

HealthSouth is the nation's largest owner and operator of inpatient rehabilitation hospitals in terms of patients treated and discharged, revenues, and number of hospitals.



Second Quarter 2013 Earnings Call

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.

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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, 2012, our Form 10-Q for the quarters ended March 31, 2013 and June 30, 2013, 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 July 25, 2013, 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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Q2 2013 Summary (Q2 2013 vs. Q2 2012)

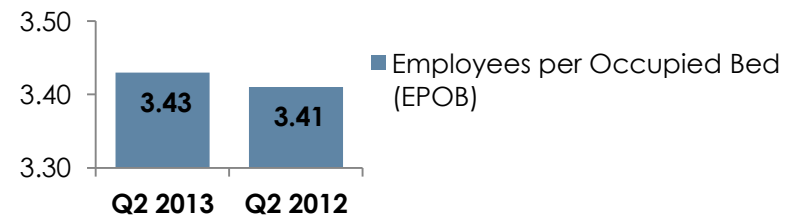
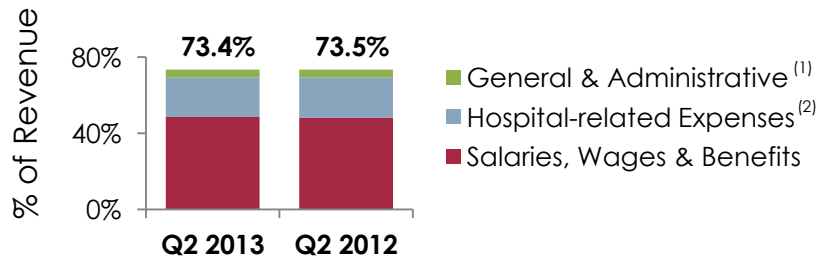
- ✓ **Revenue growth of 5.8% (negatively impacted by the effect of sequestration for Medicare patients)**
 - Inpatient revenue growth of 6.5%
 - Discharge growth of 6.3%
 - Same-store discharge growth of 3.3% (negatively impacted by closure of 41 SNF beds at two hospitals in Q1 2013)
 - New-store growth was 3.0% (130 bps from the consolidation of St. Vincent ⁽¹⁾); Ocala, FL (Q4 2012), Augusta, GA, Littleton, CO, Stuart, FL (Q2 2013)
 - Revenue per discharge increased by 30 bps.
 - Positively impacted by Medicare and managed care price adjustments, higher patient acuity, and a higher percentage of Medicare patients
 - Negatively impacted by sequestration and the ramp up of operations at three new hospitals which are required to treat a minimum of 30 patients each for zero revenue (Medicare certification)
 - Outpatient and other revenue decline of 3.4% inclusive of a \$1.6 million benefit for state provider tax refunds

(1) 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.

Q2 2013 Summary (Q2 2013 vs. Q2 2012) (cont.)

✓ Disciplined expense management

- Salaries and benefits as percent of revenue increased slightly in Q2 2013.
 - Negatively impacted by sequestration and the ramp up of operations at three new hospitals
- Excluding the ramp up of operations at three new hospitals, EPOB was flat.
- Hospital-related expenses as a percent of revenue improved by 20 bps.
 - Negatively impacted by sequestration, higher expenses related to the ongoing clinical information system implementation, and the ramp up of operations at three new hospitals
 - Positively impacted by lower general and professional liability expenses



(1) General & Administrative excludes stock-based compensation.

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

Q2 2013 Summary (cont.)

- ✓ **Adjusted EBITDA** ⁽¹⁾ for the quarter of \$134.5 million reflected growth of 7.5%
- ✓ **Adjusted free cash flow** ⁽²⁾ for the quarter of \$72.5 million:
 - Benefited from higher Adjusted EBITDA and timing of maintenance capital expenditures (see slide 19 for adjusted free cash flow considerations)
 - Negatively impacted by the timing of interest payments
- ✓ **Diluted earnings** ⁽³⁾ per share of \$1.66
 - Includes \$1.15 per share for the previously announced income tax benefit related to the IRS settlement in April (slide 18)
 - Includes the benefit resulting from the repurchase of 9.1 million shares completed in Q1 2013 (9.5% of the then outstanding shares)

(1) Reconciliation to GAAP provided on slides 31-34.

(2) Reconciliation to GAAP provided on slide 30.

(3) Income from continuing operations attributable to HealthSouth

Highlights



✓ Development:

