

HEALTHSOUTH[®]



Fourth Quarter 2010 Earnings Call

Supplemental Slides

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, strategy, capital expenditures 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 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, 2010, when filed, our Form 10-Q for the quarters ended March 31, 2010, June 30, 2010, and September 30, 2010, 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 17, 2011, 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 2010 Summary (Q4 2010 vs. Q4 2009)

✓ Revenue growth of 7.1%

- Inpatient revenue growth of 8.0% driven by volume and price
 - Discharge growth 5.3%; same-store discharge growth 2.9%
 - Continued market share gains, including new hospitals
 - Higher revenue per discharge of 2.5% predominantly driven by Medicare and managed care price increases
- Outpatient and other revenue declined 2.7% on 8 fewer outpatient clinics

Location	# of Beds	Transaction	Date	Same store
Mesa, AZ	40	De Novo	Q3 2009	Yes
Altoona, PA	0	Acquired unit through JV	Q4 2009	Yes
FT. Smith, AR	0	Acquired unit (consolidation)	Q3 2010	Yes
Loudoun County, VA	40	De Novo	Q2 2010	No
Las Vegas, NV	50	Acquired new IRF	Q2 2010	No
Bristol, VA	25	De Novo	Q3 2010	No
Houston, TX	50	Acquired new IRF	Q3 2010	No

Q4 2010 Summary (Q4 2010 vs. Q4 2009) (cont.)

- ✓ **SWB as a percent of revenue decreased 160 bps.**
 - Improved productivity as measured by EPOB
 - Improved occupancy at new hospitals
 - Benefited from lower workers' compensation self-insurance costs

- ✓ **Hospital-related expenses decreased 110 bps.**
 - Lower than expected bad debt expense
 - Fewer than anticipated Medicare denials
 - Enhanced process for bad debt claims capture
 - Recovery of prior period write-offs
 - Offset by higher other operating costs mainly attributable to higher professional & general liability self-insurance costs

- ✓ **Adjusted EBITDA⁽¹⁾ grew 23.3%.**
 - Revenue growth driven by volume and pricing
 - Continued disciplined expense management and lower bad debt

(1) Reconciliation to GAAP provided on slides 33 and 36 through 39.

Q4 2010 Summary (Q4 2010 vs. Q4 2009) (cont.)

- ✓ **Continued strong adjusted free cash flow generation** ⁽¹⁾
 - Q4 2010 benefited from a shift in timing of interest payments related to the Q4 2010 refinancing.
 - Offset by the \$6.9 million unwind fee related to the termination of two forward-starting interest rate swaps

- ✓ **Significant capital structure enhancements**
 - Completed the issuance of two new senior notes
 - Completed the syndication of a new credit facility/agreement with up to \$500 million borrowing capacity maturing in 2015
 - Utilized proceeds along with cash on hand to payoff the two term loans

(1) Reconciliation to GAAP provided on slide 34.

Q4 2010 Summary (Q4 2010 vs. Q4 2009) (cont.)

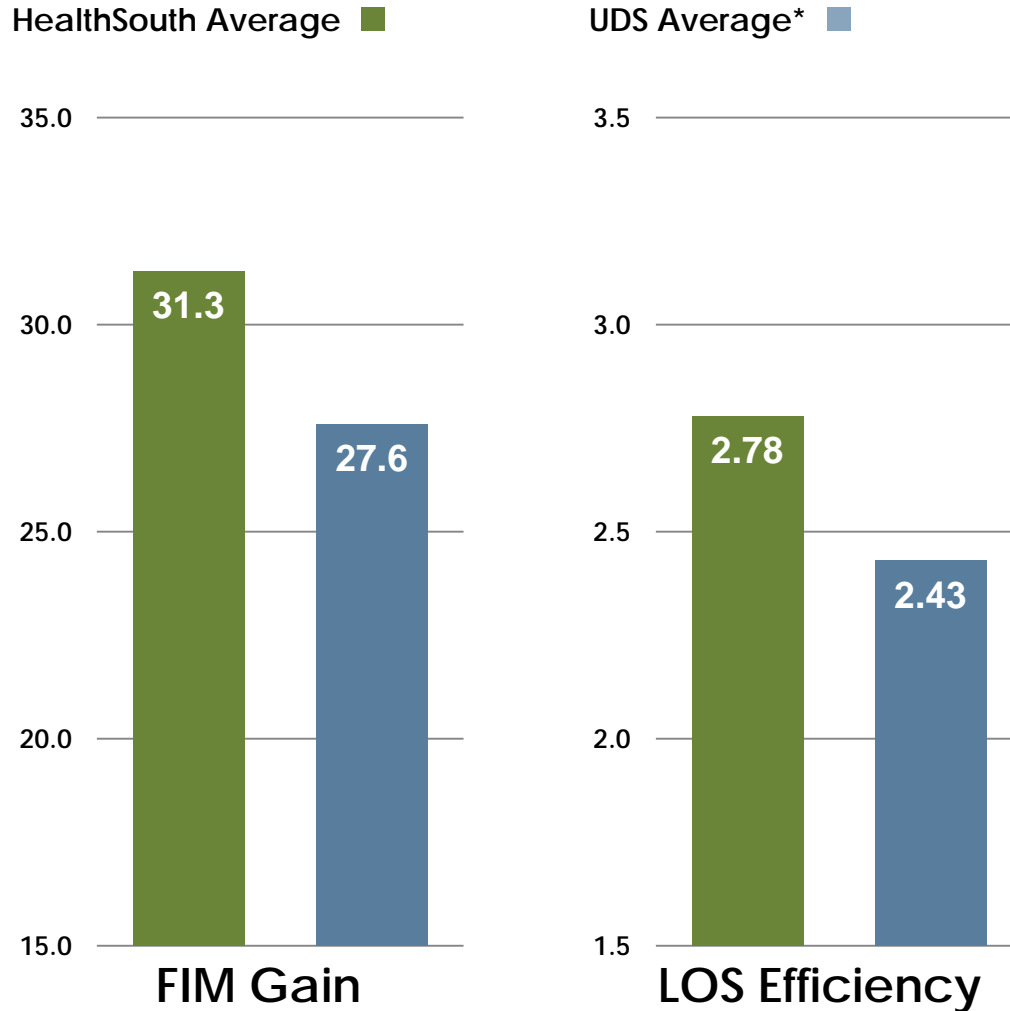
- ✓ **Adjusted EPS⁽¹⁾ increased 68.2%.**
 - Driven by higher Adjusted EBITDA
 - Offset by higher interest expense

