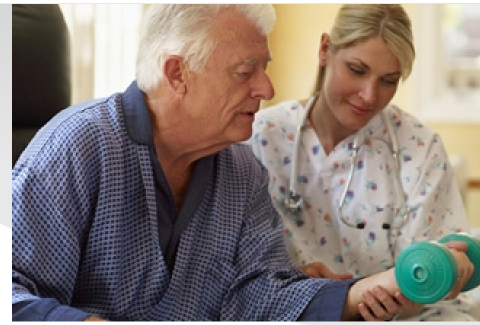
First Quarter 2009 Earnings Call

Supplemental Slides



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Forward-Looking Statements

The information contained in this presentation includes certain estimates, projections and other forward-looking information that reflect our current views with respect to future events and financial performance. 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 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 our Form 10-K for the fiscal year ended December 31, 2008, the Form 10-Q for quarter ended March 31, 2009, when filed, and in other documents we previously filed with the SEC, many of which are beyond our control, that may cause actual results to differ materially from the views, beliefs and estimates expressed herein.

Note Regarding Presentation of Non-GAAP Financial Measures
The following presentation includes certain "non-GAAP financial measures" as defined in Regulation G under the Securities Exchange Act of 1934. A schedule is attached that reconciles the non-GAAP financial measures included in the following presentation to the most directly comparable financial measures calculated and presented in accordance with Generally Accepted Accounting Principles in the United States. Our Form 8-K, dated May 4, 2009, 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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Highlights: Q1 2009

- ✓ Achieved 5.7% quarter-over-quarter discharge growth.
  - Same store discharge growth was 4.8%.
- ✓ Revenue growth of 2.3%.
  - Driven by higher discharge volume which more than offset the Medicare price roll-back and lower outpatient revenue.
- ✓ Cost-effective, high-quality patient care.
  - Driven by effective management of hospital expenses and improved labor productivity.
- ✓ Reduced debt by $85.1 million since year end.
- ✓ Leverage ratio reduced to 4.9x[1] from 5.3x at year end.
- ✓ Received UBS Settlement net proceeds of approximately $60 million.

[1] Based on trailing four quarter Adjusted Consolidated EBITDA of $351.2 million; reconciliation to GAAP provided on slides 23 through 26.

Revenues (Q1 2009 vs. Q1 2008)

(Millions)	1st Qtr. 2009	1st Qtr. 2008	Favorable/ (Unfavorable) Change
Inpatient	$ 433.1	$ 419.1	3.3%
Outpatient and other	42.0	45.1	(6.9%)
Consolidated net operating	$ 475.1	$ 464.2	2.3%
(Actual Amounts)			
Discharges	27,807	26,309	5.7%
Net patient revenue / discharge	$ 15,575	$ 15,930	(2.2%)

- Inpatient revenue growth was driven by strong discharge volumes, offset by the Medicare price roll-back.
  - Volume growth was driven by the sustained TeamWorks effort and disciplined development.
  - Same store discharge growth was 4.8%.
- Net patient revenue / discharge was lower in Q109 due to the Medicare price roll-back, offset by higher non-Medicare pricing.
- Outpatient revenue declined as a result of 12 fewer outpatient satellites quarter over quarter.

Expenses (Q1 2009 vs. Q1 2008)

(Millions, except percent)	1st Qtr. 2009	1st Qtr. 2008	Favorable/ (Unfavorable) Change
Salaries and benefits	$ 234.7	$ 230.4	(1.9%)
Percent of net operating revenues	49.4%	49.6%	20 bps
EPOB (employee per occupied bed)	3.47	3.53	1.7%
Hospital related expenses	$ 114.6	$ 115.8	1.0%
(other operating, supplies, occupancy, bad debts)			
Percent of net operating revenues	24.1%	24.9%	80 bps
General and administrative	$ 21.8	$ 24.8	12.1%
(excludes 123(R) compensation)			
Percent of net operating revenues	4.6%	5.3%	70 bps

- Adjustments made to benefit plans are reflected in Q109 results.
- Continued progress on labor productivity demonstrated by lower EPOB.
- Reduced hospital related expenses as a result of lower costs for TeamWorks.
- Lower general and administrative as a result of right sizing the corporate office.