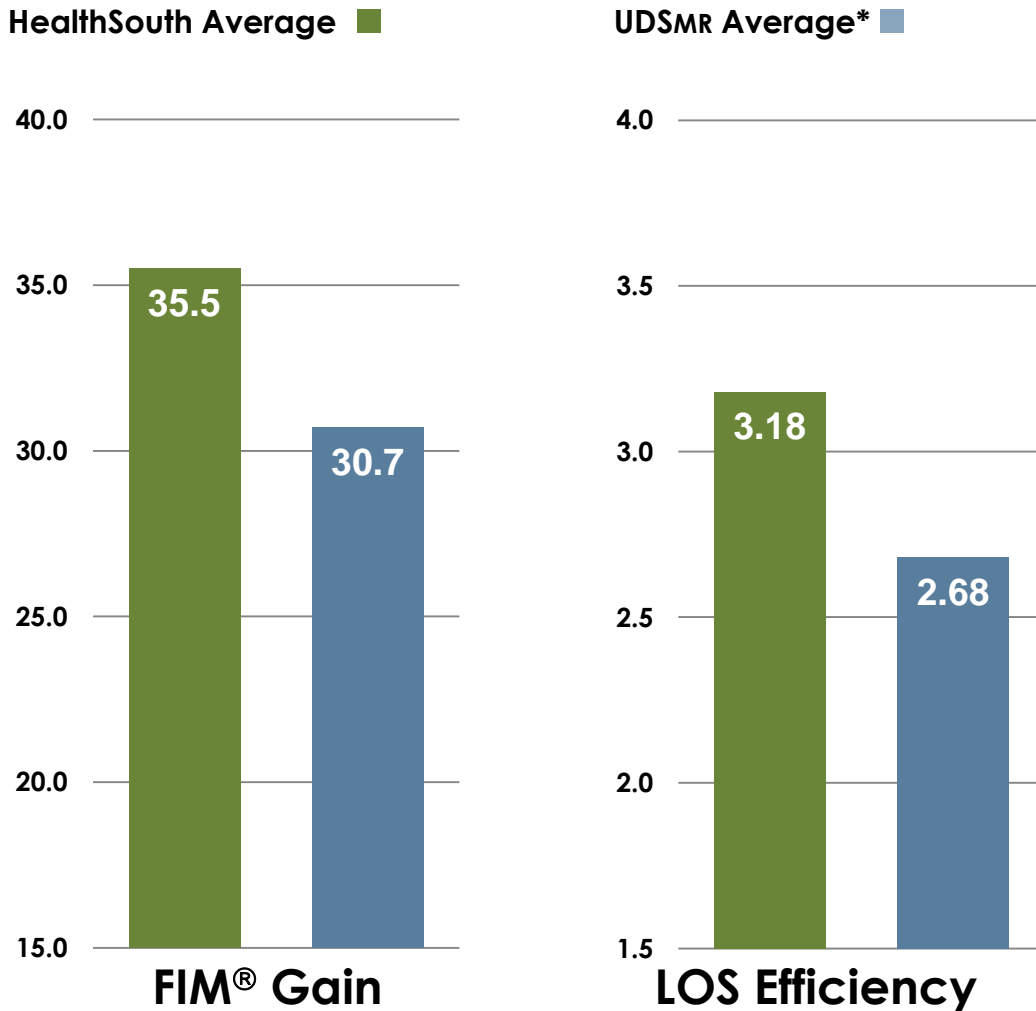
- Acquired Walton Rehabilitation Hospital (58 beds) in Augusta, GA, on April 1, 2013
- Opened HealthSouth Rehabilitation Hospital of Denver in Littleton, CO in May 2013 (40 beds)
- Opened HealthSouth Rehabilitation Hospital at Martin Health in Stuart, FL in June 2013 (34 beds)
- Continued construction on a replacement hospital for HealthSouth Rehabilitation Hospital of Western Massachusetts. This hospital will be owned and will replace an existing leased facility; operational Q4 2013
- Expect to break ground in late Q3 2013 for a 50-bed hospital in Altamonte Springs, FL; expect to be operational Q4 2014
- Received final CON approval and purchased land to build a 50-bed inpatient rehabilitation hospital in Newnan, GA; expected to be operational Q4 2014
- Began the design and permitting process to construct a 50-bed inpatient rehabilitation hospital in Modesto, CA; expect to be operational Q4 2015

Highlights (cont.)

- ✓ **On July 25, 2013, our board of directors approved the initiation of a quarterly cash dividend on our common stock of \$0.18 per share, representing \$0.72 per share annually.**
- ✓ **Completed amendment to the Credit Agreement**
 - Permits unlimited restricted payments so long as the senior secured leverage ratio remains less than or equal to 1.5x
 - Extended maturity date for the revolving credit facility from August 2017 to June 2018
- ✓ **New clinical information system now installed in 25% of our hospitals**
- ✓ **There are now 94 hospitals who have received certification for one or more disease-specific certifications from The Joint Commission's Disease Specific Care Certification Program.**

Quality

✓ HealthSouth Functional Outcomes Continue to Outpace Industry Average



FIM® Gain

FIM® is a tool for measuring functional independence. (FIM® Gain is based on the change from admission to discharge of an 18 point assessment.)

LOS Efficiency

Functional gain divided by length of stay.

* Average = Expected, Risk-adjusted

Source: UDSMR Database – On Demand Report: Q2 2013 Report

FIM® instrument is a trademark of Uniform Data System for Medical Rehabilitation, a division of UB Foundation Activities, Inc.

Revenues (Q2 2013 vs. Q2 2012)

(Millions)	Q2 2013	Q2 2012	Increase/ (Decrease)
Inpatient	\$ 527.4	\$ 495.0	6.5%
Outpatient and other	37.1	38.4	(3.4%)
Consolidated net operating	\$ 564.5	\$ 533.4	5.8%

(Actual Amounts)

Discharges	32,645	30,719	6.3%
Net patient revenue / discharge	\$ 16,156	\$ 16,114	0.3%

✓ Revenue growth of 5.8% (negatively impacted by the effect of sequestration for Medicare patients)

- Inpatient revenue growth of 6.5%
 - Discharge growth of 6.3%
 - Same-store discharge growth of 3.3% (negatively impacted by closure of 41 SNF beds at two hospitals in Q1 2013)
 - New-store growth was 3.0% (130 bps from the consolidation of St. Vincent ⁽¹⁾); Ocala, FL (Q4 2012), Augusta, GA, Littleton, CO, Stuart, FL (Q2 2013)
 - Revenue per discharge increased by 30 bps.
 - Positively impacted by Medicare and managed care price adjustments, higher patient acuity, and a higher percentage of Medicare patients
 - Negatively impacted by sequestration and the ramp up of operations at three new hospitals which are required to treat a minimum of 30 patients each for zero revenue (Medicare certification)
- Outpatient and other revenue decline of 3.4% inclusive of a \$1.6 million benefit for state provider tax refunds

(1) 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.

Expenses (Q2 2013 vs. Q2 2012)

(Millions)	Q2 2013	Q2 2012	Increase/ (Decrease)
Salaries and benefits	\$ 273.6	\$ 257.4	6.3%
Percent of net operating revenues	48.5%	48.3%	20 bps
EPOB (employees per occupied bed)	3.43	3.41	0.6%
Hospital-related expenses	\$ 117.8	\$ 112.6	4.6%
(other operating ⁽¹⁾ , supplies, occupancy)			
Percent of net operating revenues	20.9%	21.1%	(20 bps)
General and administrative	\$ 23.0	\$ 22.1	4.1%
(excludes stock-based compensation)			
Percent of net operating revenues	4.1%	4.1%	-
Provision for doubtful accounts	\$ 7.0	\$ 6.5	7.7%
Percent of net operating revenues	1.2%	1.2%	-

✓ Disciplined expense management

- Salaries and benefits as percent of revenue increased slightly in Q2 2013.
 - Negatively impacted by sequestration and the ramp up of operations at three new hospitals
- Excluding the ramp up of operations at three new hospitals, EPOB was flat.
- Hospital-related expenses as a percent of revenue improved by 20 bps.
 - Negatively affected by sequestration, higher expenses related to the ongoing clinical information system implementation, and the ramp up of operations at three new hospitals
 - Positively impacted by lower general and professional liability expenses

(1) Excludes loss on disposal or impairment of assets.

