

Report of Organizational Actions Affecting Basis of Securities

OMB No. 1545-0123

► See separate instructions.

Part I Reporting Issuer

1 Issuer's name		2 Issuer's employer identification number (EIN)	
ENCOMPASS HEALTH CORPORATION		63-0860407	
3 Name of contact for additional information	4 Telephone No. of contact	5 Email address of contact	
MARK MILLER	(205) 970-5860	MARK.MILLER@ENCOMPASSHEALTH.COM	
6 Number and street (or P.O. box if mail is not delivered to street address) of contact		7 City, town, or post office, state, and ZIP code of contact	
9001 LIBERTY PARKWAY		BIRMINGHAM, AL 35242	
8 Date of action	9 Classification and description		
JULY 1, 2022	DISTRIBUTION PURSUANT TO SECTION 355		
10 CUSIP number	11 Serial number(s)	12 Ticker symbol	13 Account number(s)
29261A100		EHC	

Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ► SEE ATTACHED STATEMENT

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ► SEE ATTACHED STATEMENT

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ► SEE ATTACHED STATEMENT

Part II **Organizational Action** (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ► SEE ATTACHED STATEMENT

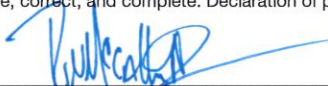
18 Can any resulting loss be recognized? ► SEE ATTACHED STATEMENT

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ► SEE ATTACHED STATEMENT

**Sign
Here**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Signature ►



Date ►

7/7/2022

Print your name ► ROBERT W. MCCALLUM, III

Title ► VICE PRESIDENT

**Paid
Preparer
Use Only**

Print/Type preparer's name

SELF PREPARED

Preparer's signature

Date

Check ☐ if
self-employed

PTIN

Firm's name ►

Firm's EIN ►

Firm's address ►

Phone no.

Send Form 8937 (including accompanying statements) to: Department of the Treasury, Internal Revenue Service, Ogden, UT 84201-0054

Encompass Health Corporation
Attachment to Form 8937

The information contained herein is being provided pursuant to the requirements of Section 6045B of the Internal Revenue Code of 1986, as amended, and includes a general summary regarding the application of certain U.S. federal income tax laws and regulations relating to the effects of the Distribution (as defined below) on the tax basis of shares of Encompass Health Corporation ("Encompass") common stock, and the allocation of tax basis between shares of Encompass common stock and Enhabit, Inc. ("Enhabit") common stock. It does not constitute tax advice and does not purport to be complete or to describe the tax consequences that may apply to particular persons or categories of persons. Encompass shareholders are encouraged to consult their own tax advisors regarding the particular consequences of the Distribution to them (including the applicability and effect of all federal, state, local and non-U.S. laws) and should read the Information Statement, dated June 14, 2022 filed by Enhabit with the Securities and Exchange Commission on June 14, 2022, (the "Information Statement") noting the discussion therein under the heading "Material U.S. Federal Income Tax Consequences." You may access the Information Statement at www.sec.gov.

Form 8937, Part II, Box 14:

Describe the organizational action and, if applicable, the date of the action or the date against which the shareholders' ownership is measured from the action.

On July 1, 2022, pursuant to the terms and conditions of the Separation and Distribution agreement dated June 30, 2022, by and between Encompass and Enhabit, Encompass distributed to its shareholders on a pro rata basis 100% of the issued and outstanding shares of Enhabit common stock (the "Distribution"). Pursuant to the Distribution, each holder of Encompass common stock as of the close of business on June 24, 2022 received one share of Enhabit common stock for every two shares of Encompass common stock held by such holder. No fractional shares of Enhabit common stock were issued. Instead, fractional shares that Encompass shareholders would otherwise have been entitled to receive were aggregated and sold in the open market and the aggregate net cash proceeds of such sales were distributed, pro rata (based on the fractional shares each relevant shareholder would otherwise have been entitled to receive), to those shareholders who would otherwise have been entitled to receive fractional shares.

