HealthSouth is one of the nation's largest providers of post-acute healthcare services, offering both facility-based and home-based post-acute services in 33 states and Puerto Rico through its network of inpatient rehabilitation hospitals, home health agencies, and hospice agencies.





Fourth Quarter 2014 Earnings Call

February 25, 2015

Supplemental Slides

HEALTHSOUTH®

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, repurchases of securities, 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, 2014, when filed, and in other documents we previously filed with the SEC, many of which are beyond our control, that may cause actual events or 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 February 24, 2015, to which the following supplemental slides are attached as Exhibit 99.2, provides further explanation and disclosure regarding our use of non-GAAP financial measures and should be read in conjunction with these supplemental slides.

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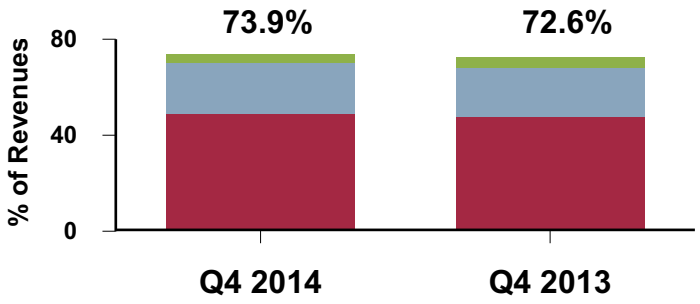
Q4 2014 Summary (Q4 2014 vs. Q4 2013)

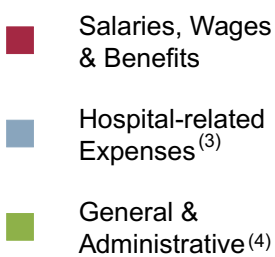
- ✓ **Revenue growth of 7.2%**
  - — Inpatient revenue growth of 8.1% (210 bps attributable to Fairlawn[1]; 150 bps attributable to RAC reserves in Q4 2013[2])
    - ▪ Discharge growth of 4.7%
      - • Same-store discharge growth of 2.2% (negatively impacted by 30 bps for closure of 40 SNF beds in June 2014)
      - • New-store discharge growth of 2.5%
        - – Positively impacted by approx. 190 bps attributable to Fairlawn[1]
        - – Negatively impacted by approx. 30 bps due to the delayed start-up at three new hospitals
    - ▪ Revenue per discharge increased by 3.2%
      - • Positively impacted by Medicare and managed care price adjustments and RAC reserves in Q4 2013[2]
      - • Negatively impacted by the ramp-up at new hospitals
- ✓ **Outpatient and other revenues decline of 6.1% ($2.1 million)**
- ✓ **Bad debt as a percent of revenue was 1.1% versus 0.6% in Q4 2013[2].**

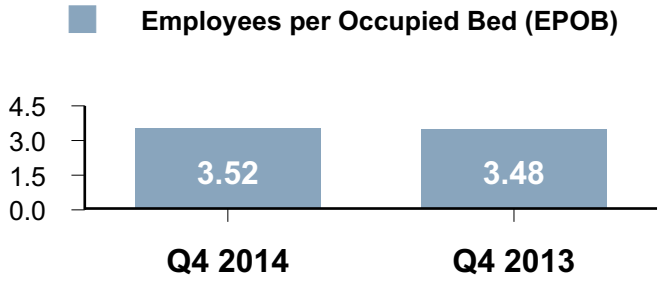
Refer to pages 39-41 for end notes.

Q4 2014 Summary (Q4 2014 vs. Q4 2013) (cont.)

- ✓ **Salaries and benefits as a percent of revenue increased 150 bps mainly attributable to:**
  - — Approx. $3 million lower reduction to self-insurance reserves for group medical and workers' compensation in Q4 2014 versus Q4 2013
  - — Start-up costs for four new hospitals that opened in Q4 2014
- ✓ **Hospital-related expenses as a percent of revenue increased by 60 bps mainly attributable to:**
  - — Approx. $4 million lower reduction to self-insurance reserves for general and professional liability in Q4 2014 versus Q4 2013
  - — Start-up costs for four new hospitals that opened in Q4 2014







Refer to pages 39-41 for end notes.

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Q4 2014 Summary (Q4 2014 vs. Q4 2013) (cont.)

- ✓ **Adjusted EBITDA* for the quarter of $140.8 million decreased by 1.1%:**
  - — Negatively impacted by approx. $6 million for net start-up costs at hospitals opening in Q4 2014
  - — Positively impacted by approx. $2 million related to the increase in ownership and consolidation of Fairlawn Rehabilitation Hospital(1)
- ✓ **Diluted earnings(5) per share of $0.41 (see table on slide 13) negatively impacted by:**
  - — $13.2 million, or $0.08 per share, loss on early extinguishment of debt
  - — $9.3 million, or $0.06 per share, for Encompass transaction costs

*Reconciliation to GAAP provided on pages 35, 37, and 38
Refer to pages 39-41 for end notes.

Q4 2014 Summary (cont.)

- ✓ **Adjusted free cash flow* for the quarter of $45.4 million:**
  - — Negatively impacted by growth in accounts receivable due to additional claims denials predominantly by one Medicare Administrative Contractor and continued delays at the administrative law judge hearing level
  - — Positively impacted by lower dividends paid on perpetual preferred stock[(10)]
- ✓ **Balance sheet enhancements:**
  - — In October, the Company redeemed all $271 million of its 7.25% senior notes due 2018.
  - — In December, the Company redeemed approx. $25 million of its 7.75% senior notes due 2022 (exercise of its 10% call rights).
  - — In December, the Company amended its credit agreement to add a $300 million term loan.
- ✓ **Shareholder distributions:**
  - — Paid quarterly cash dividend of $0.21 per share on October 15, 2014
  - — Declared a $0.21 per share quarterly dividend paid on January 15, 2015

* Reconciliation to GAAP provided on page 14
Refer to pages 39-41 for end notes.

Q4 2014 Summary (cont.)

- ✓ **Acquired Encompass Home Health and Hospice (closed December 31, 2014)**
  - — $750 million purchase price; $695.5 million in cash and $64.5 million in Encompass management equity roll
  - — Transaction funded via credit facility
    - In January 2015, the Company issued $400 million of additional 5.75% senior notes due 2024 and used the proceeds to repay a portion of the term loan and revolver.(28)
    - Pro forma leverage of approx. 3.3x(6)
  - — New HealthSouth home health and hospice operating segment
    - Retaining Encompass management and trade name
    - Will integrate existing 25 HealthSouth home health agencies into Encompass(27)
  - — Accretive upon closing
    - Expected Adjusted EBITDA contribution of approx. $72 million in 2015 (after noncontrolling interest; Encompass management equity roll was greater than originally forecast, resulting in an increased estimate for noncontrolling interest).
    - Expected EPS accretion of approx. $0.15 in 2015

Refer to pages 39-41 for end notes.

Development

- ✓ **Opened four new hospitals (three de novos; one acquisition):**
  - Altamonte Springs, FL (50 beds); opened October 2014
  - Johnson City, TN (26 beds); acquired Quillen Rehabilitation Hospital November 2014
  - Newnan, GA (50 beds); opened December 2014
  - Middletown, DE (34 beds); opened December 2014
- ✓ **New development:**
  - Entered into an agreement to acquire Cardinal Hill Rehabilitation Hospital in Lexington, KY (158 licensed inpatient rehabilitation beds and 74 licensed skilled nursing beds); expect to close in the first half of 2015
  - Continued progress on a new joint venture 50-bed inpatient rehabilitation hospital in Savannah, GA with Memorial University Medical Center; expect to be operational in first half 2015
  - Began construction of a 40-bed inpatient rehabilitation hospital in Franklin, TN; expect to be operational in Q4 2015
  - Continued the design and permitting process to construct a 50-bed inpatient rehabilitation hospital in Modesto, CA; expect to be operational in Q2 2016
  - Acquired land and began the design and permitting process on a 50-bed inpatient rehabilitation hospital in Murrieta, CA; expect to be operational in Q4 2017

Revenues (Q4 2014 vs. Q4 2013)

(Millions)	Q4 2014	Q4 2013	Increase/ (Decrease)
Inpatient	$ 580.9	$ 537.5	8.1%
Outpatient and other	32.5	34.6	(6.1%)
Consolidated net operating	$ 613.4	$ 572.1	7.2%
(Actual Amounts)			
Discharges	34,465	32,906	4.7%
Net patient revenue / discharge	$ 16,855	$ 16,334	3.2%

- ✓ **Revenue growth of 7.2%**
  - — Inpatient revenue growth of 8.1% (210 bps attributable to Fairlawn[1]; 150 bps attributable to RAC reserves in Q4 2013[2])
    - ▪ Discharge growth of 4.7%
      - • Same-store discharge growth of 2.2% (negatively impacted by 30 bps for closure of 40 SNF beds in June 2014)
      - • New-store discharge growth of 2.5%
        - – Positively impacted by approx. 190 bps attributable to Fairlawn[1]
        - – Negatively impacted by approx. 30 bps due to the delayed start-up at three new hospitals
    - ▪ Revenue per discharge increased by 3.2%
      - • Positively impacted by Medicare and managed care price adjustments and RAC reserves in Q4 2013[2]
      - • Negatively impacted by the ramp-up at new hospitals
- ✓ **Outpatient and other revenues decline of 6.1% ($2.1 million)**
- ✓ **Bad debt as a percent of revenue was 1.1% versus 0.6% in Q4 2013[2].**

Refer to pages 39-41 for end notes.

