinvesting Free Cash Flows

Priorities

Growth

- **Growth in core business**
  - Bed expansions (80-100 beds)
  - De novo hospitals (complete Ocala; start 4 others)
  - Acquisitions (target 2/year)
    - Free standing IRFs
    - Hospital unit

(millions)

	2012 Assumptions	Q1 2012 Actual
Bed expansions (80-100 beds)	$20 to $25	$5.5
De novo hospitals (complete Ocala; start 4 others)	$50 to $70	$9.2
Acquisitions (target 2/year)	TBD	-
	$70 to $95, excluding acquisitions	$14.7

Alternate Opportunities

Debt Reduction

	Q1 2012 Actual
Debt prepayment	-
Purchase leased properties (limited opportunity)	-

Shareholder Distribution

	Q1 2012 Actual
Convertible preferred stock repurchase ($125 million authorization)	$25.0
Common share repurchase ($125 million authorization)	-
Cash dividends (one time or regular)	-
	$25.0

Strong and Sustainable Business Fundamentals

Attractive Healthcare Sector	• Favorable demographic trends • Non-discretionary nature of many conditions treated in IRFs • Highly fragmented industry
Industry Leading Position	• #1 market share: above industry same-store growth and margins • Consistent achievement of high-quality, cost-effective care • Roll-out of state-of-the-art clinical information system
Cost-Effectiveness	• Focused labor management • Continued improvements in supply chain • Significant operating leverage of G&A expense
Real Estate Portfolio	• Portfolio of strategically located, well-designed physical assets • 99 IRFs [1]; 64 owned and 35 long-term, real estate leases • Relatively low maintenance capex requirements
Financial Strength	• Strong balance sheet; ample liquidity, no near-term maturities • Minimal cash income tax expense ($7 - $10 million / year) attributable to NOLs • Substantial free cash flow generation
Growth Opportunities	• Located in Medicare growth markets • Flexible, accelerated de novo strategy • Hospital acquisitions and unit consolidations

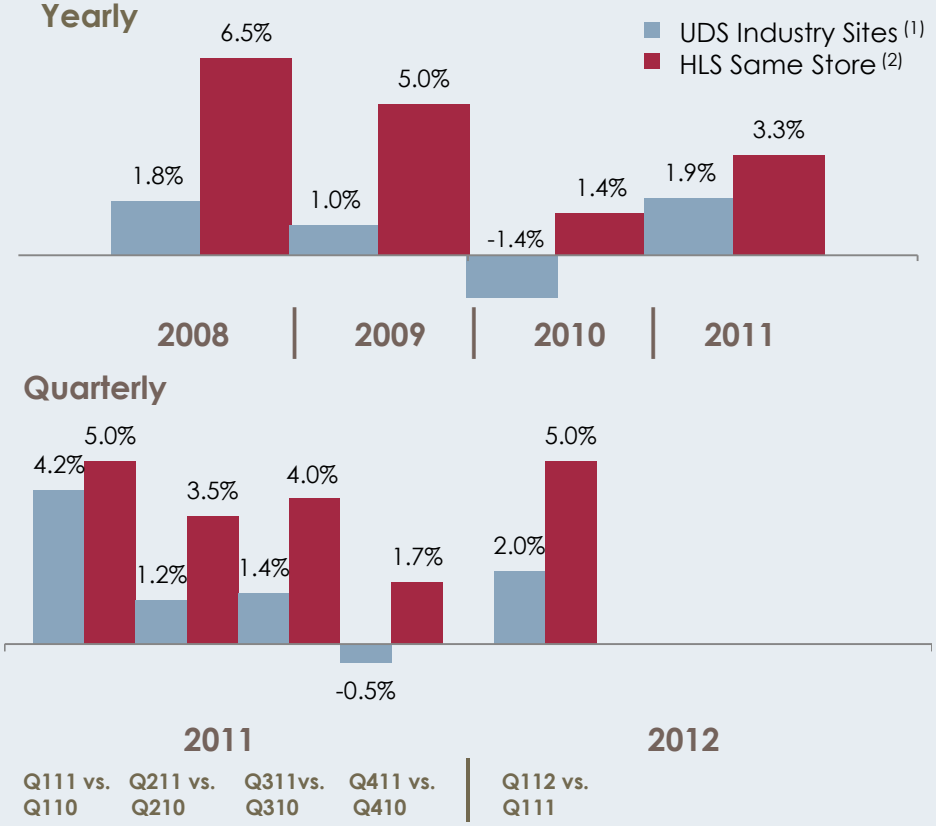
(1) Inclusive of non-consolidated entities

Appendix

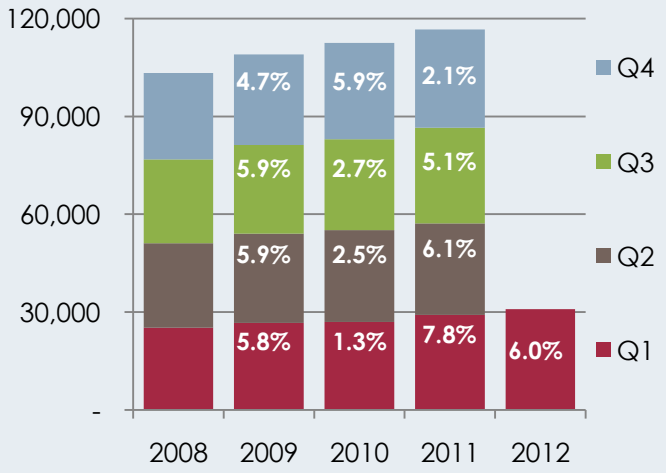
Historic Discharge Growth vs. Industry

HealthSouth's volume growth has outpaced competitors'

Same Store HealthSouth vs. Industry



Quarterly Discharge Growth



Yearly Discharge Growth	6.9%	5.6%	3.1%	5.2%

- TeamWorks = standardized and enhanced sales & marketing
- Bed additions will help facilitate continued organic growth

(1) Data provided by UDSMR, a data gathering and analysis organization for the rehabilitation industry; represents ~ 65-70% of industry, including HealthSouth sites.
(2) Includes consolidated HealthSouth inpatient rehabilitation hospitals classified as same store during that time period.