Adjusted EBITDA ⁽¹⁾

<i>(Millions)</i>	Q2		6 Months	
	2013	2012	2013	2012
Net operating revenues	\$ 564.5	\$ 533.4	\$ 1,137.1	\$ 1,072.0
Less: Provision for doubtful accounts	(7.0)	(6.5)	(14.4)	(12.8)
Net operating revenues less provision for doubtful accounts	557.5	526.9	1,122.7	1,059.2
Operating expenses:				
Salaries and benefits	(273.6)	(257.4)	(548.2)	(518.4)
Hospital-related expenses:				
Other operating expenses ⁽²⁾	(79.3)	(74.4)	(157.3)	(147.4)
Supplies	(26.6)	(25.9)	(52.8)	(52.4)
Occupancy costs	(11.9)	(12.3)	(24.1)	(24.8)
	(117.8)	(112.6)	(234.2)	(224.6)
General and administrative expenses ⁽³⁾	(23.0)	(22.1)	(46.9)	(46.0)
Equity in nonconsolidated affiliates	3.3	3.1	6.2	6.4
Other income	1.9	0.4	2.6	1.3
Noncontrolling interests	(13.8)	(13.2)	(28.4)	(25.8)
Adjusted EBITDA	\$ 134.5	\$ 125.1	\$ 273.8	\$ 252.1

(1) Reconciliation to GAAP provided on slides 31-34.

In arriving at Adjusted EBITDA, the following were excluded:	Q2		6 Months	
	2013	2012	2013	2012
(2) Loss on disposal or impairment of assets	1.7	0.6	1.8	1.4
(3) Stock-based compensation expense	6.5	5.9	12.8	12.0

Adjusted EBITDA Change

Q2 2013	6 Months 2013
+\$9.4M	+\$21.7M
+7.5%	+8.6%

- Revenue growth and disciplined expense management
- Negatively impacted by approx. \$8 million in Q2 2013 and approx. \$9 million for the first 6 months of 2013 for sequestration

Earnings per Share

(In Millions, Except Per Share Data)

	Q2		6 Months	
	2013	2012	2013	2012
Adjusted EBITDA	\$ 134.5	\$ 125.1	\$ 273.8	\$ 252.1
Interest expense and amortization of debt discounts and fees	(24.4)	(23.0)	(48.6)	(46.3)
Depreciation and amortization	(23.1)	(20.0)	(45.2)	(39.5)
Stock-based compensation expense	(6.5)	(5.9)	(12.8)	(12.0)
Other, including noncash loss on disposal of assets	(1.7)	(0.6)	(1.8)	(1.4)
	<u>78.8</u>	<u>75.6</u>	<u>165.4</u>	<u>152.9</u>
Certain nonrecurring expenses:				
Government, class action, and related settlements	2.0	-	2.0	-
Professional fees - accounting, tax, and legal	(2.2)	(5.5)	(3.6)	(9.1)
Pre-tax income	<u>78.6</u>	<u>70.1</u>	<u>163.8</u>	<u>143.8</u>
Income tax benefit (expense) ⁽¹⁾	86.5 ⁽²⁾	(26.9)	53.0 ⁽²⁾	(56.0)
Income from continuing operations ⁽³⁾	<u>\$ 165.1</u>	<u>\$ 43.2</u>	<u>\$ 216.8</u>	<u>\$ 87.8</u>
Basic shares	<u>86.1</u>	<u>94.6</u>	<u>90.0</u>	<u>94.5</u>
Diluted shares	<u>99.8</u>	<u>108.0</u>	<u>103.4</u>	<u>108.3</u>
Basic earnings per share ^{(3) (4)}	<u>\$ 1.85</u>	<u>\$ 0.39</u>	<u>\$ 2.28</u>	<u>\$ 0.79</u>
Diluted earnings per share ⁽³⁾	<u>\$ 1.66</u>	<u>\$ 0.39 ⁽⁵⁾</u>	<u>\$ 2.09</u>	<u>\$ 0.79 ⁽⁵⁾</u>

(1) Current income tax (benefit) expense was (\$1.3) million, \$2.2 million, \$0.5 million, and \$4.3 million for Q2 2013, Q2 2012, 6 months 2013, and 6 months 2012, respectively.

(2) Includes an approx. \$115 million (\$1.15 per diluted share) benefit related to a settlement with the IRS (slide 18)

(3) Income from continuing operations attributable to HealthSouth

(4) The dividends related to our convertible perpetual preferred stock must be subtracted from income from continuing operations when calculating basic earnings per share.

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

Earnings per Share from Continuing Operations ⁽²⁾

Q2 2013 reflects:

- \$1.15 per share income tax benefit related to settlement with IRS
- Includes the benefit resulting from the repurchase of 9.1 million shares completed in Q1 2013 (9.5% of the then outstanding shares)
- Higher Adjusted EBITDA