Expenses (Q4 2014 vs. Q4 2013)

(Millions)	Q4 2014	Q4 2013	Increase/ (Decrease)
Salaries and benefits	$ 300.3	$ 272.0	10.4%
Percent of net operating revenues	49.0%	47.5%	150 bps
EPOB (employees per occupied bed)	3.52	3.48	1.1%
Hospital-related expenses[3]	$ 130.8	$ 118.4	10.5%
(other operating, supplies, occupancy)			
Percent of net operating revenues	21.3%	20.7%	60 bps
General and administrative[4]	$ 22.5	$ 24.8	(9.3%)
(excludes stock-based compensation)			
Percent of net operating revenues	3.7%	4.3%	(60 bps)
Provision for doubtful accounts	$ 6.6	$ 3.6	83.3%
Percent of net operating revenues	1.1%	0.6%	50 bps

- ✓ **Salaries and benefits as a percent of revenue increased 150 bps mainly attributable to:**
  - — Approx. $3 million lower reduction to self-insurance reserves for group medical and workers' compensation in Q4 2014 versus Q4 2013
  - — Start-up costs for four new hospitals that opened in Q4 2014
- ✓ **Hospital-related expenses as a percent of revenue increased by 60 bps mainly attributable to:**
  - — Approx. $4 million lower reduction to self-insurance reserves for general and professional liability in Q4 2014 versus Q4 2013
  - — Start-up costs for four new hospitals that opened in Q4 2014

Refer to pages 39-41 for end notes.

Adjusted EBITDA*

(Millions)	Q4 2014	Q4 2013	Full-Year 2014	Full-Year 2013
Net operating revenues	$ 613.4	$ 572.1	$ 2,405.9	$ 2,273.2
Less: Provision for doubtful accounts	(6.6)	(3.6)	(31.6)	(26.0)
Net operating revenues less provision for doubtful accounts	606.8	568.5	2,374.3	2,247.2
Operating expenses:				
Salaries and benefits	(300.3)	(272.0)	(1,161.7)	(1,089.7)
Hospital-related expenses:				
Other operating expenses[(a)]	(90.4)	(80.1)	(344.9)	(317.1)
Supplies	(29.9)	(27.1)	(111.9)	(105.4)
Occupancy costs	(10.5)	(11.2)	(41.6)	(47.0)
	(130.8)	(118.4)	(498.4)	(469.5)
General and administrative expenses[(b)(c)]	(22.5)	(24.8)	(91.6)	(94.3)
Equity in nonconsolidated affiliates	1.9	3.0	10.7	11.2
Other income[(d)]	1.1	1.3	4.0	4.5
Noncontrolling interests	(15.4)	(15.3)	(59.7)	(57.8)
Adjusted EBITDA	$ 140.8	$ 142.3	$ 577.6	$ 551.6

* Reconciliation to GAAP provided on slides 35, 37, and 38

In arriving at Adjusted EBITDA, the following were excluded:	Q4 2014	Q4 2013	Full-Year 2014	Full-Year 2013
(a) Loss on disposal or impairment of assets	$ 1.0	$ 1.6	$ 6.7	$ 5.9
(b) Stock-based compensation expense	4.6	5.8	23.9	24.8
(c) Encompass transaction costs	9.3	—	9.3	—
(d) Gain on consolidation of Fairlawn Rehabilitation Hospital	—	—	27.2	—

Q4 2014	Full-Year 2014
($1.5)	+26.0 M
(1.1%)	+4.7%

- ✓ **Adjusted EBITDA* for the quarter of $140.8 million decreased by 1.1%:**
  - Negatively impacted by approx. $6 million for net start-up costs at hospitals opening in Q4 2014
  - Positively impacted by approx. $2 million related to the increase in ownership and consolidation of Fairlawn[(1)]
- ✓ **Adjusted EBITDA* for full-year 2014 included approx. $8 million of negative impact for sequestration in Q1 2014.**

Refer to pages 39-41 for end notes.

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Earnings per Share

(In Millions, Except Per Share Data)	Q4 2014	Q4 2013	Full-Year 2014	Full-Year 2013
Adjusted EBITDA	$ 140.8	$ 142.3	$ 577.6	$ 551.6
Interest expense and amortization of debt discounts and fees	(25.7)	(26.5)	(109.2)	(100.4)
Depreciation and amortization	(27.5)	(25.2)	(107.7)	(94.7)
Stock-based compensation expense	(4.6)	(5.8)	(23.9)	(24.8)
Other, including noncash loss on disposal or impairment of assets	(1.0)	(1.6)	(6.7)	(5.9)
	82.0	83.2	330.1	325.8
Certain nonrecurring items:				
Government, class action, and related settlements	0.9	0.2	1.7	23.5
Loss on early extinguishment of debt	(13.2)	(2.4)	(13.2)	(2.4)
Gain on consolidation of Fairlawn Rehabilitation Hospital	—	—	27.2	—
Professional fees - accounting, tax, and legal	(1.7)	(1.7)	(9.3)	(9.5)
Encompass transaction costs	(9.3)	—	(9.3)	—
Pre-tax income	58.7	79.3	327.2	337.4
Income tax expense[7]	(19.3) [8]	(30.5)	(110.7) [8]	(12.7) [9]
Income from continuing operations[5]	$ 39.4	$ 48.8	$ 216.5	$ 324.7
Income allocated to participating securities	(0.3)	—	(2.3)	(3.4)
Convertible perpetual preferred dividends	(1.6)	(3.8)	(6.3)	(21.0)
Repurchase of convertible perpetual preferred stock[10]	—	(71.6)	—	(71.6)
Interest and amortization on 2.0% Convertible Senior Subordinated Notes (net of tax)[11]	2.2	1.0	9.0	1.0
Basic shares	86.6	86.4	86.8	88.1
Diluted shares	100.8	100.8	100.7	102.1
Basic earnings per share [5]	$ 0.43	$ (0.31)	$ 2.40	$ 2.59
Diluted earnings per share[5] [11]	$ 0.41	$ (0.31) [14]	$ 2.24	$ 2.59 [14]

Q4 2014 reflects:

- ✓ **Diluted earnings[5] per share of $0.41 negatively impacted by:**
  - — $13.2 million, or $0.08 per share, loss on early extinguishment of debt
  - — $9.3 million, or $0.06 per share, for Encompass transaction costs

Full-year 2013 reflects:

- — An approx. $115 million, or $1.31 per basic share, benefit related to a settlement with the IRS[9]
- — $71.6 million, or $0.81 per share, repurchase premium on the preferred stock in the exchange transaction[10]

Refer to pages 39-41 for end notes.

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Adjusted Free Cash Flow[12]

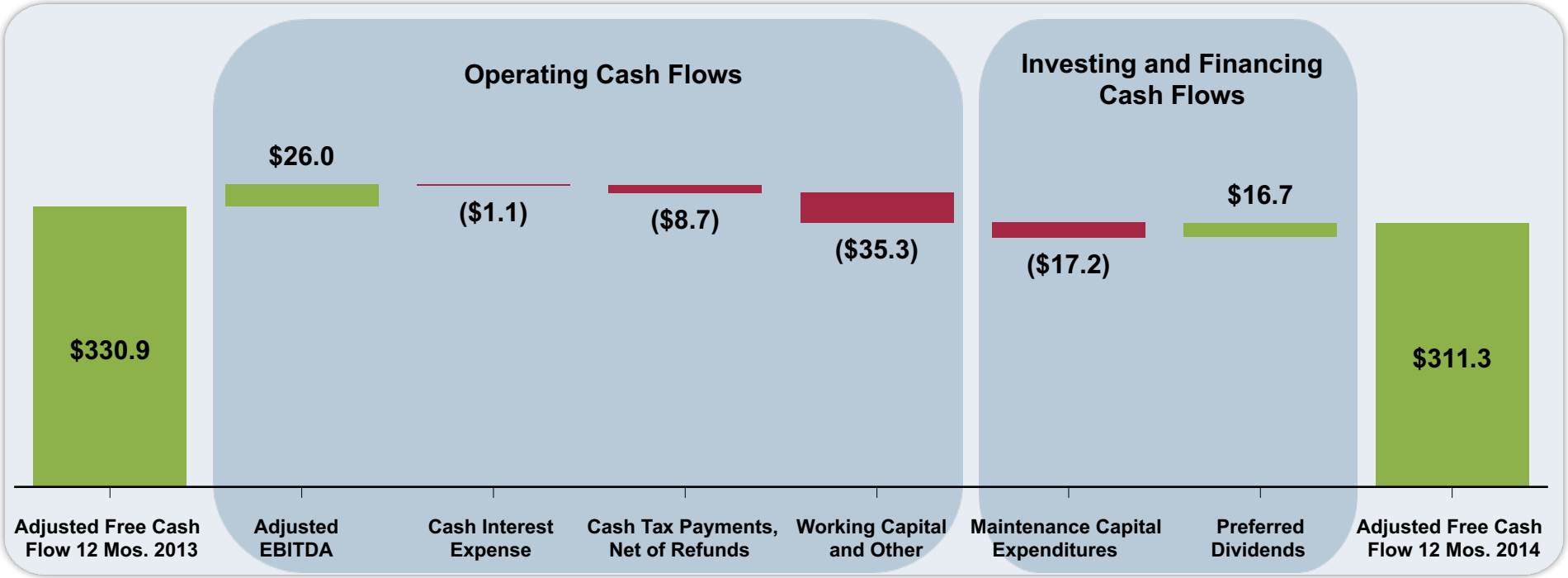
(Millions)	Q4 2014	Q4 2013	Full-Year 2014	Full-Year 2013
Net cash provided by operating activities	$ 70.2	$ 100.9	$ 444.9	$ 470.3
Impact of discontinued operations	0.2	0.5	1.2	1.9
Net cash provided by operating activities of continuing operations	70.4	101.4	446.1	472.2
Capital expenditures for maintenance[17]	(26.1)	(20.5)	(92.0)	(74.8)
Dividends paid on convertible perpetual preferred stock	(1.6)	(5.8)	(6.3)	(23.0)
Distributions paid to noncontrolling interests of consolidated affiliates	(14.5)	(12.2)	(54.1)	(46.3)
Nonrecurring items:				
Cash paid for professional fees - accounting, tax, and legal	1.3	1.7	8.6	7.0
Encompass transaction costs paid in 2014	2.0	—	2.0	—
Net premium on bond issuance/repayment	10.6	1.7	4.3	1.7
Cash received for government, class action, and related settlements	3.3	—	2.7	(5.9)
Adjusted free cash flow	**$ 45.4**	**$ 66.3**	**$ 311.3**	**$ 330.9**
Cash dividends on common stock	**$ 18.4**	**$ 15.7**	**$ 65.8**	**$ 15.7**