- ✓ **A significant portion of the valuation allowance against deferred income tax assets was released in Q4 2010.**
 - Income statement includes a tax benefit of \$736.2 million.
 - Balance sheet now includes \$707.4 million in deferred income tax assets.
 - Reported net income and EPS will reflect a tax rate of approximately 40%.
 - No effect on cash taxes which are expected to be approximately \$6 to \$8 million per year.
 - Shareholders' deficit reduced to \$2.2 million

(1) Adjusted income from continuing operations; reconciliation to GAAP provided on slides 36 through 39.

High-Quality Care

HealthSouth Functional Outcomes Continue to Outpace Industry Average



FIM Gain

Change in Functional Independence Measurement (based on an 18 point assessment) from admission to discharge.

LOS Efficiency

Functional gain divided by length of stay.

* Average = Expected, Risk-adjusted

Source: UDSmr Database – On Demand Report: Q4 2010 Report

Revenues (Q4 2010 vs. Q4 2009)

<i>(Millions)</i>	Q4 2010	Q4 2009	Increase/ (Decrease)
Inpatient	\$ 481.3	\$ 445.7	8.0%
Outpatient and other	39.4	40.5	(2.7%)
Consolidated net operating	\$ 520.7	\$ 486.2	7.1%

(Actual Amounts)

Discharges	30,311	28,772	5.3%
Net patient revenue / discharge	\$15,879	\$15,491	2.5%

- Inpatient revenue growth was driven by:
 - Discharge growth of 5.3%; same-store discharge growth of 2.9%
 - Continued market share gains, including new hospitals
 - Higher revenue per discharge of 2.5%, predominantly driven by Medicare and managed care price increases
- Outpatient revenue declined primarily as a result of 8 fewer outpatient rehabilitation satellite clinics quarter over quarter.

Expenses (Q4 2010 vs. Q4 2009)

<i>(Millions)</i>	Q4 2010	Q4 2009	Increase/ (Decrease)
Salaries and benefits	\$ 252.4	\$ 243.7	3.6%
Percent of net operating revenues	48.5%	50.1%	(160 bps)
EPOB (employees per occupied bed)	3.52	3.55	(0.8%)
Hospital-related expenses (other operating, supplies, occupancy, bad debts)	\$ 122.1	\$ 119.2	2.4%
Percent of net operating revenues	23.4%	24.5%	(110 bps)
General and administrative (excludes stock-based compensation)	\$ 23.1	\$ 24.7	(6.5%)
Percent of net operating revenues	4.4%	5.1%	(70 bps)

- SWB as a percent of revenue decreased 160 bps.
 - Improved productivity as measured by EPOB and improved occupancy at new hospitals
 - Benefited from lower workers' compensation self-insurance costs
- Hospital-related expenses decreased 110 bps.
 - Lower than expected bad debt expense
 - Fewer than expected Medicare denials
 - Enhanced process for bad debt claims capture
 - Recovery of prior period denials
 - Offset by higher operating costs mainly attributable to higher professional & general liability self-insurance costs.