Adjusted Consolidated EBITDA[1]

(Millions)

1st Qtr. 2009	1st Qtr. 2008	Change $	Change %
$ 98.7	$ 89.2	$ 9.5	10.7%

- **Strong volume growth in Q109 helped offset the Medicare price roll-back.**
  - Medicare market basket update: $7-8 million benefit in Q108.
- **Quarter-over-quarter improvement driven by:**
  - √ Increased volumes
  - √ Lower G&A
  - √ Effective management of hospital related expenses
  - √ Improved labor productivity

[1] Reconciliation to GAAP provided on slides 23 through 26.

Adjusted Income per Share

(Millions, except per share data)	1st Qtr. 2009	1st Qtr. 2008	Change $	Change %
Income from continuing operations attributable to HealthSouth	$ 48.0	$ 4.6	$ 43.4	943.5%
Adjusted income from continuing operations [1]	$ 39.8	$ 17.0	$ 22.8	134.1%
	Per Share			
Adjusted income from continuing operations per diluted share[1]	$ 0.39	$ 0.18	$ 0.21	116.7%

- **Quarter-over-quarter adjusted income from continuing operations per diluted share improved by $0.21 per share. Major drivers were:**
  - Higher revenue driven by discharge growth
  - Lower interest expense
  - Lower G&A expense
  - Effective management of hospital related expenses
  - Improved labor productivity

[1] Reconciliation to GAAP provided on slides 23 through 26.

Free Cash Flow

(Millions)	Three Months Ended March 31, 2009	2008
Net cash provided by operating activities	$ 183.1	$ 41.8
Incremental income tax expense	(0.3)	(1.4)
Capital expenditures for maintenance[1]	(7.5)	(8.7)
Net settlements on interest rate swap	(8.5)	(0.2)
Dividends paid on convertible perpetual preferred stock	(6.5)	(6.5)
Non-recurring items:		
UBS Settlement proceeds, less fees to derivative plaintiffs' attorneys	(73.8)	-
Income tax refund receivable	(47.8)	(3.8)
Adjusted free cash flow	**$ 38.7**	**$ 21.2**

[1]Includes capital expenditures for the hospital refresh program.

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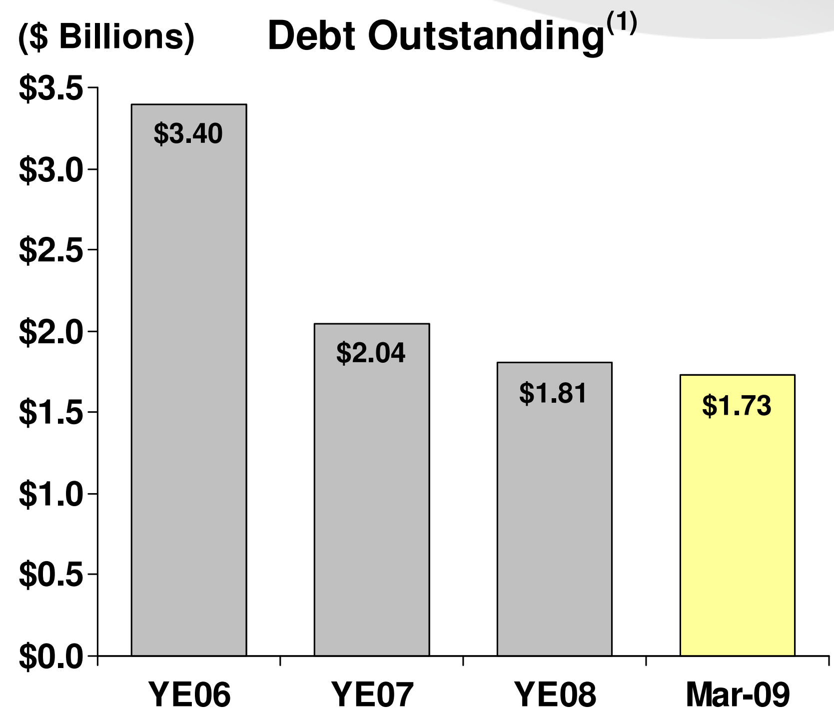
Debt Reduction

- **No near-term refinancing**
  - Revolver = 2012
  - Term Loan = 2013
  - Bonds = 2014 & 2016

- **Future deleveraging:**
  - Excess cash from operations
  - Derivative proceeds
    - UBS Settlement; net recovery of ~ $60 million in cash
    - E&Y and Scrushy litigation on-going



Debt to EBITDA	**6.3x**	**6.3x**	**5.3x**	**4.9x[2]**

Year-End 2012 Goal: 3.5x to 4.0x

[1] Credit Agreement limits debt pay down on non–term loan balances. We have the right to buy back non-term loan debt with the discretionary cash available to the Company.