- ✓ **Adjusted free cash flow for the quarter of $45.4 million:**
  - — Negatively impacted by growth in accounts receivable due to additional claims denials predominantly by one Medicare Administrative Contractor and continued delays at the administrative law judge hearing level
  - — Positively impacted by lower dividends paid on perpetual preferred stock[10]

Refer to pages 39-41 for end notes.

Adjusted Free Cash Flow*

(Millions)	12 Months 2014	12 Months 2013	Change $	Change %
Adjusted free cash flow[12]	$311.3	$330.9	(19.6)	(5.9)%



- ✓ **Adjusted free cash flow* for the year of $311.3 million:**
  - — Benefited from increased Adjusted EBITDA and lower dividends paid on perpetual preferred stock[10]
  - — Working capital negatively impacted by growth in accounts receivable due to additional claims denials predominantly by one Medicare Administrative Contractor and continued delays at the administrative law judge hearing level
  - — Maintenance capital expenditures negatively impacted by approx. $12 million for equipment purchases that were invoiced in Q4 2013 and paid in early 2014

*Reconciliation to GAAP provided on page 14
Refer to pages 39-41 for end notes.

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2015 Guidance - Adjusted EBITDA*

Adjusted EBITDA
$670 million to $680 million

- ✓ **Inpatient rehabilitation segment considerations for 2015:**
  - — Revenue growth between 5.9% and 7.3%
  - — Discharge growth between 3.5% and 4.5%
  - — Revenue per discharge growth between 2.3% and 2.6%
  - — Bad debt expense of approx. 1.5%
- ✓ **Home health and hospice segment considerations for 2015:**
  - — Encompass contribution of approx. $72 million in Adjusted EBITDA after noncontrolling interest (does not include HealthSouth's legacy 25 home health agencies)(27)
- ✓ **Other considerations for 2015:**
  - — Approx. $10 million of new investments in our operating platform
    - ▪ Contractual increase for our clinical information system (CIS)
    - ▪ New medical services department
    - ▪ Additional hospital staff for quality reporting
    - ▪ Bundling pilot participation

*Reconciliation to GAAP provided on pages 35 and 38
Refer to pages 39-41 for end notes.

2015 Guidance - EPS

Earnings per Share from Continuing Operations Attributable to HealthSouth[5]
$ 2.24 to $ 2.29

Considerations:

- ✓ Higher depreciation and amortization related to recent capital investments
- ✓ Higher interest expense and amortization of debt discounts and fees related to the increased debt for the Encompass acquisition
- ✓ Assumes provision for income tax of approx. 40% (cash taxes expected to be $15 - $20 million for full-year 2015)
- ✓ Share count is before the effect of any potential share repurchase activity.
- ✓ Diluted share count includes 3.2 million shares for the convertible preferred security under which the Company has a forced conversion option at a common stock price of $44.55[10].

	EPS Guidance		
	Actual	Low	High
(In Millions, Except Per Share Data)	2014	2015	
Adjusted EBITDA	**$ 577.6**	**$ 670**	**$ 680**
Interest expense and amortization of debt discounts and fees	(109.2)	(129)	
Depreciation and amortization	(107.7)	(134)	
Stock-based compensation expense	(23.9)	(28)	
Other, including noncash loss on disposal and impairment of assets	(6.7)	(7)	
	330.1	372	382
Certain Nonrecurring Expenses:			
Government, class action, and related settlements	1.7	—	
Professional fees - accounting, tax, and legal	(9.3)	(9)	
Loss on early extinguishment of debt	(13.2)	(2)	
Gain related to consolidation of Fairlawn Rehabilitation Hospital[1]	27.2	—	
Encompass transaction costs	(9.3)	—	
Pre-tax income	**327.2**	**361**	**371**
Income tax	(110.7)	(144)	(148)
Income from continuing operations[5]	**$ 216.5**	**$ 217**	**$ 223**
Income allocated to participating securities[13]	$ (2.3)	$ (2)	$ (2)
Convertible perpetual preferred dividends[13]	(6.3)	(6)	(6)
After-tax convertible debt interest expense[11]	9.0	9	9
Basic shares[13]	86.8	87.1	87.1
Diluted shares[11]	100.7	101.1	101.1
Earnings per share	**$ 2.24**	**$ 2.24**	**$ 2.29**

Refer to pages 39-41 for end notes.

Adjusted Free Cash Flow* and Tax Assumptions

Certain Cash Flow Items[12] (millions)	2015 Assumptions	2014 Actual	2013 Actual
• Cash interest expense[15]	$110 to $115	$96.5	$95.4
• Cash payments for taxes, net of refunds	$15 to $20	$16.4	$7.7
• Working Capital and Other[16]	$40 to $50	$55.0	$19.6
• Maintenance CAPEX[17]	$90 to $100	$92.0	$74.8
• Dividends paid on preferred stock	$6	$6.3	$23.0
• Dividends on common stock[12]	$74	$65.8	$15.7

GAAP Tax Considerations:

- As of 12/31/14, the Company's federal NOL had a gross balance of approx. $630 million.
- The Company has a remaining valuation allowance of approx. $23 million related to state NOLs.
- The Encompass acquisition includes an approx. $40 million (NPV) tax benefit (in addition to the Company's NOLs).

* Reconciliation to GAAP provided on page 14

Refer to pages 39-41 for end notes

Priorities for Reinvesting Free Cash Flow

Remains Highest Priority

Growth in Core Business

	2015 Assumptions	2014 Actuals	2013 Actuals
IRF bed expansions	$30 to $40	$23.6	$24.9
New IRF's			
- De novos	40 to 60	53.7	26.6
- Acquisitions	TBD	20.2	28.9
New home health and hospice acquisitions	30 to 40	674.6[18]	—
	$100 to $140, excluding IRF acquisitions	$772.1	$80.4

Opportunity

Debt Reduction

	2015 Assumptions	2014 Actuals	2013 Actuals
Debt (borrowings) redemptions, net[10][18][28]	TBD	$(614.1)	$(264.0)
Purchase leased properties	TBD	20.0	90.3

Complements Growth Investments

Shareholder Distributions

Convertible preferred stock repurchase[10]	TBD	—	249.0
Cash dividends on common stock[19]	74	65.8	15.7
Common stock repurchase (~$207 million authorization remaining as of December 31, 2014)[20]	TBD	43.1	234.1
	TBD	$(485.2)	$325.1

Refer to pages 39-41 for end notes.

Appendix

Business Outlook: 2015 to 2017[21]

Business Model :

- **Adjusted EBITDA* CAGR: 5% - 9%** (2014 base-year Adjusted EBITDA includes an estimate for Encompass)[22]
- **Continued strong free cash flow generation**

Strategy Component

	2015	2016	2017
Shareholder Distributions	• **Quarterly cash dividends** • **Opportunistic repurchases** ($207 million authorization remaining as of December 31, 2014)		
Strong Balance Sheet	• **Target Leverage < 3.0x** (subject to shareholder value-creating opportunities)		
Core Growth	• **Same-store IRF Growth** • **New-Store IRF growth (Target 4-6/Year)** • **Same-store Home Health and Hospice Growth** • **New-store Home Health and Hospice Growth**		
Complementary Growth		• **Consider acquisitions of other complementary post-acute businesses**	
Key Operational Initiatives	• **Enhance clinical outcomes and patient experience** • **Implementing CIS: installed in 58 IRF's at YE 2014; Expect all IRF's to be on system by YE 2017** • **Participate in new delivery and payment models (ACO's; bundling)**		

*Reconciliation to GAAP provided on slides 35 and 38
Refer to pages 39-41 for end notes.