Adjusted EBITDA ⁽¹⁾

(Millions)	Q4		Full Year	
	2010	2009	2010	2009
Net operating revenues	\$ 520.7	\$ 486.2	\$ 1,999.3	\$ 1,911.1
Operating expenses:				
Salaries and benefits ⁽²⁾	(252.4)	(243.7)	(982.1)	(948.8)
Hospital-related expenses:				
Other operating expenses	(78.1)	(70.8)	(292.8)	(271.4)
Supplies	(30.0)	(28.8)	(114.9)	(112.4)
Occupancy Costs ⁽³⁾	(12.6)	(11.4)	(47.7)	(47.2)
Provision for doubtful accounts	(1.4)	(7.8)	(18.5)	(33.1)
	(122.1)	(118.8)	(473.9)	(464.1)
General and administrative expenses ⁽⁴⁾	(23.1)	(24.7)	(89.8)	(91.1)
Equity in nonconsolidated affiliates	2.6	1.8	10.1	4.6
Other income ⁽⁵⁾	1.8	2.1	4.6	4.7
Noncontrolling interests ⁽⁶⁾	(10.7)	(8.2)	(40.8)	(33.4)
Adjusted EBITDA	\$ 116.8	\$ 94.7	\$ 427.4	\$ 383.0

Adjusted EBITDA Change

Q4	Full Year
+\$22.1M	+\$44.4M
+23.3%	+11.6%

Improvements driven by:

- Revenue growth
- Disciplined expense management
- New hospitals

Improvements benefited from:

- Lower bad debt expense

Offset by:

- Higher professional & general liability self-insurance costs
- TeamWorks investment

(1) Reconciliation to GAAP provided on slides 33 and 36 through 39.

In arriving at Adjusted EBITDA, the following were excluded:

(2) Restructuring charges of \$0.0, \$0.0, \$0.2, and \$0.0 million, respectively.

(3) Restructuring charges associated with closed outpatient satellite clinics of \$0.0, \$0.4, \$0.0, and \$0.4 million, respectively.

(4) Stock-based compensation expense of \$5.2, \$3.4, \$16.4 and \$13.4 million, respectively.

(5) Impairments related to investments of \$0.0, \$0.02, \$0.0, and \$1.4 million, respectively.

(6) Noncontrolling interests related to discontinued operations of \$0.0, \$0.01, \$0.0, and \$0.6 million, respectively.

Adjusted EPS⁽¹⁾ (Q4 2010 vs. Q4 2009)

<i>(Millions, except per share data)</i>	Q4		Change	
	2010	2009	\$	%
Adjusted income from continuing operations⁽¹⁾	\$ 40.4	\$ 24.1	\$ 16.3	67.6%
Weighted average diluted shares outstanding	108.8	107.8	1.0	0.9%
	Per Share		Per Share	
Adjusted income from continuing operations per diluted share⁽¹⁾	\$ 0.37	\$ 0.22	\$ 0.15	68.2%

- Adjusted EPS⁽¹⁾ increased 68.2%
 - Higher Adjusted EBITDA
 - Lower loss on early extinguishment of debt
 - Offset by higher interest expense and higher stock-based compensation

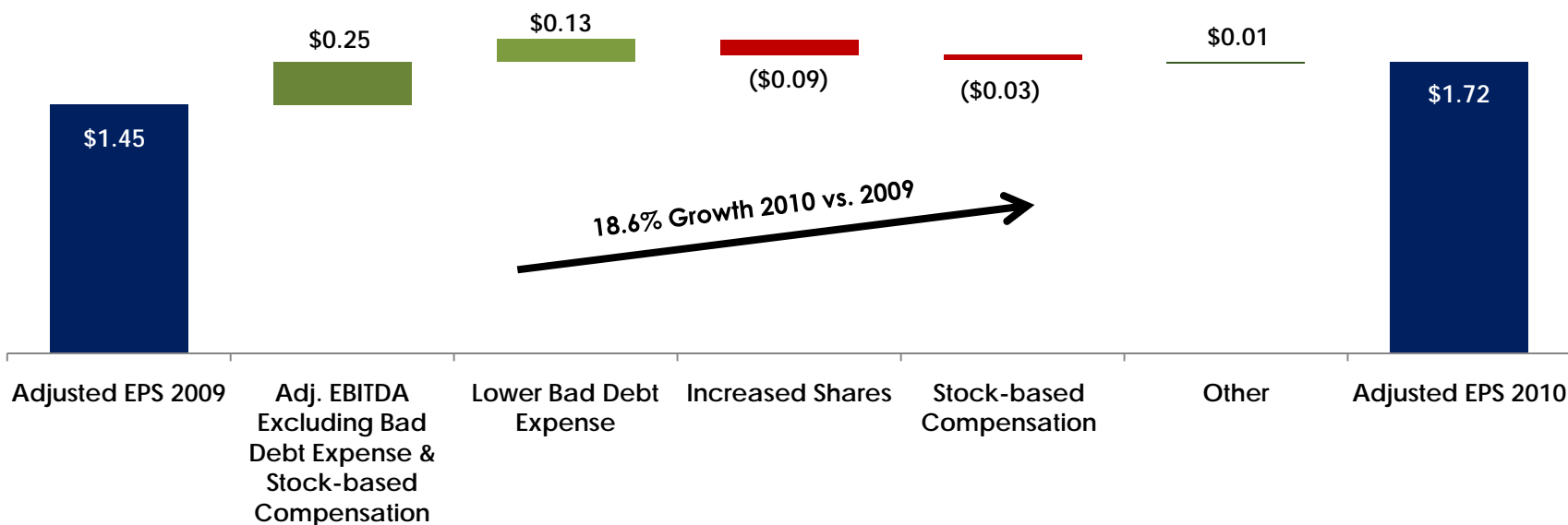
(1) Adjusted income from continuing operations; reconciliation to GAAP provided on slides 36 through 39.