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Reconciliation of Net Income to Adjusted EBITDA [1][3]

(in millions, except per share data)	2012 Q1 Total	2012 Q1 Per Share
Net income	$ 56.8	
Loss from disc ops, net of tax, attributable to HealthSouth	0.4	
Net income attributable to noncontrolling interests	(12.6)	
Income from continuing operations attributable to HealthSouth [2]	44.6	$ 0.40
Pro fees - acct, tax, and legal	3.6	
Provision for income tax expense	29.1	
Interest expense and amortization of debt discounts and fees	23.3	
Depreciation and amortization	19.5	
Net noncash loss on disposal of assets	0.8	
Stock-based compensation expense	6.1	
Adjusted EBITDA [1][3]	$ 127.0	
Weighted average common shares outstanding:		
Basic		94.5
Diluted		108.7

(1) (2) (3) – Notes on page 12.

Reconciliation of Net Income to Adjusted EBITDA [1][3]

(in millions, except per share data)	2011 Q1 Total	2011 Q1 Per Share	2011 Q2 Total	2011 Q2 Per Share	2011 Q3 Total	2011 Q3 Per Share	2011 Q4 Total	2011 Q4 Per Share	2011 Full Year Total	2011 Full Year Per Share
Net income	$ 91.5		$ 32.3		$ 68.3		$ 62.5		$ 254.6	
(Income) loss from disc ops, net of tax, attributable to HealthSouth	(17.6)		(2.5)		(34.8)		5.0		(49.9)	
Net income attributable to noncontrolling interests	(11.7)		(10.4)		(11.3)		(12.5)		(45.9)	
Income from continuing operations attributable to HealthSouth [2]	62.2	$ 0.57	19.4	$ 0.14	22.2	$ 0.17	55.0	$ 0.50	158.8	$ 1.42
Gov't, class action, and related settlements	-		(10.6)		-		(1.7)		(12.3)	
Pro fees - acct, tax, and legal	3.8		8.4		4.0		4.8		21.0	
Provision for income tax (benefit) expense	(7.4)		11.2		18.1		15.2		37.1	
Interest expense and amortization of debt discounts and fees	35.1		34.9		26.3		23.1		119.4	
Depreciation and amortization	19.5		19.6		19.5		20.2		78.8	
Loss on early extinguishment of debt	-		26.1		12.7		-		38.8	
Net noncash loss on disposal of assets	0.1		1.0		2.8		0.4		4.3	
Stock-based compensation expense	4.2		5.3		4.9		5.9		20.3	
Adjusted EBITDA [1][3]	$ 117.5		$ 115.3		$ 110.5		$ 122.9		$ 466.2	
Weighted average common shares outstanding:										
Basic		93.1		93.3		93.3		93.3		93.3
Diluted		109.0		109.5		109.2		109.1		109.2

(1) (2) (3) – Notes on page 12.

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Reconciliation Notes for Slides 10-11

1. Adjusted EBITDA is a non-GAAP financial measure. The Company's leverage ratio (total consolidated debt to Adjusted EBITDA for the trailing four quarters) is, likewise, a non-GAAP financial measure. Management and some members of the investment community utilize Adjusted EBITDA as a financial measure and the leverage ratio 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 Adjusted EBITDA, the reader should be aware that in the future HealthSouth may incur expenses similar to the adjustments set forth.
2. Per share amounts for each period presented are based on diluted weighted average shares outstanding unless the amounts are antidilutive, in which case the per share amount is calculated using the basic share count after subtracting the quarterly dividend on the convertible perpetual preferred stock. The difference in shares between the basic and diluted shares outstanding is primarily related to our convertible perpetual preferred stock.
3. Adjusted EBITDA is a component of our guidance.

Adjusted EBITDA Reconciled to Net Cash Provided by Operating Activities

(Millions)	Q1 2012	Q1 2011	Full Year 2011	Full Year 2010
Net cash provided by operating activities	$ 81.0	$ 89.5	$342.7	$ 331.0
Provision for doubtful accounts	(6.3)	(4.8)	(21.0)	(16.4)
Professional fees—accounting, tax, and legal	3.6	3.8	21.0	17.2
Interest expense and amortization of debt discounts and fees	23.3	35.1	119.4	125.6
Equity in net income of nonconsolidated affiliates	3.3	2.5	12.0	10.1
Net income attributable to noncontrolling interests in continuing operations	(12.6)	(11.8)	(47.0)	(40.9)
Amortization of debt discounts and fees	(0.9)	(1.2)	(4.2)	(6.3)
Distributions from nonconsolidated affiliates	(3.3)	(2.7)	(13.0)	(8.1)
Current portion of income tax expense (benefit)	2.1	(2.1)	0.6	2.9
Change in assets and liabilities	36.9	10.9	49.9	2.8
Net premium (received) paid on bond issuance/redemption	-	(4.1)	22.8	-
Change in government, class action and related settlements liability	-	4.3	(8.5)	2.9
Net cash provided by operating activities of discontinued operations	(0.4)	(2.1)	(9.1)	(13.2)
Other	0.3	0.2	0.6	2.0
Adjusted EBITDA	$ 127.0	$117.5	$466.2	$ 409.6