Business Outlook: Revenue Assumptions

	Inpatient Rehabilitation	Home Health & Hospice
Volume	• 2.5% to 3.5% annual discharge growth (excludes acquisitions) • Includes bed expansions, de novos and unit consolidations	• 10% to 15% annual episode growth • Includes $35-$40 million per annum in agency acquisitions

Medicare Pricing	**Inpatient Rehabilitation** Approx. 74% of Revenue			**Home Health & Hospice** Approx. 83% of Revenue		
	FY 2015 [23] Q414-Q315	**FY 2016 Q415-Q316**	**FY 2017 Q416-Q317**	**FY 2015 [24] Q115-Q415**	**FY 2016 Q116-Q416**	**FY 2017 Q117-Q117**
Market basket update	2.9%	2.9%	2.9%	2.6%	2.6%	2.6%
Healthcare reform reduction	(20) bps	(20) bps	(75) bps	-	-	-
Healthcare reform rebasing adjustment	-	-	-	(2.4%)[41]	(2.8%)	(2.8%)
Healthcare reform productivity adjustment	(50) bps	Approx. (100) bps	Approx. (100) bps	(50) bps	Approx. (100) bps	Approx. (100) bps
Net impact	2.2%	1.7%	1.15%	(0.3%)	(1.2%)	(1.2%)

2% Sequestration[25]

Managed Care Pricing	**Inpatient Rehabilitation** Approx. 19% of Revenue			**Home Health & Hospice** Approx. 10% of Revenue		
	2015	**2016**	**2017**	**2015**	**2016**	**2017**
Expected increases	2-4%	2-4%	2-4%	2-4%	2-4%	2-4%

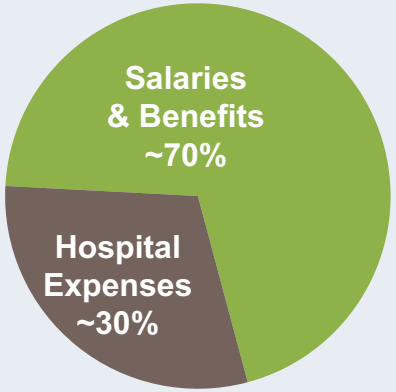
Refer to pages 39-41 for end notes.

Business Outlook: Labor and Other Expense Assumptions

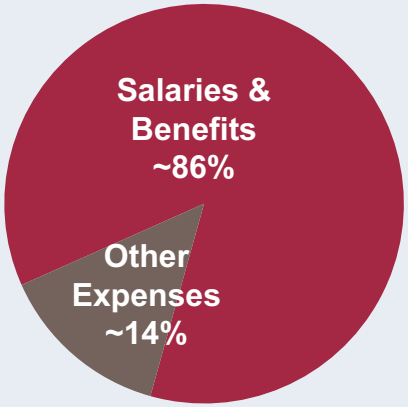
Inpatient Rehabilitation

Home Health and Hospice

Salaries and Benefits	2015	2016	2017
Merit increases	2.25-2.75%	2.5-3.0%	2.5-3.0%
Benefit costs	5-8%	5-8%	5-8%



Percent of Salaries & Benefits	
Salaries	~ 88%
Benefit	~12%



Hospital Expenses

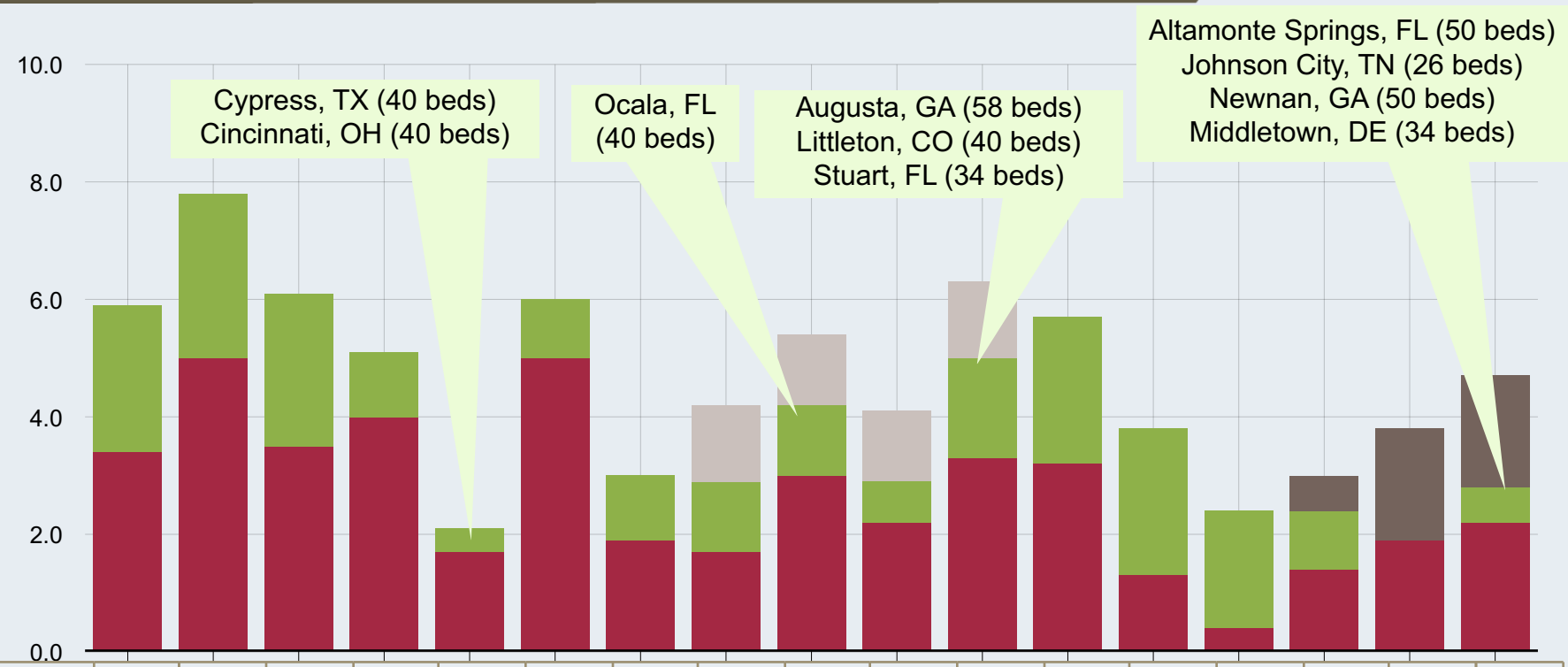
- Other operating expenses and supply costs tracking with inflation

Home Health Expenses

- Other operating expenses and supply costs tracking with inflation

Our New-Store/Same-Store IRF Growth

HealthSouth's IRF volume growth is driven by bed expansions and new IRFs.



	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Fairlawn (1)															0.6%	1.9%	1.9%
St. Vincent's(26)								1.3%	1.2%	1.2%	1.3%						
New Store	2.5%	2.8%	2.6%	1.1%	0.4%	1.0%	1.1%	1.2%	1.2%	0.7%	1.7%	2.5%	2.5%	2.0%	1.0%	—%	0.6%
Same Store	3.4%	5.0%	3.5%	4.0%	1.7%	5.0%	1.9%	1.7%	3.0%	2.2%	3.3%	3.2%	1.3%	0.4%	1.4%	1.9%	2.2%
Total by Qtr.	5.9%	7.8%	6.1%	5.1%	2.1%	6.0%	3.0%	4.2%	5.4%	4.1%	6.3%	5.7%	3.8%	2.4%	3.0%	3.8%	4.7%
Total by Year	3.1%				5.2%				4.6%				5.0%				3.5%

Refer to page 39-41 for end notes.