Adjusted EPS⁽¹⁾ (2010 vs. 2009)

(Millions, except per share data)

	Full Year		Change	
	2010	2009	\$	%
Adjusted income from continuing operations ⁽¹⁾	\$ 186.4	\$ 149.6	\$ 36.8	24.6%
Weighted average diluted shares outstanding	108.5	103.3	5.2	5.0%

	Per Share		Per Share	
Adjusted income from continuing operations per diluted share ⁽¹⁾	\$ 1.72	\$ 1.45	\$ 0.27	18.6%



(1) Adjusted income from continuing operations; reconciliation to GAAP provided on slides 36 through 39.

Adjusted Free Cash Flow (Q4 2010 vs. Q4 2009)

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

<i>(Millions)</i>	Q4		Change
	2010	2009	\$
Net cash provided by operating activities⁽¹⁾	\$ 67.1	\$ 44.0	\$ 23.1
Impact of discontinued operations	(0.8)	4.1	(4.9)
Net cash provided by operating activities of continuing operations	66.3	48.1	18.2
Capital expenditures for maintenance	(13.5)	(9.6)	(3.9)
Net settlements on interest rate swaps	(11.0)	(11.9)	0.9
Dividends paid on convertible perpetual preferred stock	(6.5)	(6.5)	-
Distributions paid to noncontrolling interests of consolidated affiliates	(8.1)	(9.9)	1.8
Non-recurring items:⁽²⁾	3.9	(0.2)	4.1
Adjusted free cash flow	\$ 31.1	\$ 10.0	\$ 21.1

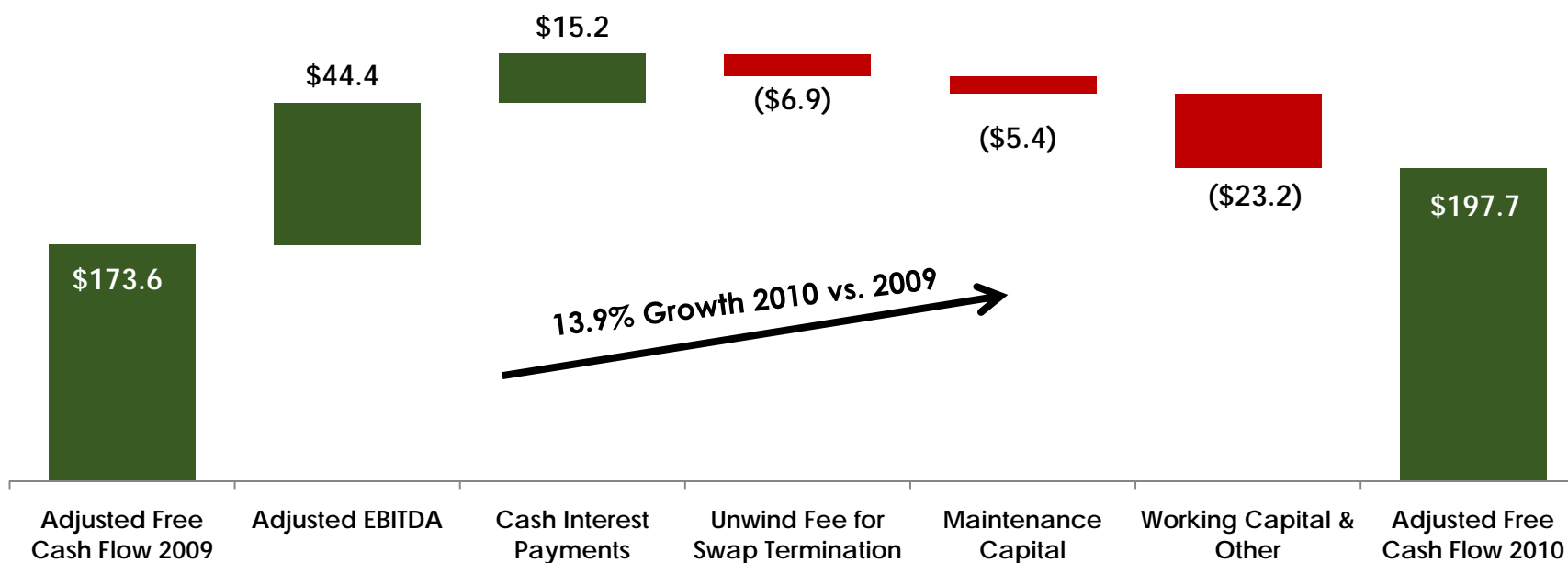
- Continued strong cash flow generation driven by higher Adjusted EBITDA.
 - Q4 2010 operating cash flow benefited from the timing of interest payments related to the refinancing in Q4 2010.
 - Offset by the \$6.9 million unwind fee related to the termination of the two forward-starting interest rate swaps⁽¹⁾

(1) The \$6.9 million unwind fee is included in cash provided by operating activities and is not included in the net settlements on interest rate swaps.