[2] Based on four quarter trailing Adjusted Consolidated EBITDA of $351.2 million; see related debt schedule on slide 20, and reconciliation to GAAP on slides 23 through 26.

Liquidity

(Millions)

	March 31, 2009		December 31, 2008	
Cash				
Available	$	90.7	$	32.2
Revolver				
Total line	$	400.0	$	400.0
Less:				
– Draws		-		(40.0)
– Letters of credit		-		(52.7)
Available	$	400.0	$	307.3
Total Liquidity (available cash and revolver)	$	490.7	$	339.5

2009 Guidance

Adjusted Consolidated EBITDA[1]

- 2009 Range: <u>$342.0 million to $352.0 million</u>
  - Expect to be at the higher end of the range

Adjusted Earnings per Share[1][2]

- 2009 Range: <u>$0.85 to $0.90 per share</u>
  - Expect to be at the higher end of the range

Key Drivers:

- ✓ Sustainable discharge growth
  - Bed expansions
  - New hospitals
- ✓ Cost-effective, high-quality patient care
- ✓ Deleveraging

[1] Reconciliation to GAAP provided on slides 23 through 26.

[2] Adjusted income from continuing operations per diluted share.

Appendix

Revenues (Sequential)

(Millions, except percent)	1st Qtr. 2009	4th Qtr. 2008	Favorable (Unfavorable) Change
Inpatient	$ 433.1	$ 418.4	3.5%
Outpatient and other	42.0	44.6	(5.8%)
Consolidated net operating	$ 475.1	$ 463.0	2.6%
(Actual Amounts)			
Discharges	27,807	27,654	0.6%
Net patient revenue / discharge	$ 15,575	$ 15,130	2.9%

- Inpatient revenue growth was driven by strong discharge growth and higher revenue / discharge.

Expenses (Sequential)

(Millions, except percent)	1st Qtr. 2009	4th Qtr. 2008	Favorable (Unfavorable) Change
Salaries and benefits	$ 234.7	$ 233.7	(0.4%)
Percent of net operating revenues	49.4%	50.5%	110 bps
EPOB (employee per occupied bed)	3.47	3.64	4.7%
Hospital related expenses	$ 114.6	$ 112.7	(1.7%)
(other operating, supplies, occupancy, bad debts)			
Percent of net operating revenues	24.1%	24.3%	20 bps
General and administrative	$ 21.8	$ 23.5	7.2%
(excludes 123(R) compensation)			
Percent of net operating revenues	4.6%	5.1%	50 bps

- **Cost-effective, high-quality patient care.**
  - Adjustments made to benefit plans are reflected in Q109 results.
  - Continued progress on labor productivity demonstrated by lower EPOB.

Operational and Labor Metrics

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
	(In Millions)	
Net patient revenue-inpatient	$ 433.1	$ 419.1
Net patient revenue-outpatient and other revenues	42.0	45.1
Net operating revenues	$ 475.1	$ 464.2
	(Actual Amounts)	
Discharges[1]	27,807	26,309
Outpatient visits	285,101	306,145
Average length of stay	14.6 days	15.2 days
Occupancy %	69.4%	67.0%
# of licensed beds	6,523	6,565
Occupied beds	4,527	4,399
Full-time equivalents (FTEs)[2]	15,566	15,319
Contract labor	144	202
Total FTE and contract labor	15,710	15,521
EPOB[3]	3.47	3.53

(1) Represents discharges from HealthSouth's 90 consolidated hospitals.

(2) Excludes 395 and 444 full-time equivalents for the three months ended March 31, 2009 and 2008, respectively, who are considered part of corporate overhead with their salaries and benefits included in general and administrative expenses in the Company's condensed 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.