HEALTHSOUTH

Debt Schedule

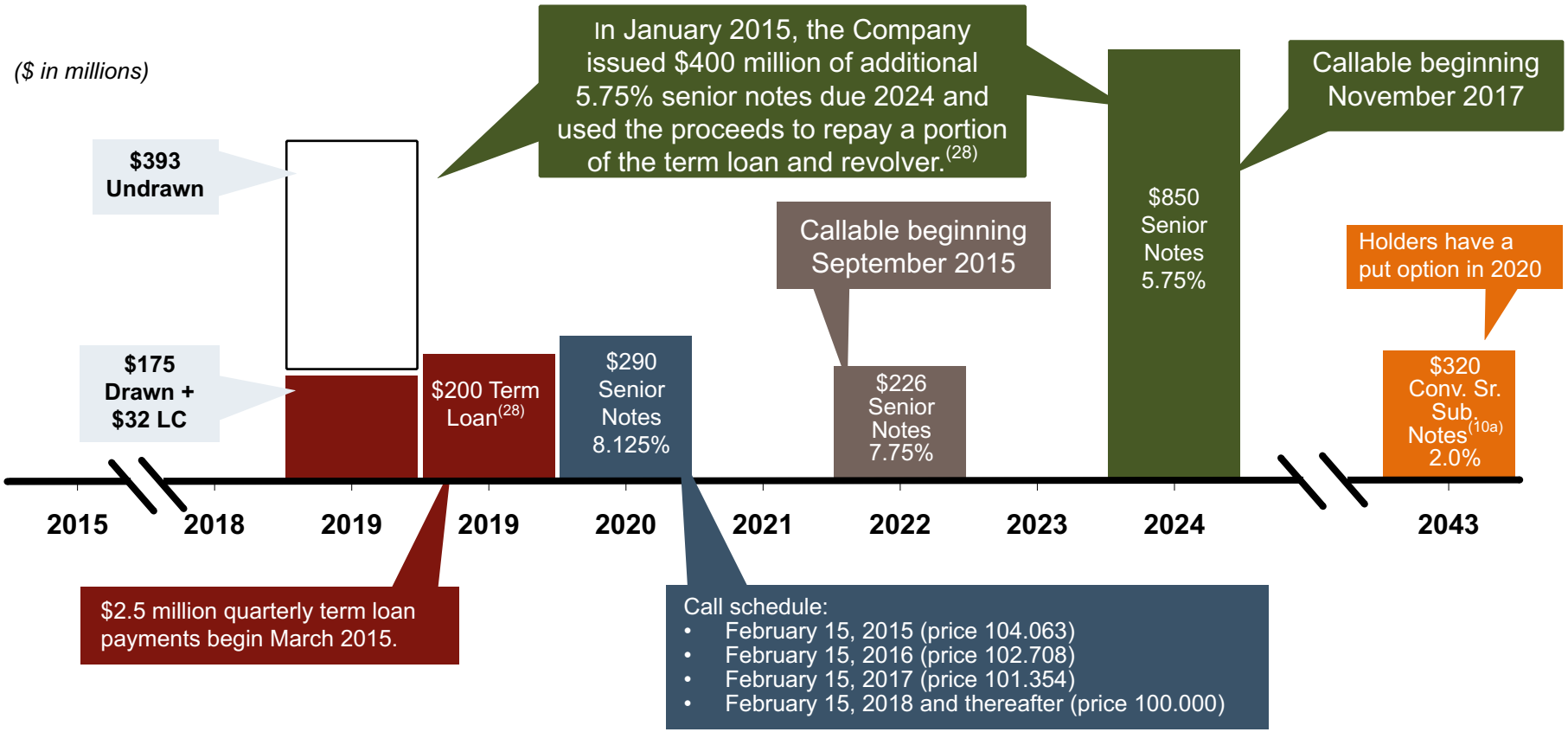
(Millions) Corporate	Credit Rating S&P	Credit Rating Moody	Pro Forma Post Issuance and Term Loan Paydown[28]	Dec. 31, 2014[28]	Dec. 31, 2013	Pro Forma Change in Debt vs. YE 2013
Advances under $600 million revolving credit facility, September 2019 - LIBOR +175bps[28]	BB+	Baa3	$ 175.0	$ 325.0	$ 45.0	$ 130.0
Term loan facility, September 2019 - LIBOR +175bps[28]	BB+	Baa3	200.0	450.0	—	200.0
Bonds Payable:						
7.25% Senior Notes due 2018[28]	BB-	Ba3	—	—	272.4	(272.4)
8.125% Senior Notes due 2020	BB-	Ba3	287.0	287.0	286.6	0.4
7.75% Senior Notes due 2022[28]	BB-	Ba3	227.1	227.1	252.5	(25.4)
5.75% Senior Notes due 2024[28]	BB-	Ba3	864.2	456.2	275.0	589.2
2.00% Convertible Senior Subordinated Notes due 2043[10a]			258.0	258.0	249.5	8.5
Other notes payable			41.6	41.6	47.6	(6.0)
Capital lease obligations			86.7	86.7	88.9	(2.2)
Long-term debt			**$ 2,139.6**	**$ 2,131.6**	**$ 1,517.5**	$ 622.1
Debt to Adjusted EBITDA*[30]			**3.7x**	**3.7x**	**2.8x**	

***Reconciliation to GAAP provided on slides 35, 37, and 38**
Refer to pages 39-41 for end notes.

Debt Maturity Profile - Face Value

HealthSouth is positioned with a cost-efficient, flexible capital structure.

Proforma Dec. 31, 2014 for Issuance and Credit Facility Repayments[28][29]



Refer to pages 39-41 for end notes.

HEALTHSOUTH

Revenues & Expenses (Sequential)

Revenues (millions)	Q4 2014	Q3 2014	Increase/ (Decrease)
Inpatient	$ 580.9	$ 563.7	3.1%
Outpatient and other	32.5	33.2	(2.1%)
Consolidated net operating	$ 613.4	$ 596.9	2.8%
(Actual Amounts)			
Discharges	34,465	33,541	2.8%
Net patient revenue / discharge	$ 16,855	$ 16,806	0.3%
Expenses (millions)			
Salaries and benefits	$ 300.3	$ 290.0	3.6%
Percent of net operating revenues	49.0%	48.6%	40 bps
EPOB (employees per occupied bed)	3.52	3.50	0.6%
Hospital-related expenses[3]	$ 130.8	$ 123.6	5.8%
(other operating, supplies, occupancy)			
Percent of net operating revenues	21.3%	20.7%	60 bps
General and administrative[4]	$ 22.5	$ 22.5	—%
(excludes stock-based compensation)			
Percent of net operating revenues	3.7%	3.8%	(10 bps)
Provision for doubtful acounts	$ 6.6	$ 8.2	(19.5%)
Percent of net operating revenues	1.1%	1.4%	(30 bps)

Refer to pages 39-41 for end notes.

Revenues & Expenses (Full Year)

Revenues (millions)	**12-Months 2014**	**12-Months 2013**	**Increase/ (Decrease**
Inpatient	$ 2,272.5	$ 2,130.8	6.7%
Outpatient and other	133.4	142.4	(6.3%)
Consolidated net operating	$ 2,405.9	$ 2,273.2	5.8%
(Actual Amounts)			
Discharges	134,515	129,988	3.5%
Net patient revenue / discharge	$ 16,894	$ 16,392	3.1%
Expenses (millions)			
Salaries and benefits	$ 1,161.7	$ 1,089.7	6.6%
Percent of net operating revenues	48.3%	47.9%	40 bps
EPOB (employees per occupied bed)	3.44	3.44	—%
Hospital-related expenses[3]	$ 498.4	$ 469.5	6.2%
(other operating, supplies, occupancy)			
Percent of net operating revenues	20.7%	20.7%	— bps
General and administrative[4]	$ 91.6	$ 94.3	(2.9%)
(excludes stock-based compensation)			
Percent of net operating revenues	3.8%	4.1%	(30 bps)
Provision for doubtful acounts	$ 31.6	$ 26.0	21.5%
Percent of net operating revenues	1.3%	1.1%	20 bps

Refer to pages 39-41 for end notes.

Payment Sources (Percent of Revenues)

	Q4		Full-Year	
	2014	2013	2014	2013
Medicare	73.9%	74.7%	74.1%	74.5%
Medicaid	2.0%	1.2%	1.8%	1.2%
Workers' compensation	1.1%	1.2%	1.2%	1.2%
Managed care and other discount plans, including Medicare Advantage[31]	18.8%	18.3%	18.6%	18.5%
Other third-party payors	1.9%	1.8%	1.8%	1.8%
Patients	0.9%	1.1%	1.0%	1.1%
Other income	1.4%	1.7%	1.5%	1.7%
Total	100.0%	100.0%	100.0%	100.0%

Refer to pages 39-41 for end notes.

Operational and Labor Metrics

	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Full-Year 2014	Full-Year 2013
					(In Millions)					
Net patient revenue-inpatient	$ 580.9	$ 563.7	$ 569.7	$ 558.2	$ 537.5	$ 528.8	$ 527.4	$ 537.1	$ 2,272.5	$ 2,130.8
Net patient revenue-outpatient and other revenues	32.5	33.2	34.7	33.0	34.6	35.2	37.1	35.5	133.4	142.4
Net operating revenues	$ 613.4	$ 596.9	$ 604.4	$ 591.2	$ 572.1	$ 564.0	$ 564.5	$ 572.6	$ 2,405.9	$ 2,273.2
					(Actual Amounts)					
Discharges[32]	34,465	33,541	33,620	32,889	32,906	32,307	32,645	32,130	134,515	129,988
Outpatient visits	184,067	183,450	189,540	182,170	192,474	202,479	211,207	200,471	739,227	806,631
Average length of stay	12.9	13.2	13.1	13.4	13.1	13.3	13.2	13.5	13.2	13.3
Occupancy %	68.4%	69.6%	70.5%	71.9%	68.6%	69.0%	69.9%	72.4%	68.4%	69.3%
# of licensed beds	7,095	6,890	6,884	6,825	6,825	6,789	6,777	6,646	7,095	6,825
Occupied beds	4,853	4,795	4,853	4,907	4,682	4,684	4,737	4,812	4,853	4,730
Full-time equivalents (FTEs)[33]	17,020	16,719	16,473	16,301	16,243	16,295	16,257	15,894	16,628	16,172
Contract labor	86	77	99	83	72	76	72	85	86	76
Total FTE and contract labor	17,106	16,796	16,572	16,384	16,315	16,371	16,329	15,979	16,714	16,248
EPOB[34]	3.52	3.50	3.41	3.34	3.48	3.50	3.45	3.32	3.44	3.44

Refer to pages 39-41 for end notes.