(2) For additional information on non-recurring items, see slide 34.

Adjusted Free Cash Flow⁽¹⁾ (2010 vs. 2009)

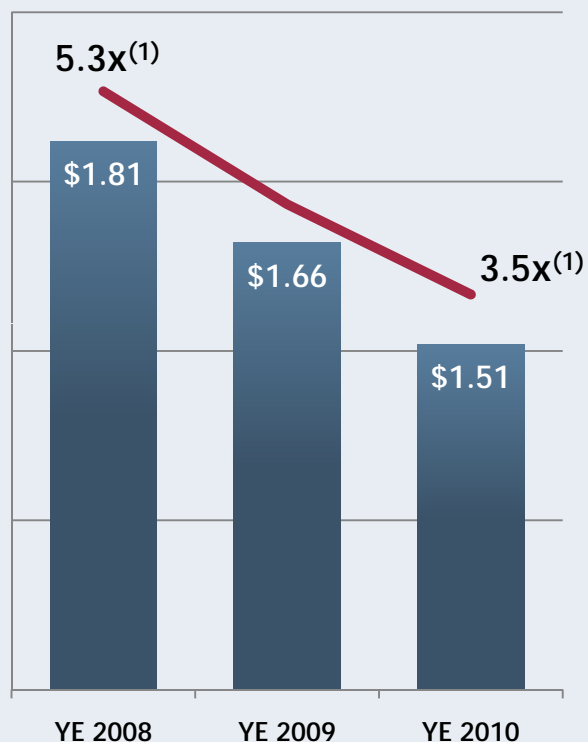
<i>(Millions, except per share data)</i>	Full Year		Change	
	2010	2009	\$	%
Adjusted free cash flow ⁽¹⁾	\$ 197.7	\$173.6	\$ 24.1	13.9%



(1) Reconciliation to GAAP provided on slide 34.

Debt, Liquidity, and Swaps

Debt Outstanding



Liquidity

	December 31,	
	2010	2009
Cash Available	\$ 48.4	\$ 80.9
Revolver Total Line	\$ 500.0	\$ 400.0
Less:		
– Draws	(78.0)	0.0
– Letters of credit	(45.6)	0.0
Available	\$ 376.4	\$ 400.0
Total Liquidity	\$ 424.8	\$ 480.9

Swaps ⁽²⁾⁽³⁾

The final cash settlement on our net \$884 million swaps for \$10.9 million will be made in Q1 2011.

⁽¹⁾ Based on 2008 and 2010 Adjusted EBITDA of \$341.2 million and \$427.4 million, respectively; reconciliation to GAAP provided on slides 33 and 36 through 39.

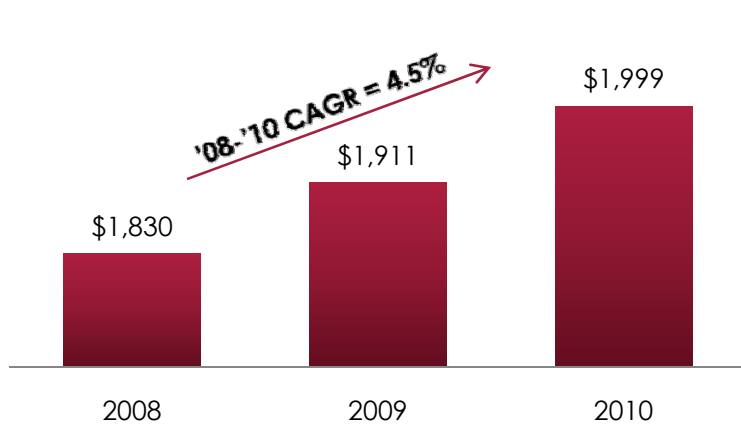
⁽²⁾ Cash settlements flow through investing activities for swaps that do not qualify for hedge accounting. Net notional amount of \$884 million receives 3-month LIBOR and pays 5.22% fixed until expiration in March of 2011.

⁽³⁾ Forward-starting interest rate swaps (designated as cash flow hedges) were terminated as part of the refinancing in October of 2010.