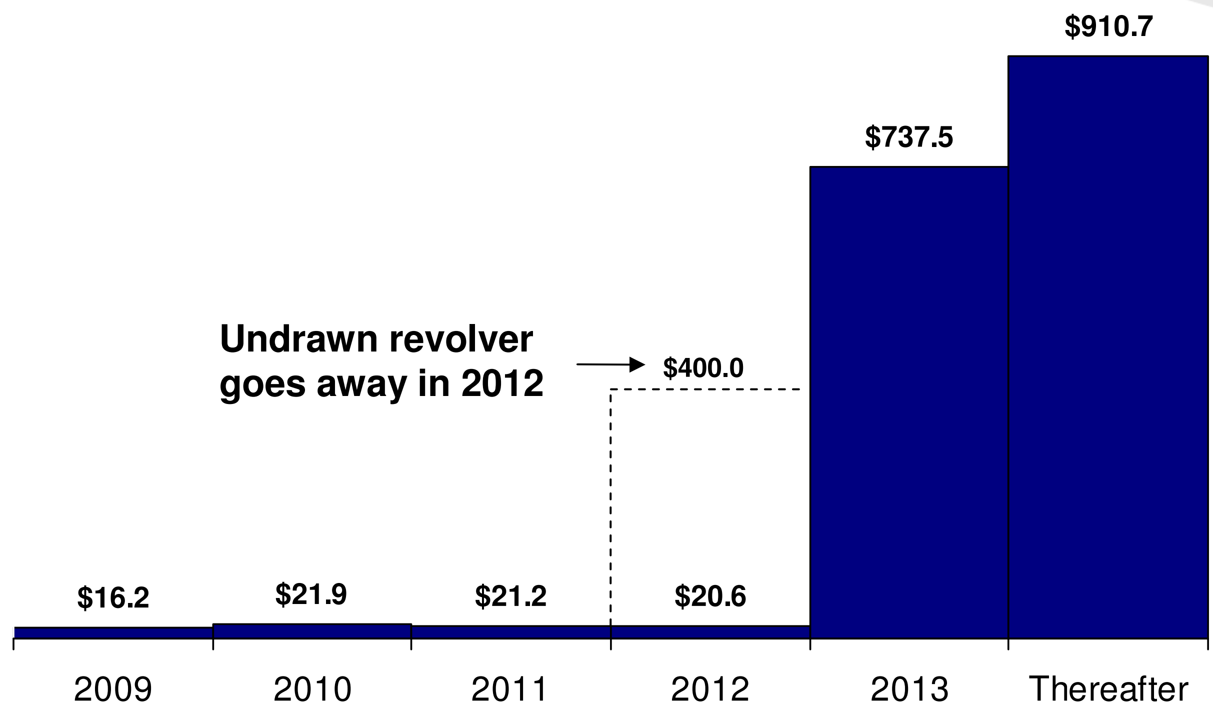
Payment Sources

	Three Months Ended March 31,	
	2009	2008
Medicare	68.6%	68.2%
Medicaid	2.1%	2.3%
Workers' compensation	1.7%	2.2%
Managed care and other discount plans [1]	22.2%	21.3%
Other third-party payors	3.2%	3.5%
Patients	0.8%	0.8%
Other income	1.4%	1.7%
Total	100.0%	100.0%

[1] Medicare Advantage revenues are included in “Managed care and other discount plans.”

Debt Maturities

(Millions)



- Minimal amortization and no near-term financing risk.
- As of March 31, 2009, we were in compliance with the covenants under our Credit Agreement.

Interest Rate Swaps

(Millions)

Floating Rate Debt Balances	March 31, 2009	Floating Interest Rate
Advances under $400 million revolving credit facility	$ -	Libor plus 325[1]
Term loan facility	757.1	Libor plus 250[1]
Floating Rate Senior Notes due 2014	350.6	6 month Libor -
Total	**$ 1,107.7**	

Swap Settlement	March 2009	March 2010	March 2011
Notional amount of the interest rate swap	$ 1,056.0	$ 984.0	$ -
Receive 3 month Libor and pay 5.22% fixed			
Notional amount of the interest rate swap			$ 100.0[2]
Receive 3 month Libor and pay 2.6% fixed			
Notional amount of the interest rate swap			$ 100.0[2]
Receive 3 month Libor and pay 2.9% fixed			

[1] We have the flexibility to peg 1,2,3 or 6 month Libor, or Prime.

[2] Forward-starting interest rate swaps (designated as cash flow hedges).

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Debt Schedule

(Millions)	Debt Balances: March 31, 2009	Debt Balances: December 31, 2008	Q109 Debt Reduction[1][2]
Advances under $400 million revolving credit facility, March 2012	$ -	$ 40.0	$ (40.0)
Term loan facility - March 2013	757.1	783.6	(26.5)
Bonds Payable:			
8.375% Senior Notes due 2011	0.3	0.3	-
7.625% Senior Notes due 2012	1.5	1.5	-
Floating Rate Senior Notes due 2014 (6 month Libor plus 600)	350.6	366.0	(15.4)
10.75% Senior Notes due 2016	494.5	494.3	0.2
Notes payable to banks and others at interest rates from 7.9% to 12.9%	12.6	12.8	(0.2)
Capital lease obligations	111.5	114.7	(3.2)
Total	$ 1,728.1	$ 1,813.2	$ (85.1)
Year-to-date debt reduction[1][2]	**$ 85.1**		

[1] The Company had $90.7 million in cash and cash equivalents as of March 31, 2009.