Adjusted Free Cash Flow

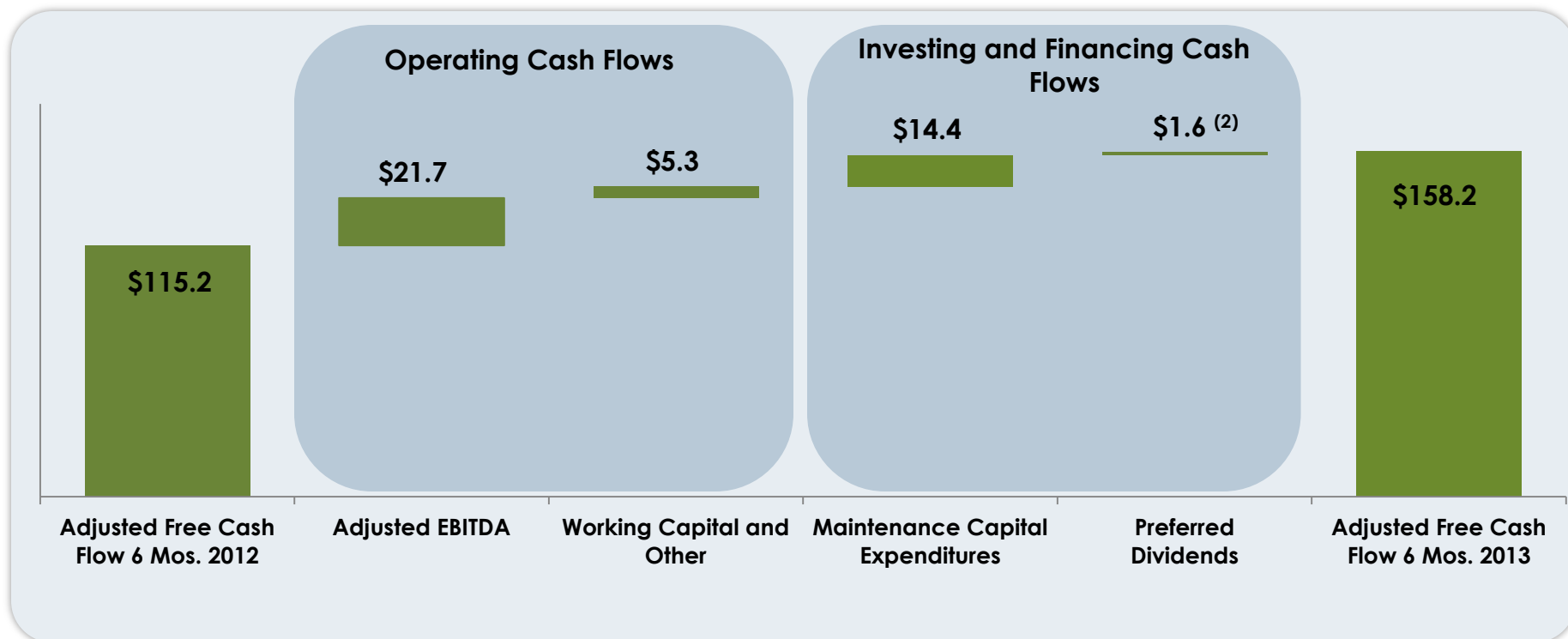
<i>(Millions)</i>	Q2		6 Months	
	2013	2012	2013	2012
Net cash provided by operating activities	\$ 105.4	\$ 114.0	\$ 226.8	\$ 195.0
Impact of discontinued operations	(0.5)	(1.3)	0.2	(1.7)
Net cash provided by operating activities of continuing operations	104.9	112.7	227.0	193.3
Capital expenditures for maintenance	(16.8)	(31.0)	(35.7)	(50.1)
Dividends paid on convertible perpetual preferred stock	(5.8)	(6.3)	(11.5)	(13.1)
Distributions paid to noncontrolling interests of consolidated affiliates	(10.7)	(10.9)	(23.9)	(24.0)
Nonrecurring items:				
Cash paid for professional fees - accounting, tax, and legal	2.2	5.5	3.6	9.1
Cash paid for government, class action and related settlements	(1.3)	-	(1.3)	-
Adjusted free cash flow	\$ 72.5	\$ 70.0	\$ 158.2	\$ 115.2

✓ Adjusted free cash flow for the quarter of \$72.5 million:

- Benefited from higher Adjusted EBITDA and timing of maintenance capital expenditures (see slide 19 for adjusted free cash flow considerations)
- Negatively impacted by the timing of interest payments

Adjusted Free Cash Flow ⁽¹⁾

(Millions)	6 Months		Change	
	2013	2012	\$	%
Adjusted free cash flow ⁽¹⁾	\$ 158.2	\$ 115.2	\$ 43.0	37.3%



(1) Reconciliation to GAAP provided on slide 30.

(2) During 2012, the Company repurchased 46,645 shares of its convertible perpetual preferred stock.

2013 Revised Guidance – Adjusted EBITDA ⁽¹⁾

2013 Adjusted EBITDA
\$520 million to \$530 million
(previous guidance
\$506 million to \$516 million)

Based on results for the first 6 months of 2013, HealthSouth is raising its expectations for full-year 2013 results.

Considerations for July through December:

- ✓ **Revenue growth of 5.0% to 6.0% before sequestration**
 - Discharge growth between 3.0% and 4.0%
 - Revenue per discharge growth between 2.3% and 2.6% before sequestration
- ✓ **Adjusted EBITDA reduction of approx. \$16 million (net of noncontrolling interests) for sequestration**
- ✓ **Q4 2013 will include a planned merit increase**
- ✓ **Installation of new clinical information system is expected to increase operating expenses by approx. \$2 million**
- ✓ **Higher noncontrolling interests expense of \$3 million due to changes at two joint ventures (Jonesboro, Memphis)**

⁽¹⁾ Reconciliation to GAAP provided on slides 31-34.

2013 Revised Guidance - EPS

Earnings per Share from Continuing Operations Attributable to HealthSouth ⁽¹⁾

\$2.87 to \$2.93

(Previous guidance \$1.61 to \$1.68)

Considerations:

- ✓ Higher depreciation and amortization related to recent capital expenditures
- ✓ Assumes provision for income tax of approx. 40% in 2nd half of 2013 (cash taxes expected to be \$6 to \$12 million for full year 2013)
- ✓ Basic share count reflects the purchase of approx. 9.1 million shares in Q1 2013 through a tender offer

Based on results for the first 6 months of 2013 which includes the \$1.15 tax benefit related to the IRS settlement (slide 18), HealthSouth is raising its expectations for full-year 2013 results.

	EPS Guidance		
	Actual 2012	Low	High
<i>(In Millions, Except Per Share Data)</i>			
Adjusted EBITDA			
	\$ 505.9	\$ 520	\$ 530
Interest expense and amortization of debt discounts and fees	(94.1)	(100)	
Depreciation and amortization	(82.5)	(95)	
Stock-based compensation expense	(24.1)	(25)	
Other, including non-cash loss on disposal of assets	(4.4)	(7)	
	300.8	293	303
Certain Nonrecurring Expenses:			
Government, class action and related settlements	3.5	2	
Professional fees - accounting, tax and legal	(16.1)	(5)	
Loss on early extinguishment of debt	(4.0)	-	
Gain on consolidation of St. Vincent Rehabilitation Hospital	4.9	-	
Pre-tax income	289.1	290	300
Income tax	(108.6)	2	(2)
Income from continuing operations ⁽¹⁾	\$ 180.5	\$ 292	\$ 298
Basic shares	94.6	88.0	88.0
Diluted shares	108.1	101.8	101.8
Earnings per share ⁽¹⁾⁽²⁾	\$ 1.65	\$ 2.87	\$ 2.93

(1) Income from continuing operations attributable to HealthSouth

(2) The dividends related to our convertible perpetual preferred stock in 2012 must be subtracted from income from continuing operations when calculating basic earnings per share.

Income Tax Considerations

GAAP Considerations:

- As of 6/30/13, the Company's federal NOL had a gross balance of approx. \$1.1 billion.
 - As a result of the April 25, 2013 agreements with the IRS, the Company increased its federal NOL (on a gross basis) by approx. \$283 million in Q2 2013.
- The Company has a remaining valuation allowance of approx. \$37 million, primarily related to state NOLs.