The Encompass trading symbol is "EHC" and the Enhabit trading symbol is "EHAB".

Form 8937, Part II, Box 15:

Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis.

As a result of the Distribution, Encompass shareholders are required to allocate the aggregate tax basis in their Encompass common shares held immediately prior to the Distribution between the Enhabit common shares received in the Distribution (including any fractional share interest in Enhabit common stock for which cash was received) and their Encompass common shares held immediately after the Distribution. This allocation should be made in proportion to the relative fair market values of the Encompass common stock and Enhabit common stock on the date of the Distribution. Shareholders that acquired Encompass common shares at different times or different prices will need to calculate their tax basis in each block of Encompass common stock and then allocate a portion of that tax basis to the shares of Enhabit common stock received (including any fractional share interest in Enhabit common stock for which cash was received).

U.S. federal income tax law does not specifically prescribe how you should determine the fair market values of the Encompass common stock and Enhabit common stock for purposes of allocating your tax basis. You should consult your tax advisor to determine what measure of fair market value is appropriate.

There are several possible methods for determining the fair market values of Encompass common stock and Enhabit common stock. One possible approach is to utilize the average of the high and low trading prices on July 1, 2022 for Encompass common stock and Enhabit common stock as an indication of the fair market value. Based on that approach and the assumptions and calculations set forth in Box 16 below, 80.23% of an Encompass shareholder's aggregate tax basis in his or her shares of Encompass common stock immediately prior to the Distribution would be allocated to such shareholder's shares of Encompass common stock following the Distribution, and 19.77% of an Encompass shareholder's aggregate tax basis in his or her shares of Encompass common stock immediately prior to the Distribution would be allocated to such shareholder's shares of Enhabit common stock received in the Distribution. Other approaches to determine fair market value may also be possible. You are not bound by the approach illustrated herein and may, in consultation with your tax advisor, use another approach in determining fair market values for Encompass common stock and Enhabit common stock.

Form 8937, Part II, Box 16:

Describe the calculation of the change in basis and the data that supports the calculation, such as the market value of securities and the valuation date.

The following is an illustrative example of how the previously described approach to basis allocation might be applied:

Assumptions:

- Shares of Encompass common stock owned immediately prior to the Distribution: 1,000
- Encompass shareholder's aggregate tax basis immediately prior to the Distribution (assumed to be \$40 per share): \$40,000
- Shares of Enhabit common stock received in the distribution (1,000 shares of Encompass common stock multiplied by the distribution ratio of 0.5): 500

Tax Basis Allocation Illustration:

	Shares Owned (A)	Beginning Tax Basis (B)	High Price on the Distribution Date (C)	Low Price on the Distribution Date (D)	Average of High Price and Low Price (E)	FMV of Shares Owned Post Distribution (A) x (E)	% of Total FMV (F)	Allocated Tax Basis (B) x (F)
Encompass Common Stock	1,000	\$40,000	\$46.87	\$44.33	\$45.60 ¹	\$45,600	80.23% ³	\$32,092
Enhabit Common Stock	500		\$23.51	\$21.45	\$22.48 ²	\$11,240	19.77% ⁴	\$7,908
Total						\$56,840	100%	\$40,000

$$^1 (\$46.87 + \$44.33)/2$$

$$^2 (\$23.51 + \$21.45)/2$$

$$^3 \$45,600 / \$56,840$$

$$^4 \$11,240 / \$56,840$$

Form 8937, Part II, Box 17:

List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based.

Sections 355, 358 and 1001.

Form 8937, Part II, Box 18:

Can any resulting loss be recognized?

No loss may be recognized by an Encompass shareholder upon the receipt of Enhabit common stock in the Distribution, except with respect to any cash received in lieu of a fractional share of Enhabit common stock.

Form 8937, Part II, Box 19:

Provide any other information necessary to implement the adjustment, such as the reportable tax year.

The Distribution was effective on July 1, 2022. For an Encompass shareholder whose taxable year is the calendar year, the reportable tax year is 2022.