[2] Credit Agreement limits debt pay down on non–term loan balances. We have the ability to buy back non-term loan debt with the discretionary cash available to the Company.

Non-Operating Cash/Tax Position

Cash Refunds

- Federal tax recoveries virtually complete.
  - Approx. $42 million received in Q109.
- State tax refunds in progress.
  - Approx. $6 million received in Q109.
  - Approx. $8 million net receivable on the balance sheet March 31, 2009.

GAAP Considerations

- HealthSouth's balance sheet currently reflects a valuation allowance for the potential value of NOLs and future deductions. The valuation allowance is approximately $1.0 billion.
- GAAP tax rate will net to small amount for foreseeable future as there will be a reduction in the valuation allowance when NOLs are utilized.

Future Cash Tax Payments

- Expect to pay about $5-7 million per year of income tax.
  - State income tax
  - Alternative Minimum Tax (AMT)
- With over $2.5 billion in NOLs and tax deductions, we do not expect to pay significant federal income taxes for approximately the next 10-12 years.
  - At this time, we do not believe the use of NOLs will be limited before they expire, however, no assurances can be provided.
- HealthSouth is not currently subject to an annual use limitation (AUL) under the Internal Revenue Service section 382.
- If we experienced a "change of ownership" as defined by the Internal Revenue Service section 382, we would be subject to an AUL which is equal to the value of the company at the time of the "change of ownership" multiplied by the long-term tax exempt rate.

Outstanding Share Summary

(Millions)	1st Qtr.[4] 2009	1st Qtr. 2008	Year-End[4] 2008	Year-End 2007
	Average for the Period			
Basic shares outstanding[2][3]	87.5	78.9	83.0	78.7
Diluted shares outstanding[1][2][3]	100.9	92.3	96.4	92.0
	End of Period			
Basic shares outstanding[2][3]	88.3	79.1	88.0	78.7
Diluted shares outstanding[1][2][3]	101.7	92.5	101.4	92.0

Notes:

[1] The difference between the basic and diluted shares outstanding is primarily related to our convertible perpetual preferred stock.

[2] Does not include 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 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.

[3] Does not include approximately 5.0 million shares of common stock and warrants to purchase approximately 8.2 million shares of common stock at a strike price of $41.40 to settle our class action securities litigation. This agreement received final court approval on January 11, 2007. As of March 31, 2009, these shares of common stock and warrants have not been issued and are not included in our basic or diluted common shares outstanding. We expect a ruling before the end of third quarter. If the judgment is affirmed, the distribution would occur in 2009.

[4] Completed an equity offering for 8.8 million shares on June 27, 2008.

First Quarter Reconciliation of Net Income to Adjusted Income from Continuing Operations and Adjusted Consolidated EBITDA(1)(3)

(In Millions, Except Per Share Data)	Three Months Ended March 31, 2009		Three Months Ended March 31, 2008	
		Per Share(2)		Per Share(2)
Net income	$ 53.5	$ 0.61	$ 26.4	$ 0.33
Loss (income) from discontinued operations, net of tax, attributable to HealthSouth	3.1	0.04	(15.2)	(0.19)
Net income attributable to noncontrolling interests	(8.6)	(0.10)	(6.6)	(0.08)
Income from continuing operations attributable to HealthSouth	48.0	0.55	4.6	0.06
Government, class action, and related settlements	(15.9)	(0.18)	(36.4)	(0.46)
Professional fees - accounting, tax, and legal	4.8	0.05	3.6	0.05
Gain on early extinguishment of debt	(1.8)	(0.02)	-	-
Loss on interest rate swap	5.0	0.06	36.6	0.46
Accelerated depreciation of corporate campus	-	-	10.0	0.13
Provision for income tax expense	1.2	0.01	0.1	-
Estimated income tax expense	(1.5)	(0.02)	(1.5)	(0.02)
Adjusted income from continuing operations(1)(3)	39.8	0.45	17.0	0.22
Adjustment for dilution(2)		(0.06)		(0.04)
Adjusted income from continuing operations per diluted share(2)(3)		$ 0.39		$ 0.18
Estimated income tax expense	1.5		1.5	
Interest expense and amortization of debt discounts and fees	34.4		47.4	
Depreciation and amortization, excluding accelerated depreciation of corporate campus	17.6		19.6	
	93.3		85.5	
Other adjustments per our Credit Agreement:				
Impairment charges related to investments	0.7		-	
Net noncash loss on disposal of assets	1.0		0.1	
Loss on early extinguishment of debt	-		0.3	
Compensation expense under FASB Statement No. 123(R)	3.7		3.3	
Adjusted Consolidated EBITDA (1)(3)(4)	$ 98.7		$ 89.2	
Basic weighted average common shares outstanding		87.5		78.9
Diluted weighted average common shares		100.9		92.3