Cash Tax Payments:

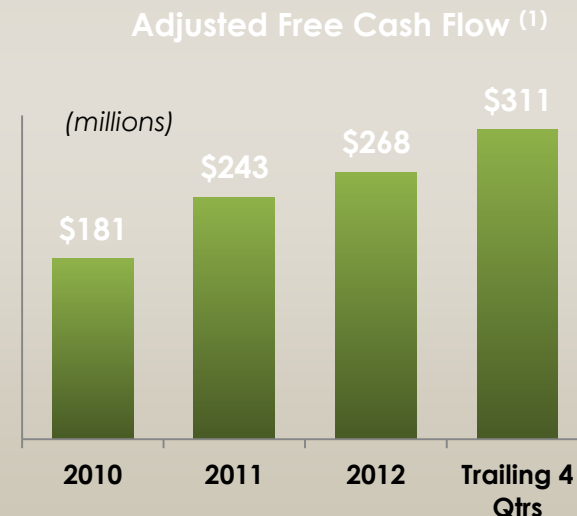
- The Company expects to pay approx. \$6 million to \$12 million per year of income tax.
- HealthSouth is not currently subject to an annual use limitation ("AUL") under Internal Revenue Code Section 382 ("Section 382"). An "ownership change," as defined by Section 382, could subject the Company to an AUL, which would approximate the value of the Company at the time of the "ownership change" multiplied by the long-term tax exempt rate.

Adjusted Free Cash Flow ⁽¹⁾ Considerations

2013 reflects:

- Continued spending on the CIS and hospital refresh projects
- Completion of delevering and refinancing

Certain Cash Flow Items ⁽²⁾ (millions)	2013 Assumptions	6 Months 2013 Actuals	2012 Actuals
▪ Cash interest expense ⁽³⁾	\$92 to \$97	\$46.6	\$90.4
▪ Cash payments for taxes	\$6 to \$12	\$7.7	\$11.8
▪ Working capital and other	\$10 to \$20	\$14.1	\$28.2
▪ Maintenance CAPEX	\$80 to \$90	\$35.7	\$83.0
▪ Dividends paid on preferred stock	\$23	\$11.5	\$24.6



(1) Reconciliation to GAAP provided on slide 30

(2) Definition of adjusted free cash flow is net cash provided by operating activities of continuing operations minus capital expenditures for maintenance, net settlements on interest rate swaps, dividends paid on preferred stock, distributions to noncontrolling interests, and nonrecurring items. Common stock dividends (approx. \$16 million to be paid in Q4 2013) are not included in the calculation of adjusted free cash flow.

(3) Net of amortization of debt discounts and fees

Priorities for Reinvesting Free Cash Flow

		(millions)			
		2013 Assumptions	6 Months 2013	2012 Actuals	
Priorities may shift based on prevailing market conditions	Growth	Growth in core business			
		Bed expansions (target approx. 80 beds/yr)	\$25 to \$35	\$12.2	\$16.6
		De novo hospitals (target 4/yr)	\$40 to \$50	22.9	41.1
		Acquisitions (target 2/yr)			
		- Free standing IRFS	TBD	28.9	-
- Hospital units	TBD	-	3.1		
		\$65 to \$85, excluding acquisitions	\$64.0	\$60.8	
	Debt Reduction	2013 Assumptions	6 Months 2013	2012 Actuals	
		Debt pay down, net	TBD	-	-
		Purchase leased properties ⁽¹⁾	\$55 to \$110	\$9.4	\$19.1
	Shareholder Distribution	Convertible preferred stock repurchase	TBD	-	46.5
		Cash dividends (one time or regular) ⁽²⁾	\$16	-	-
		Common stock repurchase	TBD	234.1	-
			TBD	\$243.5	\$65.6

(1) 2012 includes the purchase of the real estate (previously subject to an operating lease) associated with our joint venture hospital in Fayetteville, AR for approx. \$15 million, half of which was reimbursed to us by our joint venture partner through a capital contribution; 2012 and 2013 include an initial investment for a replacement hospital for our currently leased hospital in Ludlow, MA.

(2) 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.

Appendix

Business Outlook: 2013 to 2015 (1)

The multi-year adjusted free cash flow used in CAGR calculation does not include the dividend on common stock announced July 25, 2013 .

Business Model

- Adjusted EBITDA CAGR: 4-8% (2)
- Adjusted Free Cash Flow CAGR: 10-14% (2)(3)

Strategy	2012	2013	2014	2015
Shareholder Distribution	Purchased \$46 million convertible perpetual preferred stock	<ul style="list-style-type: none"> • Completed \$233 million common stock tender • Authorized quarterly \$0.18 per common share dividend beginning Q4 2013 • Consider other shareholder value-creating opportunities 		
Delevering	< 3.0x Debt to Adjusted EBITDA	< 3.0x Debt to Adjusted EBITDA (subject to shareholder value-creating opportunities)		
Core Growth	Bed expansion = 95 Unit consolidations = 2	Same-store Growth (Includes bed expansions and unit consolidations)		
	De novos 1 - Ocala, FL	De novos - 2 Littleton, CO; Stuart, FL	De novos (target of 4/year)	
	IRF Acquisitions LOI Augusta, GA	IRF Acquisitions - 1 Augusta, GA	IRF Acquisitions (target of 2/year)	
Opportunistic Growth		Consider opportunistic, disciplined acquisitions of complementary post-acute services		
Key Operational Initiatives	<ul style="list-style-type: none"> • TeamWorks = Care Management • Beacon (Management Reporting Software) = Labor / outcomes / quality optimization 			
	Clinical Information System (CIS) Installed in 13 hospitals	• CIS: Company-wide Implementation (target 20 hospitals/year)		
	• CPR (Comfort, Professionalism, Respect) Initiative	• IRF Quality Reporting: urinary tract infection, wound care, others TBD		

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

(2) These are multi-year CAGRs; annual results may fall outside the range. Reconciliation to GAAP provided on slides 30-34.

(3) Assumes NOL value is exhausted after 2015. Common stock dividends (\$16 million to be paid in Q4 2013) are not included in the calculation of adjusted free cash flow.