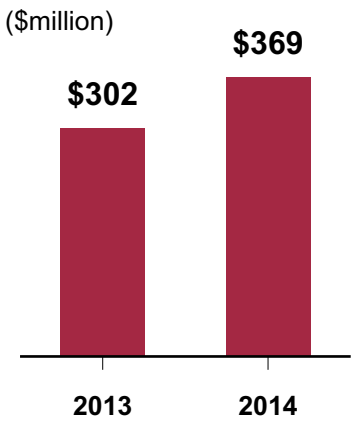
Operational and Labor Metrics Impact of Fairlawn Rehabilitation Hospital Consolidation[1]

	Fairlawn Rehabilitation Hospital as Consolidated Entity	Fairlawn Rehabilitation Hospital as Equity Method Entity		Fairlawn Rehabilitation Hospital as Consolidated Entity	Fairlawn Rehabilitation Hospital as Equity Method Entity	
	Q4 2014 As Reported	Q4 2014 Without Accounting or Ownership Change	Difference	Full-Year 2014 As Reported	Full-Year 2014 Without Accounting or Ownership Change	Difference
			(In Millions)			
Net patient revenue-inpatient	$ 580.9	$ 569.7	$ 11.2	$ 2,272.5	$ 2,246.3	$ 26.2
Net patient revenue-outpatient and other revenues	32.5	32.8	(0.3)	133.4	134.1	(0.7)
Net operating revenues	$ 613.4	$ 602.5	$ 10.9	$ 2,405.9	$ 2,380.4	$ 25.5
			Actual Amounts			
Discharges[32]	34,465	33,825	640	134,515	133,035	1,480
Outpatient visits	184,067	181,544	2,523	739,227	733,257	5,970
Average length of stay (days)	12.9	13.0	(0.1)	13.2	13.2	—
Occupancy %	68.4%	68.2%	0.2%	68.4%	68.7%	(0.3%)
# of licensed beds	7,095	6,985	110	7,095	6,985	110
Occupied beds	4,853	4,764	89	4,853	4,799	54
Full-time equivalents (FTEs)[33]	17,020	16,736	284	16,628	16,462	166
Contract labor	86	86	—	86	86	—
Total FTE and contract labor	17,106	16,822	284	16,714	16,548	166
EPOB[34]	3.52	3.53	(0.01)	3.44	3.45	(0.01)

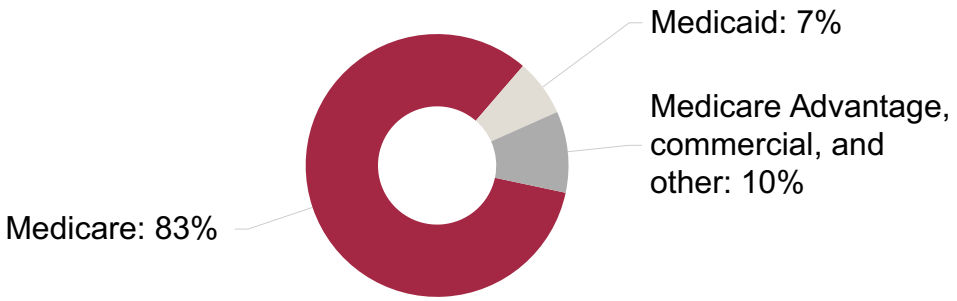
Refer to pages 39-41 for end notes.

Encompass Operational Metrics

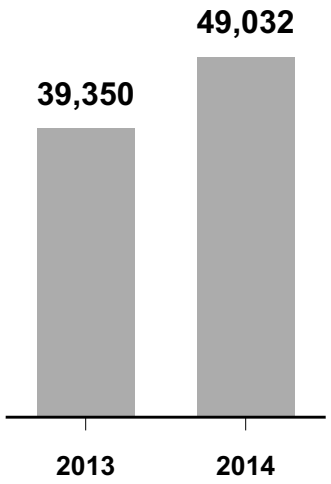
Revenue



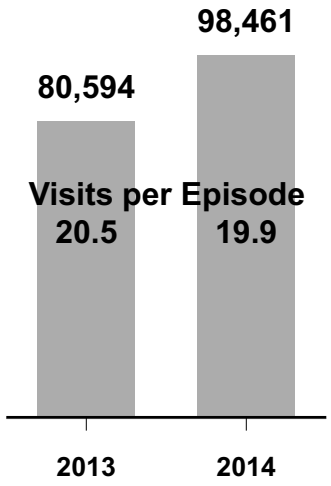
Payor Mix[40]



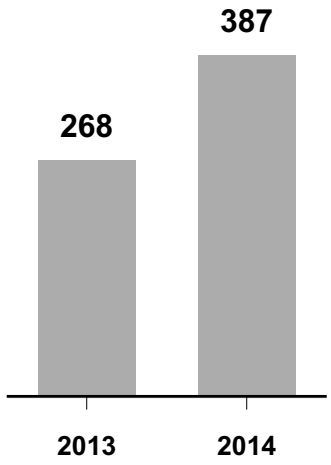
Home Health Admissions



Home Health Total Episodes



Hospice Daily Census



Refer to page 39-41 for end notes.

HEALTHSOUTH

Outstanding Share Summary, Warrant Information, and Conversion Price

	Weighted Average for the Period				
	Q4		Full-Year		
(Millions)	2014	2013	2014	2013	2012
Basic shares outstanding[35][36][37]	86.6	86.4	86.8	88.1	94.6
Diluted shares outstanding[35][36][37][10]	100.8	100.8	100.7	102.1	108.1

	End of Period				
	Q4		Full-Year		
(Millions)	2014	2013	2014	2013	2012
Basic shares outstanding[35][36][37]	86.6	86.8	86.6	86.8	94.6
Convertible perpetual preferred stock[10]	0.096	0.096	0.096	0.096	0.353
If converted, equivalent common shares	3.2	3.2	3.2	3.2	11.6
Convertible senior subordinated notes[10]	$320.0	$320.0	$320.0	$320.0	—
If converted, equivalent common shares	8.2	8.1	8.2	8.1	—

	Date	Approx. Conversion Rates	Approx. Conversion Price
Convertible perpetual preferred stock	1/2/2015	33.6700	$29.70
Convertible senior subordinated notes	1/2/2015	25.7582	$38.82

Refer to pages 39-41 for end notes.

Adjusted EBITDA History*

(Millions)	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Full-Year 2014	Full-Year 2013
Net operating revenues	$ 613.4	$ 596.9	$ 604.4	$ 591.2	$ 572.1	$ 564.0	$ 564.5	$ 572.6	$ 2,405.9	$ 2,273.2
Less: Provision for doubtful accounts	(6.6)	(8.2)	(9.3)	(7.5)	(3.6)	(8.0)	(7.0)	(7.4)	(31.6)	(26.0)
Net operating revenues less provision for doubtful accounts	606.8	588.7	595.1	583.7	568.5	556.0	557.5	565.2	2,374.3	2,247.2
Operating expenses:										
Salaries and benefits	(300.3)	(290.0)	(285.3)	(286.1)	(272.0)	(269.5)	(273.6)	(274.6)	(1,161.7)	(1,089.7)
Hospital-related expenses:										
Other operating expenses[(a)]	(90.4)	(86.7)	(84.6)	(83.2)	(80.1)	(79.7)	(79.3)	(78.0)	(344.9)	(317.1)
Supplies	(29.9)	(26.6)	(27.8)	(27.6)	(27.1)	(25.5)	(26.6)	(26.2)	(111.9)	(105.4)
Occupancy costs	(10.5)	(10.3)	(10.3)	(10.5)	(11.2)	(11.7)	(11.9)	(12.2)	(41.6)	(47.0)
	(130.8)	(123.6)	(122.7)	(121.3)	(118.4)	(116.9)	(117.8)	(116.4)	(498.4)	(469.5)
General/Administrative expenses[(b)(c)]	(22.5)	(22.5)	(23.2)	(23.4)	(24.8)	(22.6)	(23.0)	(23.9)	(91.6)	(94.3)
Equity in nonconsolidated affiliates	1.9	1.9	2.6	4.3	3.0	2.0	3.3	2.9	10.7	11.2
Other income[(d)]	1.1	0.2	1.0	1.7	1.3	0.6	1.9	0.7	4.0	4.5
Noncontrolling interests	(15.4)	(14.7)	(14.8)	(14.8)	(15.3)	(14.1)	(13.8)	(14.6)	(59.7)	(57.8)
Adjusted EBITDA	**$ 140.8**	**$ 140.0**	**$ 152.7**	**$ 144.1**	**$ 142.3**	**$ 135.5**	**$ 134.5**	**$ 139.3**	**$ 577.6**	**$ 551.6**

* Reconciliation to GAAP provided on slides 35, 37, and 38

	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Full-Year 2014	Full-Year 2013
In arriving at Adjusted EBITDA, the following were excluded:										
(a) Loss on disposal or impairment of assets	$ 1.0	$ 2.7	$ 1.7	$ 1.3	$ 1.6	$ 2.5	$ 1.7	$ 0.1	$ 6.7	$ 5.9
(b) Stock-based compensation expense	4.6	5.0	7.0	7.3	5.8	6.2	6.5	6.3	23.9	24.8
(c) Encompass transaction costs	9.3	—	—	—	—	—	—	—	9.3	—
(d) Gain on consolidation of Fairlawn Rehabilitation Hospital	—	—	27.2	—	—	—	—	—	27.2	—