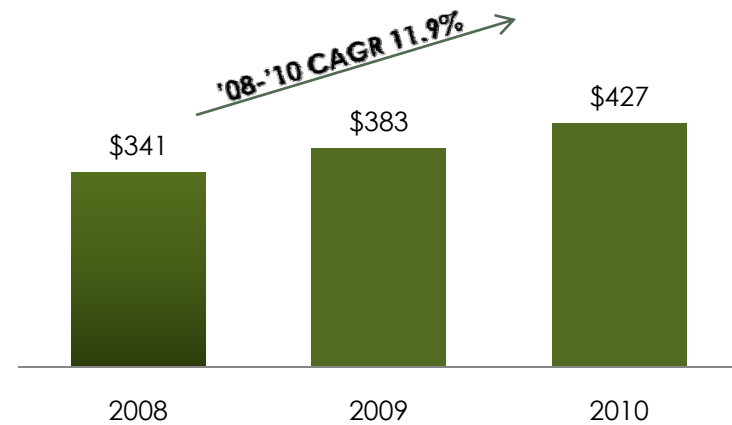
Our Track Record

(\$ in millions, except adjusted EPS)

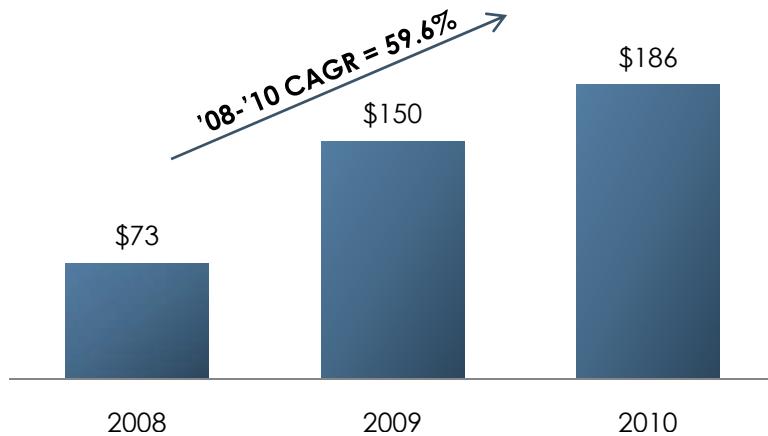
Revenue



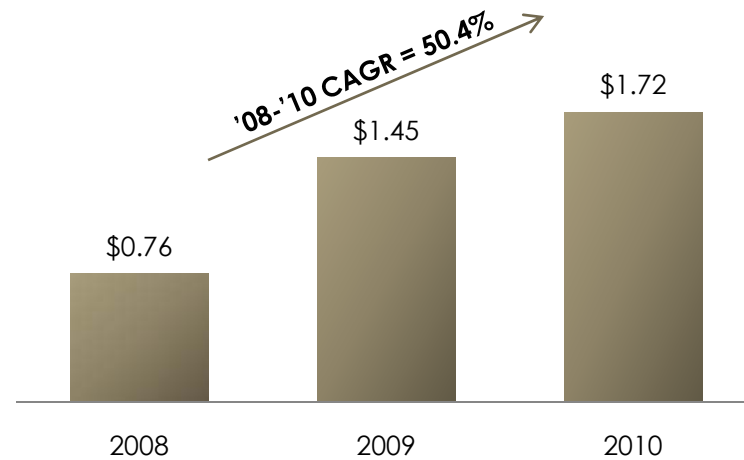
Adjusted EBITDA (1)



Adjusted Net Income (1)



Adjusted EPS (1)



(1) Reconciliation to GAAP provided on slides 33 and 36 through 39.

Business Outlook: 2011 to 2013

Business Model

- Adjusted EBITDA CAGR: 5-8% ⁽¹⁾
- Adjusted Free Cash Flow CAGR: 12-17% ⁽¹⁾

Strategy	2010	2011	2012	2013
Deleveraging ⁽²⁾	Goal: < 4.0x debt to EBITDA	Longer-Term Goal: ~ 3.0x debt to EBITDA (3.5x goal achieved at year-end 2010)		
Growth	Organic growth (includes capacity expansions)			
	De novos (~ 2-3/year)			
	IRF acquisitions (~ 2-3/year)			
	Opportunistic, disciplined acquisitions of complementary post-acute services			
Key Operational Initiatives	<ul style="list-style-type: none"> • Beacon (Management Reporting Software) = Labor / outcomes / quality optimization • TeamWorks = Care Management • "CPR" (Comfort, Professionalism, Respect) Initiative 			

⁽¹⁾ Reconciliation to GAAP provided on slides 33, 34, and 36 through 39.

⁽²⁾ Exclusive of any E&Y recovery.

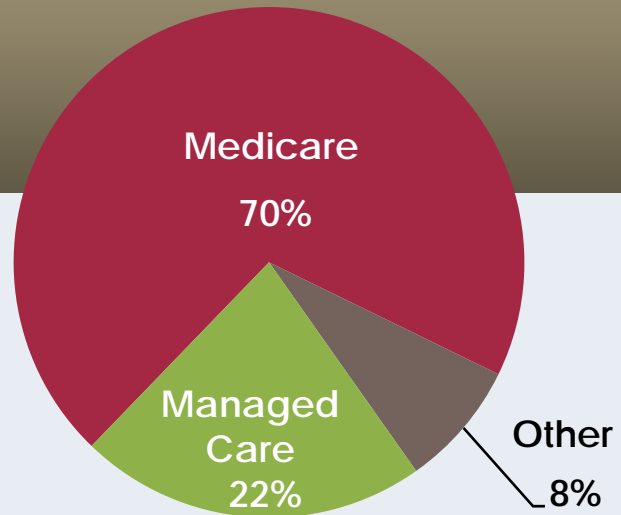
Business Outlook: Revenue Assumptions

Revenue

Volume

- 2.5% to 3.5% annual growth (excludes acquisitions)
- Includes bed expansions, de novos and unit consolidations