Debt Schedule

(Millions)	Corporate	Credit Rating		June 30, 2013	Dec. 31, 2012	Change in Debt vs. YE 2012
		S&P BB-	Moody Ba3			
Advances under \$600 million revolving credit facility, June 2018 - 1 Month LIBOR +175bps						
		BB+	Baa3	\$ 73.0	\$ -	\$ 73.0
Bonds Payable:						
	7.25% Senior Notes due 2018	BB-	B1	302.8	302.9	(0.1)
	8.125% Senior Notes due 2020	BB-	B1	286.4	286.2	0.2
	7.75% Senior Notes due 2022	BB-	B1	280.6	280.7	(0.1)
	5.75% Senior Notes due 2024	BB-	B1	275.0	275.0	-
	Other notes payable			47.7	36.8	10.9
	Capital lease obligations			65.2	71.9	(6.7)
	Long-term debt			\$ 1,330.7	\$ 1,253.5	\$ 77.2
	Debt to Adjusted EBITDA ⁽¹⁾			2.5x	2.5x	

(1) Based on 4 Qtr. trailing and 2012 Adjusted EBITDA of \$527.6 million and \$505.9 million, respectively; reconciliation to GAAP provided on slides 31-34.

Revenues & Expenses (Sequential)

	Q2 2013	Q1 2013	Increase/ (Decrease)
Revenues (millions)			
Inpatient	\$ 527.4	\$ 537.1	(1.8%)
Outpatient and other	37.1	35.5	4.5%
Consolidated net operating	<u>\$ 564.5</u>	<u>\$ 572.6</u>	<u>(1.4%)</u>
(Actual Amounts)			
Discharges	32,645	32,130	1.6%
Net patient revenue / discharge	\$ 16,156	\$ 16,716	(3.4%)
Expenses (millions)			
Salaries and benefits	\$ 273.6	\$ 274.6	(0.4%)
Percent of net operating revenues	48.5%	48.0%	50 bps
EPOB (employees per occupied bed)	3.43	3.31	3.6%
Hospital-related expenses	\$ 117.8	\$ 116.4	1.2%
(other operating ⁽¹⁾ , supplies, occupancy, bad debts)			
Percent of net operating revenues	20.9%	20.3%	60 bps
General and administrative	\$ 23.0	\$ 23.9	(3.8%)
(excludes stock-based compensation)			
Percent of net operating revenues	4.1%	4.2%	(10 bps)
Provision for doubtful accounts	\$ 7.0	\$ 7.4	(5.4%)
Percent of net operating revenues	1.2%	1.3%	(10 bps)

(1) Excludes loss on disposal or impairment of assets

Revenues & Expenses (6 months)

Revenues (millions)	6 Months 2013	6 Months 2012	Increase/ (Decrease)
Inpatient	\$ 1,064.5	\$ 995.6	6.9%
Outpatient and other	72.6	76.4	(5.0%)
Consolidated net operating	<u>\$ 1,137.1</u>	<u>\$ 1,072.0</u>	<u>6.1%</u>
(Actual Amounts)			
Discharges	64,775	61,590	5.2%
Net patient revenue / discharge	\$ 16,434	\$ 16,165	1.7%
Expenses (millions)			
Salaries and benefits	\$ 548.2	\$ 518.4	5.7%
Percent of net operating revenues	48.2%	48.4%	(20 bps)
EPOB (employees per occupied bed)	3.37	3.38	(0.3%)
Hospital-related expenses	\$ 234.2	\$ 224.6	4.3%
(other operating ⁽¹⁾ , supplies, occupancy, bad debts)			
Percent of net operating revenues	20.6%	21.0%	(40 bps)
General and administrative	\$ 46.9	\$ 46.0	2.0%
(excludes stock-based compensation)			
Percent of net operating revenues	4.1%	4.3%	(20 bps)
Provision for doubtful accounts	\$ 14.4	\$ 12.8	12.5%
Percent of net operating revenues	1.3%	1.2%	10 bps

(1) Excludes loss on disposal or impairment of assets

Payment Sources (Percent of Revenues)

	Q2		6 Months		Full Year
	2013	2012	2013	2012	2012
Medicare	74.6%	72.9%	74.6%	73.3%	73.4%
Medicaid	1.0%	1.3%	1.1%	1.2%	1.2%
Workers' compensation	1.2%	1.5%	1.3%	1.5%	1.5%
Managed care and other discount plans ⁽¹⁾	18.4%	19.6%	18.4%	19.5%	19.3%
Other third-party payors	1.7%	1.8%	1.7%	1.7%	1.8%
Patients	1.2%	1.3%	1.2%	1.3%	1.3%
Other income	1.9%	1.6%	1.7%	1.5%	1.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Managed Medicare revenues represent ~ 8%, 7%, 8%, 8%, and 8% of total revenues for Q2 2013, Q2 2012, 6 months 2013, 6 months 2012, and full-year 2012, respectively, and are included in "Managed care and other discount plans."

Operational and Labor Metrics

	Q2	Q1	Q4	Q3	Q2	Q1	6 Months	6 Months	Full Year
	2013	2013	2012	2012	2012	2012	2013	2012	2012

(In Millions)

Net patient revenue-inpatient	\$ 527.4	\$ 537.1	\$ 518.1	\$ 498.9	\$ 495.0	\$ 500.6	\$ 1,064.5	\$ 995.6	\$ 2,012.6
Net patient revenue-outpatient and other revenues	37.1	35.5	34.8	38.1	38.4	38.0	72.6	76.4	149.3
Net operating revenues	<u>\$ 564.5</u>	<u>\$ 572.6</u>	<u>\$ 552.9</u>	<u>\$ 537.0</u>	<u>\$ 533.4</u>	<u>\$ 538.6</u>	<u>\$ 1,137.1</u>	<u>\$ 1,072.0</u>	<u>\$ 2,161.9</u>

(Actual Amounts)

Discharges ⁽¹⁾	32,645	32,130	31,695	30,569	30,719	30,871	64,775	61,590	123,854
Outpatient visits	211,207	200,471	198,139	221,648	229,152	231,243	411,678	460,395	880,182
Average length of stay	13.2	13.5	13.2	13.6	13.4	13.5	13.3	13.5	13.4
Occupancy %	69.9%	72.4%	68.2%	68.3%	69.2%	70.7%	70.5%	69.7%	68.2%
# of licensed beds	6,777	6,646	6,656	6,598	6,538	6,500	6,777	6,538	6,656
Occupied beds	4,737	4,812	4,539	4,506	4,524	4,596	4,778	4,557	4,539
Full-time equivalents (FTEs) ⁽²⁾	16,180	15,819	15,617	15,545	15,378	15,271	16,000	15,325	15,453
Contract labor	72	85	73	61	56	69	78	62	65
Total FTE and contract labor	<u>16,252</u>	<u>15,904</u>	<u>15,690</u>	<u>15,606</u>	<u>15,434</u>	<u>15,340</u>	<u>16,078</u>	<u>15,387</u>	<u>15,518</u>
EPOB ⁽³⁾	3.43	3.31	3.46	3.46	3.41	3.34	3.37	3.38	3.42

(1) Represents discharges from HealthSouth's 101 consolidated hospitals in Q2 2013, 98 consolidated hospitals in Q1 2013 and Q4 2012; 97 consolidated hospitals in Q3 2012; 96 consolidated hospitals in Q2 2012 and Q1 2012.