Reconciliation of Net Income to Adjusted EBITDA[38]

(in millions, except per share data)	2014 Q1 Total	2014 Q1 Per Share	2014 Q2 Total	2014 Q2 Per Share	2014 Q3 Total	2014 Q3 Per Share	2014 Q4 Total	2014 Q4 Per Share	2014 Full-Year Total	2014 Full-Year Per Share
Net Income	$ 61.5		$ 97.9		$ 64.8		$ 57.5		$ 281.7	
Loss (income) from disc ops, net of tax, attributable to HealthSouth	0.1		(3.8)		0.9		(2.7)		(5.5)	
Net income attributable to noncontrolling interests	(14.8)		(14.8)		(14.7)		(15.4)		(59.7)	
Income from continuing operations attributable to HealthSouth[39]	46.8	$ 0.48	79.3	$ 0.81	51.0	$ 0.53	39.4	$ 0.41	216.5	$ 2.24
Gov't, class action, and related settlements	—		(0.8)		—		(0.9)		(1.7)	
Pro fees - acct, tax, and legal	1.6		2.0		4.0		1.7		9.3	
Provision for income tax expense	32.8		36.5		22.1		19.3		110.7	
Interest expense and amortization of debt discounts and fees	27.9		27.8		27.8		25.7		109.2	
Depreciation and amortization	26.4		26.4		27.4		27.5		107.7	
Loss on early extinguishment of debt	—		—		—		13.2		13.2	
Gain on consolidation of Fairlawn Rehabilitation Hospital	—		(27.2)		—		—		(27.2)	
Other, including net noncash loss on disposal or impairment of assets	1.3		1.7		2.7		1.0		6.7	
Stock-based compensation expense	7.3		7.0		5.0		4.6		23.9	
Encompass transaction costs	—		—		—		9.3		9.3	
Adjusted EBITDA[38]	$ 144.1		$ 152.7		$ 140.0		$ 140.8		$ 577.6	
Weighted average common shares outstanding:										
Basic		87.3		86.7		86.5		86.6		86.8
Diluted		100.9		100.6		100.5		100.8		100.7

Refer to pages 39-41 for end notes.

Reconciliation of Net Income to Adjusted EBITDA[38] - Impact of Consolidation of Fairlawn Rehabilitation Hospital[1]

	Fairlawn Rehabilitation Hospital as Consolidated Entity		Fairlawn Rehabilitation Hospital as Equity Method Entity				Fairlawn Rehabilitation Hospital as Consolidated Entity		Fairlawn Rehabilitation Hospital as Equity Method Entity			
	Q4 2014 As Reported		Q4 2014 Without Accounting or Ownership Change		Difference		Full-Year 2014 As Reported		Full-Year 2014 Without Accounting or Ownership Change		Difference	
	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share
Net income	$ 57.5		$ 54.2		$ 3.3		$ 281.7		$ 249.1		$ 32.6	
Income from discops, net of tax, attributable to HealthSouth	(2.7)		(2.7)		—		(5.5)		(5.5)		—	
Net income attributable to noncontrolling interests	(15.4)		(15.0)		(0.4)		(59.7)		(58.8)		(0.9)	
Income from continuing operations attributable to HealthSouth[39]	39.4	$ 0.41	36.5	$ 0.38	2.9	$ 0.03	216.5	$ 2.24	184.8	$ 1.92	31.7	$ 0.32
Gov't, class action, and related settlements	(0.9)		(0.9)		—		(1.7)		(1.7)		—	
Pro fees-acct, tax, and legal	1.7		1.7		—		9.3		9.3		—	
Provision for income tax expense	19.3		20.6		(1.3)		110.7		111.0		(0.3)	
Interest expense and amortization of debt discounts and fees	25.7		25.7		—		109.2		109.2		—	
Depreciation and amortization	27.5		26.9		0.6		107.7		13.2		94.5	
Loss on early extinguishment of debt	13.2		13.2		—		13.2		106.1		(92.9)	
Gain on consolidation of Fairlawn Rehabilitation Hospital	—		—		—		(27.2)		—		(27.2)	
Other, including net noncash loss on disposal or impairment of assets	1.0		1.0		—		6.7		6.8		(0.1)	
Stock-based compensation expense	4.6		4.6		—		23.9		23.9		—	
Encompass transaction costs	9.3		9.3		—		9.3		9.3		—	
Adjusted EBITDA[38]	$ 140.8		$ 138.6		$ 2.2		$ 577.6		$ 571.9		$ 5.7	
Weighted average common shares outstanding:												
Basic		86.6		86.6		—		86.8		86.8		—
Diluted		100.8		100.8		—		100.7		100.7		—

Refer to pages 39-41 for end notes.

HEALTHSOUTH

Reconciliation of Net Income to Adjusted EBITDA[38]

(in millions, except per share data)	2013 Q1 Total	2013 Q1 Per Share	2013 Q2 Total	2013 Q2 Per Share	2013 Q3 Total	2013 Q3 Per Share	2013 Q4 Total	2013 Q4 Per Share	2013 Full-Year Total	2013 Full-Year Per Share
Net income	$ 65.9		$ 179.0		$ 72.3		$ 64.2		$ 381.4	
Loss (income) from disc ops, net of tax, attributable to HealthSouth	0.4		(0.1)		0.9		(0.1)		1.1	
Net income attributable to noncontrolling interests	(14.6)		(13.8)		(14.1)		(15.3)		(57.8)	
Income from continuing operations attributable to HealthSouth[39]	51.7	$ 0.48	165.1	$ 1.66	59.1	$ 0.59	48.8	$ (0.31)	324.7	$ 2.59
Gov't, class action, and related settlements	—		(2.0)		(21.3)		(0.2)		(23.5)	
Pro fees - acct, tax, and legal	1.4		2.2		4.2		1.7		9.5	
Provision for income tax expense (benefit)	33.5		(86.5)		35.2		30.5		12.7	
Interest expense and amortization of debt discounts and fees	24.2		24.4		25.3		26.5		100.4	
Depreciation and amortization	22.1		23.1		24.3		25.2		94.7	
Loss on early extinguishment of debt	—		—		—		2.4		2.4	
Other, including net noncash loss on disposal of assets	0.1		1.7		2.5		1.6		5.9	
Stock-based compensation expense	6.3		6.5		6.2		5.8		24.8	
Adjusted EBITDA[38]	$ 139.3		$ 134.5		$ 135.5		$ 142.3		$ 551.6	
Weighted average common shares outstanding:										
Basic		94.0		86.1		86.2		86.4		88.1
Diluted		107.1		99.8		100.4		100.8		102.1

Refer to pages 39-41 for end notes.

Net Cash Provided by Operating Activities Reconciled to Adjusted EBITDA

(Millions)	Q4		Full-Year	
	2014	2013	2014	2013
Net cash provided by operating activities	$ 70.2	$ 100.9	$ 444.9	$ 470.3
Provision for doubtful accounts	(6.6)	(3.6)	(31.6)	(26.0)
Professional fees—accounting, tax, and legal	1.7	1.7	9.3	9.5
Interest expense and amortization of debt discounts and fees	25.7	26.5	109.2	100.4
Equity in net income of nonconsolidated affiliates	1.9	3.0	10.7	11.2
Net income attributable to noncontrolling interests in continuing operations	(15.4)	(15.3)	(59.7)	(57.8)
Amortization of debt-related items	(3.2)	(2.0)	(12.7)	(5.0)
Distributions from nonconsolidated affiliates	(3.2)	(1.8)	(12.6)	(11.4)
Current portion of income tax expense	3.5	3.3	13.3	6.3
Change in assets and liabilities	46.4	27.1	90.1	48.9
Net premium paid on bond issuance/redemption	10.6	1.7	4.3	1.7
Cash used in operating activities of discontinued operations	0.2	0.5	1.2	1.9
Encompass transaction costs	9.3	—	9.3	—
Other	(0.3)	0.3	1.9	1.6
Adjusted EBITDA	$ 140.8	$ 142.3	$ 577.6	$ 551.6

End Notes

(1) HealthSouth acquired an additional 30% equity interest in Fairlawn Rehabilitation Hospital in Worcester, MA from its joint venture partner. This transaction increased HealthSouth's ownership interest from 50% to 80% and resulted in a change in accounting for this hospital from the equity method to a consolidated entity effective June 1, 2014.

(2) In connection with CMS approved and announced RAC audits related to IRFs, we received requests in 2013 to review certain patient files for discharges occurring from 2010 through 2013, for which we have previously received payment. Based on our assessment of claims review results and our historical experience with the adjudication process, we established an approx. $8 million reserve via contractual allowances which reduced net operating revenues in Q4 2013. Concurrently, we reversed approx. $4 million in bad debt reserves established during 2013 related to th RAC audits.

(3) Hospital-related expenses include other operating expenses, supplies, and occupancy costs. Other operating expenses exclude the loss on disposal or impairment of assets.

(4) General & Administrative excludes stock-based compensation and the Encompass transaction costs.

(5) Earnings per share are determined using income from continuing operations attributable to HealthSouth.

(6) The pro forma leverage ratio is based on year-end 2014 debt and includes an estimate of Encompass' Adjusted EBITDA for 2014 of approx. $61 million, which represents 83.3% ownership.