Pricing



Medicare Pricing

	FY 2011 ⁽¹⁾ Q4 10 - Q3 11	FY 2012 Q4 11 - Q3 12	FY 2013 Q4 12 - Q3 13
Market basket update ⁽²⁾	2.5%	2.5%	2.5%
Healthcare reform reduction	25 bps	10 bps	10 bps
Productivity adjustment ⁽²⁾	n/a	~100 bps	~ 100 bps

Managed Care

Expected Price Increases

2011	2012	2013
3-4%	3-5%	3-5%

⁽¹⁾ We believe based on the 2011 Medicare rule for IRFs, HealthSouth should realize an increase of approximately 2.1% annually.

⁽²⁾ Management estimates

Business Outlook: Expense Assumptions

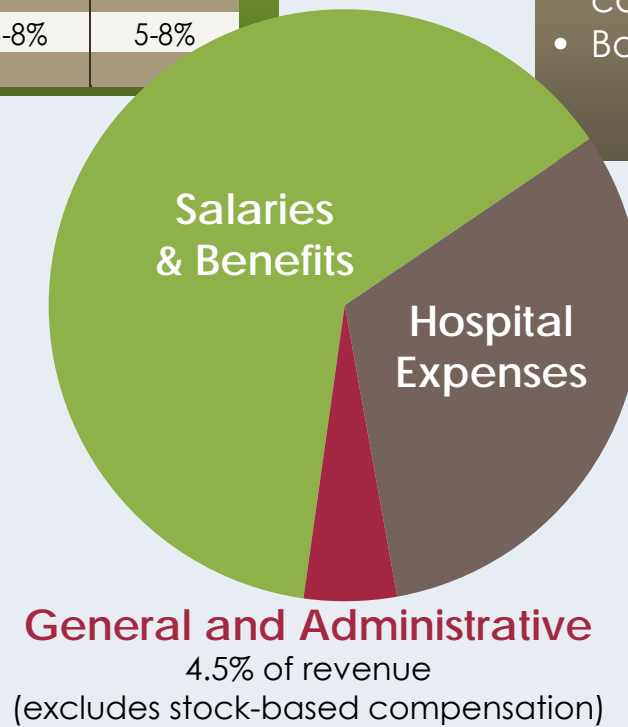
Expense

Salaries & Benefits ⁽¹⁾

	2011	2012	2013
Merit increases	2-3%	2-3%	2-3%
Benefit costs increases	5-8%	5-8%	5-8%

Hospital Expenses

- Other operating and supplies tracking with inflation
- Occupancy costs relatively constant as percent of revenue
- Bad debt of approx. 1.5%



⁽¹⁾ Salaries, Wages and Benefits: 85% Salaries and Wages; 15% Benefits

2011 Guidance – Adjusted EBITDA

Adjusted EBITDA ⁽¹⁾
\$440 million to \$450 million

Reflects:

- 2.9% to 5.3% growth over 2010
- 7.2% to 8.4% CAGR over 2009

Considerations:

- ✓ 2010 bad debt expense was 0.9% of revenue; expect 2011 bad debt expense to be approximately 1.5% of revenue, in line with historical average
- ✓ Medicare pricing in Q4 2011 will be reduced by a TBD productivity adjustment, which we estimate to be 100 basis points.
- ✓ Outpatient revenues subject to approximately \$1.4 million reduction related to the 25% rate reduction for reimbursement of therapy expenses for multiple therapy services (Medicare physician fee schedule for calendar year 2011 CMS).

⁽¹⁾ Reconciliation to GAAP provided on slides 33 and 36 through 39.

Business Outlook: Income Tax Considerations

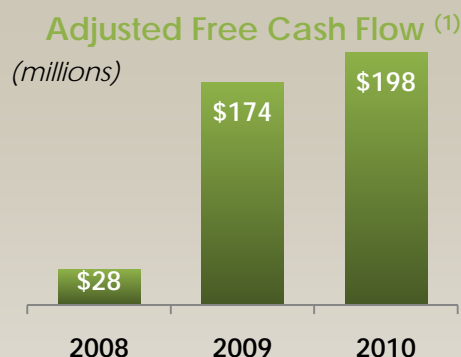
GAAP Considerations:

- Valuation allowance reduced by approximately \$825 million resulting in a \$736.6 million benefit to 2010 income tax provision.
- As of 12/31/10, the Company had a remaining valuation allowance of approximately \$113 million, primarily related to state NOLs.