(2) 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 above table represent HealthSouth employees who participate in or support the operations of the Company's hospitals.

(3) 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.

Outstanding Share Summary and Warrant Information

(Millions)

	Weighted Average for the Period					
	Q2	Q2	6 Months		Full Year	
	2013	2012	2013	2012	2012	2011
Basic shares outstanding ^{(1) (2) (3)(4)}	86.1	94.6	90.0	94.5	94.6	93.3
Diluted shares outstanding ^{(1) (2) (3) (4)(5)}	99.8	108.0	103.4	108.3	108.1	109.2

	End of Period					
	Q2	Q2	6 Months		Full Year	
	2013	2012	2013	2012	2012	2011
Basic shares outstanding ^{(1) (2) (3)(4)}	86.1	94.6	86.1	94.6	94.6	93.3
Convertible perpetual preferred stock	0.353	0.353	0.353	0.353	0.353	0.400
If converted, equivalent common shares	11.6	11.6	11.6	11.6	11.6	13.1

Notes:

- (1) The company purchased 9,119,450 common shares in Q1 2013 through a tender offer at a price of \$25.50 per share.
- (2) On July 25, 2013, our board of directors approved the initiation of a quarterly cash dividend on our common stock. The warrants discussed in note 3 below and the convertible perpetual preferred stock discussed in note 5 below both have anti-dilutive provisions. Please see the Form 10-Q for the quarter ended June 30, 2013, when filed, for more information on these provisions.
- (3) Does not include 2.0 million warrants issued in connection with a January 2004 loan repaid to Credit Suisse First Boston. In connection with this transaction, we issued warrants to the lender to purchase two million shares of our common stock. Each warrant has a term of ten years from the date of issuance (expire January 16, 2014) and an exercise price of \$32.50 per share. The warrants were not assumed exercised for dilutive shares outstanding because they were antidilutive in the periods presented.
- (4) 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 now 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.
- (5) The difference between the basic and diluted shares outstanding is primarily related to our convertible perpetual preferred stock (convertible into 11.6 million common shares at the end of Q2 2013). The preferred stock is convertible, at the option of the holder, at any time into shares of common stock at an initial conversion price of \$30.50 per share, which is equal to an initial conversion rate of approximately 32.7869 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% of the conversion price of the preferred stock. During 2012, the Company repurchased 46,645 shares of its convertible perpetual preferred stock.

Adjusted EBITDA ⁽¹⁾ History

(Millions)	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	6 Months 2013	6 Months 2012	Full Year 2012
Net operating revenues	\$ 564.5	\$ 572.6	\$ 552.9	\$ 537.0	\$ 533.4	\$ 538.6	\$ 1,137.1	\$ 1,072.0	\$ 2,161.9
Less: Provision for doubtful accounts	(7.0)	(7.4)	(7.2)	(7.0)	(6.5)	(6.3)	(14.4)	(12.8)	(27.0)
Net operating revenues less provision for doubtful accounts	557.5	565.2	545.7	530.0	526.9	532.3	1,122.7	1,059.2	2,134.9
Operating expenses:									
Salaries and benefits	(273.6)	(274.6)	(269.5)	(262.3)	(257.4)	(261.0)	(548.2)	(518.4)	(1,050.2)
Hospital-related expenses:									
Other operating expenses ⁽²⁾	(79.3)	(78.0)	(76.6)	(75.4)	(74.4)	(73.0)	(157.3)	(147.4)	(299.4)
Supplies	(26.6)	(26.2)	(26.2)	(23.8)	(25.9)	(26.5)	(52.8)	(52.4)	(102.4)
Occupancy costs	(11.9)	(12.2)	(12.0)	(11.8)	(12.3)	(12.5)	(24.1)	(24.8)	(48.6)
	(117.8)	(116.4)	(114.8)	(111.0)	(112.6)	(112.0)	(234.2)	(224.6)	(450.4)
General and administrative expenses ⁽³⁾	(23.0)	(23.9)	(24.6)	(23.2)	(22.1)	(23.9)	(46.9)	(46.0)	(93.8)
Equity in nonconsolidated affiliates	3.3	2.9	3.0	3.3	3.1	3.3	6.2	6.4	12.7
Other income ⁽⁴⁾	1.9	0.7	1.1	1.2	0.4	0.9	2.6	1.3	3.6
Noncontrolling interests	(13.8)	(14.6)	(12.3)	(12.8)	(13.2)	(12.6)	(28.4)	(25.8)	(50.9)
Adjusted EBITDA	\$ 134.5	\$ 139.3	\$ 128.6	\$ 125.2	\$ 125.1	\$ 127.0	\$ 273.8	\$ 252.1	\$ 505.9

(1) Reconciliation to GAAP provided on slides 31-34.

	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	6 Months 2013	6 Months 2012	Full Year 2012
In arriving at Adjusted EBITDA, the following were excluded:									
(2) Loss on disposal or impairment of assets	\$ 1.7	\$ 0.1	\$ 1.4	\$ 1.6	\$ 0.6	\$ 0.8	\$ 1.8	\$ 1.4	\$ 4.4
(3) Stock-based compensation expense	6.5	6.3	6.0	6.1	5.9	6.1	12.8	12.0	24.1
(4) Gain on consolidation of St. Vincent Rehabilitation Hospital	-	-	-	4.9	-	-	-	-	4.9

Adjusted Free Cash Flow

Reconciliation of Net Cash Provided by Operating Activities to Adjusted Free Cash Flow