(7) Current income tax expense was $3.5 million, $3.3 million, $13.3 million, and $6.3 million for Q4 2014, Q4 2013, full-year 2014, and full-year 2013, respectively.

(8) The Company's effective income tax rate in 2014 was reduced as a result of the nontaxable gain related to its acquisition of an additional 30% equity interest in Fairlawn.

(9) Income tax expense in 2013 included an approx. $115 million, or $1.31 per basic share, benefit related to a settlement with the IRS.

(10) The difference between the basic and diluted shares outstanding is primarily related to the convertible senior subordinated notes and our convertible perpetual preferred stock (convertible into 8.2 million and 3.2 million common shares, respectively, as of December 31, 2014).

a. On November 18, 2013, the Company closed separate, privately negotiated exchanges in which it issued $320 million of 2.0% Convertible Senior Subordinated Notes due 2043 in exchange for 257,110 shares of the Company's 6.5% Series A Convertible Perpetual Preferred Stock. The Company recorded approx. $249 million as debt and approx. $71 million as equity. The convertible notes are convertible, at the option of the holders, at any time on or prior to the close of business on the business day immediately preceding December 1, 2043 into shares of the Company's common stock at a conversion rate of approx. 25.7582 shares per $1,000 in principal amount, which is equal to a conversion price of approximately $38.82 per share, subject to customary antidilution adjustments. The Company has the right to redeem the convertible notes before December 1, 2018 if the volume weighted average price of the Company's common stock is at least 120% ($46.58) of the conversion price of the convertible notes for a specified period. On or after December 1, 2018, the Company may, at its option, redeem all or any part of the convertible notes. In either case, the redemption price will be equal to 100% of the principal amount of the convertible notes to be redeemed, plus accrued and unpaid interest. As a result of the transaction, the dividend on the convertible perpetual preferred stock was reduced from approx. $5.7 million per quarter to approx. $1.6 million per quarter.

b. The 96,245 shares of preferred stock outstanding after the exchange transaction are convertible, at the option of the holder, at any time into shares of common stock at a conversion price of $29.70 per share, which is equal to a conversion rate of approx. 33.6700 shares of common stock per share of preferred stock, subject to a specified adjustment. We may at any time cause the shares of preferred stock to be automatically converted into shares of our common stock at the conversion rate then in effect if the closing price of our common stock for 20 trading days within a period of 30 consecutive trading days ending on the trading day before the date we give the notice of forced conversion exceeds 150% ($44.55) of the conversion price of the preferred stock.

End Notes, con't.

(11) The interest and amortization related to the convertible senior subordinated notes must be added to income from continuing operations when calculating diluted earnings per share.

(12) Definition of adjusted free cash flow is net cash provided by operating activities of continuing operations minus capital expenditures for maintenance, dividends paid on preferred stock, distributions to noncontrolling interests, and nonrecurring items. Common stock dividends are not included in the calculation of adjusted free cash flow.

(13) The income allocated to participating securities, the convertible perpetual preferred dividends, and the repurchase premium (2013 only) on preferred stock need to be subtracted from income from continuing operations to calculate basic earnings per share.

(14) Diluted earnings per share are the same as basic earnings per share due to antidilution.

(15) Cash interest expense is net of amortization of debt discounts and fees.

(16) 2014 working capital was negatively impacted by growth in accounts receivable due to additional claims denials predominantly by one Medicare Administrative Contractor and continued delays at the administrative law judge hearing level.

(17) Capital expenditures for maintenance in 2013 benefited by approx. $12 million for equipment purchases that were invoiced in Q4 2013 and paid in early 2014.

(18) The Encompass acquisition was funded using a combination of draws under the revolving credit facility and expanded term loan facility.

(19) On July 25, 2013, the board of directors approved the initiation of a quarterly cash dividend on our common stock of $0.18 per share.
On July 17, 2014, the board of directors approved a $0.03 per share, or 16.7%, increase to the quarterly cash dividend on our common stock, bringing the quarterly cash dividend to $0.21 per common share.

(20) On February 14, 2014, the board of directors approved an increase in our existing common stock repurchase authorization from $200 million to $250 million. The $234 million reflects the tender offer completed in Q1 2013 for approx. 9.5% of the common shares.

(21) If legislation affecting Medicare is passed, HealthSouth will evaluate its effect on the Company's business model.

(22) To arrive at the 5% - 9% CAGR, 2014 (the base year) includes an estimate of Adjusted EBITDA for Encompass. This is a multi-year CAGR; annual results may fall outside the range.

(23) HealthSouth believes, based on the Medicare IRF-PPS Final Rule for FY 2015, it should realize a net increase of approx. 2.3% in FY 2015 before sequestration.

(24) Encompass believes, based on the Medicare Home Health Prospective Payment System Final Rule for CY 2015, it should realize an approx. 1.3% net reduction in revenue per episode for calendar year 2015.

(25) The Budget Control Act of 2011 included a reduction of up to 2% to Medicare payments for all providers that began on April 1, 2013 (as modified by H.R. 8). The reduction was made from whatever level of payment would otherwise have been provided under Medicare law and regulation. This automatic reduction, known as "sequestration," resulted in a net year-over-year decrease to our net operating revenues of approx. $9 million in 2014 (anniversaried April 1, 2014).

(26) In Q3 2012, HealthSouth amended the joint venture agreement related to St. Vincent Rehabilitation Hospital in Sherwood, AR which resulted in a change in accounting for this hospital from the equity method of accounting to a consolidated entity. The hospital moved to same store in Q3 2013.

(27) Beginning in Q1 2015, HealthSouth's legacy 25 home health agencies will be included in the home health and hospice segment. The 2014 results for these agencies will be recast and reported in the 2014 results for the home health and hospice segment.

End Notes, con't.

(28) In September 2014, the Company issued an additional $175 million of its 5.75% senior notes due 2024. In September and December 2014, the Company amended its credit agreement to, among other things, add $450 million of term loan facility capacity and extend the revolver maturity to September 2019. In October 2014, the Company redeemed all of its 7.25% senior notes due 2018 (approx. $271 million) using the proceeds from the September offering of 5.75% senior notes due 2024, a $75 million draw under its term loan facilities, and cash on hand. In December 2014, the Company redeemed approx. $25 million (exercise of 10% call rights) of its 7.75% senior notes due 2022 using cash on hand. In December 2014, the Company drew $375 million under its term loan facitities and $325 million under its revolving credit facility to fund the acquisition of Encompass. In January 2015, the Company issued an additional $400 million of its 5.75% senior notes due 2024 and used $250 million of the net proceeds to repay borrowings under its term loan facilities, with the remainder used to repay borrowings under its revolving credit facility.

(29) Pro forma debt amounts do not include approx. $93 million of convertible perpetual preferred stock, approx. $87 million of capital leases, and approx. $42 million of other notes payable.

(30) The leverage ratio is based on Adjusted EBITDA for 2014 and 2013 of $577.6 million and $551.6 million, respectively. Pro forma leverage with Encompass Adjusted EBITDA included would be approx. 3.3x.

(31) Medicare Advantage revenues represent approx. 8% of total revenues for all periods presented.

(32) Represents discharges from HealthSouth's 106 consolidated hospitals in Q4 2014; 102 consolidated hospitals in Q3 2014 and Q2 2014; 101 consolidated hospitals in Q1 2014, Q4 2013, Q3 2013 and Q2 2013; 98 consolidated hospitals in Q1 2013.

(33) Excludes approximately 400 full-time equivalents who are considered part of corporate overhead with their salaries and benefits included in general and administrative expenses in the Company's consolidated statements of operations. Full-time equivalents included in the table represent HealthSouth employees who participate in or support the operations of the Company's hospitals.

(34) Employees per occupied bed, or "EPOB," is calculated by dividing the number of full-time equivalents, including an estimate of full-time equivalents from the utilization of contract labor, by the number of occupied beds during each period. The number of occupied beds is determined by multiplying the number of licensed beds by the Company's occupancy percentage.

(35) The Company purchased 9,119,450 common shares in Q1 2013 through a tender offer at a price of $25.50 per share.

(36) 10 million warrants (pre-October 2006 reverse split) were issued in connection with a January 2004 loan repaid to Credit Suisse First Boston. The warrants expired on January 16, 2014. The holders of these warrants chose both cash and cashless exercises into shares of our common stock. Prior to warrant expiration, 755,323 shares of our common stock were issued upon exercise between September 30, 2013 and January 16, 2014.

(37) The agreement to settle our class action securities litigation received final court approval in January 2007. These shares of common stock and warrants were issued on September 30, 2009. The 5.0 million of common shares are included in the outstanding shares. The warrants to purchase approx. 8.2 million shares of common stock at a strike price of $41.40 (expire January 17, 2017) were not assumed exercised for the dilutive shares outstanding because they were antidilutive in the periods presented.

(38) 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.

(39) 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, income allocated to participating securities, and the repurchase premium on shares of preferred stock. The difference in shares between the basic and diluted shares outstanding is primarily related to the convertible senior subordinated notes and our convertible perpetual preferred stock.

(40) Payor mix reflects 2014 revenue.

(41) The net 2.4% rebasing adjustment is net of the case mix index budget neutrality factor and an increase in estimated outlier payments.