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2008 Year-End Reconciliation of Net Income to Adjusted Income from Continuing Operations and Adjusted Consolidated EBITDA[1][3]

(In Millions, Except Per Share Data)	Year Ended December 31, 2008	Per Share[2]
Net income	$ 281.8	$ 3.40
Income from discontinued operations, net of tax, attributable to HealthSouth	(16.9)	(0.20)
Net income attributable to noncontrolling interests	(29.4)	(0.35)
Income from continuing operations attributable to HealthSouth	235.5	2.84
Gain on UBS Settlement	(121.3)	(1.46)
Government, class action, and related settlements	(67.2)	(0.81)
Professional fees - accounting, tax, and legal	44.4	0.53
Loss on interest rate swap	55.7	0.67
Accelerated depreciation of corporate campus	10.0	0.12
Interest associated with UBS Settlement	(9.4)	(0.11)
Provision for income tax benefit	(70.1)	(0.84)
Estimated income tax expense	(5.0)	(0.06)
Adjusted income from continuing operations[1][3]	72.6	0.87
Adjustment for dilution[2]		(0.12)
Adjusted income from continuing operations per diluted share[2][3]		$ 0.75
Estimated income tax expense	5.0	
Interest expense and amortization of debt discounts and fees, excluding interest associated with the UBS Settlement	168.9	
Depreciation and amortization, excluding accelerated depreciation of corporate campus	73.2	
	319.7	
Other adjustments per our Credit Agreement:		
Impairment charges, including investments	2.4	
Net noncash loss on disposal of assets	2.0	
Loss on early extinguishment of debt	5.9	
Compensation expense under FASB Statement No. 123(R)	11.7	
Adjusted Consolidated EBITDA[1][3][4]	$ 341.7	
Weighted average common shares outstanding:		
Basic		83.0
Diluted		96.4

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First Quarter Reconciliation of Adjusted Consolidated EBITDA[1] to Net Cash Provided by Operating Activities

	Three Months Ended March 31,	
	2009	2008
Adjusted Consolidated EBITDA	**$ 98.7**	**$ 89.2**
Provision for doubtful accounts	7.9	7.8
Professional fees—accounting, tax, and legal	(4.8)	(3.6)
Interest expense and amortization of debt discounts and fees	(34.4)	(47.4)
UBS Settlement proceeds, gross	100.0	-
Equity in net income of nonconsolidated affiliates	(2.5)	(2.4)
Net income attributable to noncontrolling interests	8.6	6.6
Amortization of debt discounts and fees	1.6	1.6
Distributions from consolidated affiliates	1.5	2.2
Current portion of income tax benefit	0.3	0.7
Change in assets and liabilities	8.5	(4.6)
Change in government, class action, and related settlements	(1.7)	(7.3)
Other operating cash used in discontinued operations	(0.2)	(1.5)
Other	(0.4)	0.5
Net cash provided by operating activities	**$ 183.1**	**$ 41.8**

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Reconciliation Notes

1. Adjusted income from continuing operations and Adjusted Consolidated EBITDA are non-GAAP financial measures. Management and some members of the investment community utilize adjusted income from continuing operations as a financial measure and Adjusted Consolidated EBITDA 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 these adjusted measures, the reader should be aware that in the future HealthSouth may incur expenses similar to the adjustments set forth above.
2. Per share amounts for the three months ended March 31, 2009 and 2008 are based on basic weighted average common shares outstanding for all amounts except adjusted income from continuing operations per diluted share, which is based on diluted weighted average shares outstanding. The difference in shares between the basic and diluted shares outstanding is primarily related to our convertible perpetual preferred stock. Per share amounts do not include 5.0 million shares not yet issued under the securities litigation settlement.
3. Adjusted income from continuing operations per diluted share and Adjusted Consolidated EBITDA are two components of our guidance.
4. The Company’s Credit Agreement allows certain other items to be added to arrive at Adjusted Consolidated EBITDA, and there may be certain other deductions required.