(Millions)	Q2		6 Months		Full Year		
	2013	2012	2013	2012	2012	2011	2010
Net cash provided by operating activities	\$ 105.4	\$ 114.0	\$ 226.8	\$ 195.0	\$ 411.5	\$ 342.7	\$ 331.0
Impact of discontinued operations	(0.5)	(1.3)	0.2	(1.7)	(2.0)	(9.1)	(13.2)
Net cash provided by operating activities of continuing operations	104.9	112.7	227.0	193.3	409.5	333.6	317.8
Capital expenditures for maintenance ⁽¹⁾	(16.8)	(31.0)	(35.7)	(50.1)	(83.0)	(50.8)	(37.9)
Net settlements on interest rate swaps ⁽²⁾	-	-	-	-	-	(10.9)	(44.7)
Dividends paid on convertible perpetual preferred stock	(5.8)	(6.3)	(11.5)	(13.1)	(24.6)	(26.0)	(26.0)
Distributions paid to noncontrolling interests of consolidated affiliates	(10.7)	(10.9)	(23.9)	(24.0)	(49.3)	(44.2)	(34.4)
Non-recurring items:							
UBS Settlement proceeds, less fees to derivative plaintiffs' attorneys	-	-	-	-	-	-	-
Net premium paid (received) on bond issuance/redemption	-	-	-	-	1.9	22.8	-
Cash paid for professional fees - accounting, tax and legal	2.2	5.5	3.6	9.1	16.1	21.0	17.2
Cash paid for government, class action and related settlements	(1.3)	-	(1.3)	-	(2.6)	5.7	2.9
Income tax refunds related to prior periods	-	-	-	-	-	(7.9)	(13.5)
Adjusted free cash flow	\$ 72.5	\$ 70.0	\$ 158.2	\$ 115.2	\$ 268.0	\$ 243.3	\$ 181.4

(1) Maintenance capital expenditures are expected to be \$80 to \$90 million in 2013.

(2) Final swap payment of \$10.9 million was made in March 2011.

Reconciliation of Net Income to Adjusted EBITDA ⁽¹⁾

(in millions, except per share data)	2013					
	Q1		Q2		6 Months	
	Total	Per Share	Total	Per Share	Total	Per Share
Net income	\$ 65.9		\$ 179.0		\$ 244.9	
Loss (income) from disc ops, net of tax, attributable to HealthSouth	0.4		(0.1)		0.3	
Net income attributable to noncontrolling interests	(14.6)		(13.8)		(28.4)	
Income from continuing operations attributable to HealthSouth ⁽²⁾	51.7	\$ 0.48	165.1	\$ 1.66	216.8	\$ 2.09
Gov't, class action, and related settlements	-		(2.0)		(2.0)	
Pro fees - acct, tax, and legal	1.4		2.2		3.6	
Provision for income tax expense	33.5		(86.5)		(53.0)	
Interest expense and amortization of debt discounts and fees	24.2		24.4		48.6	
Depreciation and amortization	22.1		23.1		45.2	
Other, including net noncash loss on disposal of assets	0.1		1.7		1.8	
Stock-based compensation expense	6.3		6.5		12.8	
Adjusted EBITDA ⁽¹⁾	\$ 139.3		\$ 134.5		\$ 273.8	
Weighted average common shares outstanding:						
Basic		94.0		86.1		90.0
Diluted		107.1		99.8		103.4

(1) (2) – Notes on page 33.

Reconciliation of Net Income to Adjusted EBITDA ⁽¹⁾

(in millions, except per share data)	2012									
	Q1		Q2		Q3		Q4		Full Year	
	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share
Net income	\$ 56.8		\$ 59.9		\$ 59.9		\$ 59.3		\$ 235.9	
Loss (income) from disc ops, net of tax, attributable to HealthSouth	0.4		(3.5)		0.5		(1.9)		(4.5)	
Net income attributable to noncontrolling interests	(12.6)		(13.2)		(12.8)		(12.3)		(50.9)	
Income from continuing operations attributable to HealthSouth ⁽²⁾	44.6	\$ 0.40	43.2	\$ 0.39	47.6	\$ 0.44	45.1	\$ 0.42	180.5	\$ 1.65
Gov't, class action, and related settlements	-		-		(3.5)		-		(3.5)	
Pro fees - acct, tax, and legal	3.6		5.5		4.1		2.9		16.1	
Provision for income tax expense	29.1		26.9		28.1		24.5		108.6	
Interest expense and amortization of debt discounts and fees	23.3		23.0		23.5		24.3		94.1	
Depreciation and amortization	19.5		20.0		21.3		21.7		82.5	
Loss on early extinguishment of debt	-		-		1.3		2.7		4.0	
Gain on consolidation of St. Vincent Rehabilitation Hospital	-		-		(4.9)		-		(4.9)	
Other, including net noncash loss on disposal of assets	0.8		0.6		1.6		1.4		4.4	
Stock-based compensation expense	6.1		5.9		6.1		6.0		24.1	
Adjusted EBITDA ⁽¹⁾	\$ 127.0		\$ 125.1		\$ 125.2		\$ 128.6		\$ 505.9	
Weighted average common shares outstanding:										
Basic		94.5		94.6		94.7		94.7		94.6
Diluted		108.7		108.0		108.1		108.0		108.1

(1) (2) – Notes on page 33.

Reconciliation Notes for Slides 31-32

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.

Net Cash Provided by Operating Activities Reconciled to Adjusted EBITDA

(Millions)	Q2		6 Months		Full Year
	2013	2012	2013	2012	2012
Net cash provided by operating activities	\$ 105.4	\$ 114.0	\$ 226.8	\$ 195.0	\$ 411.5
Provision for doubtful accounts	(7.0)	(6.5)	(14.4)	(12.8)	(27.0)
Professional fees—accounting, tax, and legal	2.2	5.5	3.6	9.1	16.1
Interest expense and amortization of debt discounts and fees	24.4	23.0	48.6	46.3	94.1
Equity in net income of nonconsolidated affiliates	3.3	3.1	6.2	6.4	12.7
Net income attributable to noncontrolling interests in continuing operations	(13.8)	(13.2)	(28.4)	(25.8)	(50.9)
Amortization of debt discounts and fees	(1.0)	(0.9)	(2.0)	(1.8)	(3.7)
Distributions from nonconsolidated affiliates	(1.6)	(2.2)	(5.0)	(5.5)	(11.0)
Current portion of income tax expense	(1.3)	2.2	0.5	4.3	5.9
Change in assets and liabilities	23.2	1.5	36.2	38.4	58.1
Net premium paid on bond issuance/redemption	-	-	-	-	1.9
Cash (provided by) used in operating activities of discontinued operations	(0.5)	(1.3)	0.2	(1.7)	(2.0)
Other	1.2	(0.1)	1.5	0.2	0.2
Adjusted EBITDA	\$ 134.5	\$ 125.1	\$ 273.8	\$ 252.1	\$ 505.9