Future Cash Tax Payments:

- Expects to pay approximately \$6-8 million per year of income tax.
- Does not expect to pay significant federal income taxes for up to 10 years.
- HealthSouth is not currently subject to an annual use limitation (“AUL”) under Internal Revenue Code Section 382 (“Section 382”). A “change of ownership,” as defined by Section 382, would subject us to an AUL, which is equal to the market capitalization of the Company at the time of the “change of ownership” multiplied by the long-term tax exempt rate.

Business Outlook: Adjusted Free Cash Flow ⁽¹⁾



HealthSouth's GAAP income statement will be affected by a number of items that will not affect cash flow from operating activities or adjusted free cash flow:

- Normalized GAAP tax rate resulting from the valuation allowance reversal in Q4 2010.
- Loss on early extinguishment of debt

Multi-Year Adjusted Free Cash Flow 12% to 17% CAGR

- **Items that will affect Adjusted Free Cash Flow in 2011:**
 - + Cash settlements for interest rate swaps will be \$33.8 million lower in 2011.
 - + Interest expense will be reduced with any repayment/refinancing of 10.75% senior notes callable in June 2011.
 - Maintenance capital expenditures are estimated to be approximately \$20 million higher in 2011 than 2010.
 - Interest expense will be approximately \$4 million per quarter higher in 2011 than 2010, prior to any repayment/refinancing of the 10.75% senior notes.
- 2010 working capital benefited from a shift in timing of interest payments related to the refinancing in Q4 2010, offset by the \$6.9 million unwind fee related to the termination of the two forward-starting interest rate swaps.

⁽¹⁾ Reconciliation to GAAP provided on slide 34.

Options for Addressing the 10.75% Senior Notes

We can utilize a number of sources to repay/refinance the 10.75% notes.

Illustration of Potential Interest Expense Reduction by Funding Source

(millions)

Sources	\$ Million ⁽¹⁾	Assumed Call Price ⁽³⁾	Annual Interest Savings
Cash on hand	\$100.0	105.375	\$10.2
Revolving credit facility (LIBOR + 350 bps) ⁽²⁾	\$100.0	105.375	\$6.4
New senior notes (assumed coupon of 7.50%)	\$100.0	105.375	\$2.7

Accounting effect for early repayment/ refinancing :

“Loss on early extinguishment of debt” = ~\$8 million per \$100 million of the 10.75% senior notes.

⁽¹⁾ Illustrative only

⁽²⁾ Assumes 3M LIBOR of 0.302%

⁽³⁾ Call schedule: June 15, 2011 (price 105.375); June 15, 2012 (price 103.583); June 15, 2013 (price 101.792); June 15, 2014 and thereafter (price 100.000)

2011 Guidance - EPS

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

\$1.01 to \$1.06

Considerations:

- ✓ Assumes provision for income tax of 40%; cash taxes expected to be \$6-\$8 million.
- ✓ Guidance does not include any repayment/refinancing of the 10.75% senior notes callable in June 2011, which would affect the following items:
 - Interest expense which is currently forecasted to be approximately \$4 million per quarter higher in Q1, Q2, and Q3 2011 vs. prior periods in 2010.
 - Does not include “loss on early extinguishment of debt” (non-cash)
 - Depreciation is estimated to be higher as a result of capital expenditures in prior periods.

HealthSouth is transitioning EPS guidance to a GAAP measure.

	EPS Guidance Transition			
	Prior EPS Measure	GAAP EPS Measure ⁽¹⁾		
	Actual 2010	Actual 2010	Low 2011	High 2011
<i>(In Millions, Except Per Share Data)</i>				
Adjusted EBITDA	\$ 427.4	\$ 427.4	\$ 440	\$ 450
Interest expense and amortization of debt discounts and fees	(125.9)	(125.9)	(138)	
Depreciation and amortization	(76.4)	(76.4)	(82)	
Stock-based compensation expense	(16.4)	(16.4)	(18)	
Other, including non-cash loss on disposal of assets	(1.7)	(1.7)	(4)	
	207.0	207.0	198	208
Certain Nonrecurring Expenses:				
Government, class action and related settlements	-	(1.1)	TBD	
Professional fees - accounting, tax and legal	-	(17.2)	(14)	
Loss on interest rate swaps	-	(13.3)	-	
Loss on early extinguishment of debt	(12.3)	(12.3)	TBD	
Pre-tax income	194.7	163.1	184	194
Income tax (assumes 40% in 2011)	(8.3) ⁽²⁾	736.6 ⁽³⁾	(74)	(78)
Income from continuing operations	\$ 186.4 ⁽⁴⁾	\$ 899.7 ⁽¹⁾	\$ 110 ⁽¹⁾	\$ 116 ⁽¹⁾
Diluted shares	108.5	108.5	109.4	109.4
Earnings per share	\$ 1.72 ⁽⁴⁾	\$ 8.29 ⁽¹⁾	\$ 1.01 ⁽¹⁾	\$ 1.06 ⁽¹⁾

(1) Income from continuing operations attributable to HealthSouth per diluted share

(2) Current period amounts in income tax provision; see slides 36 and 39

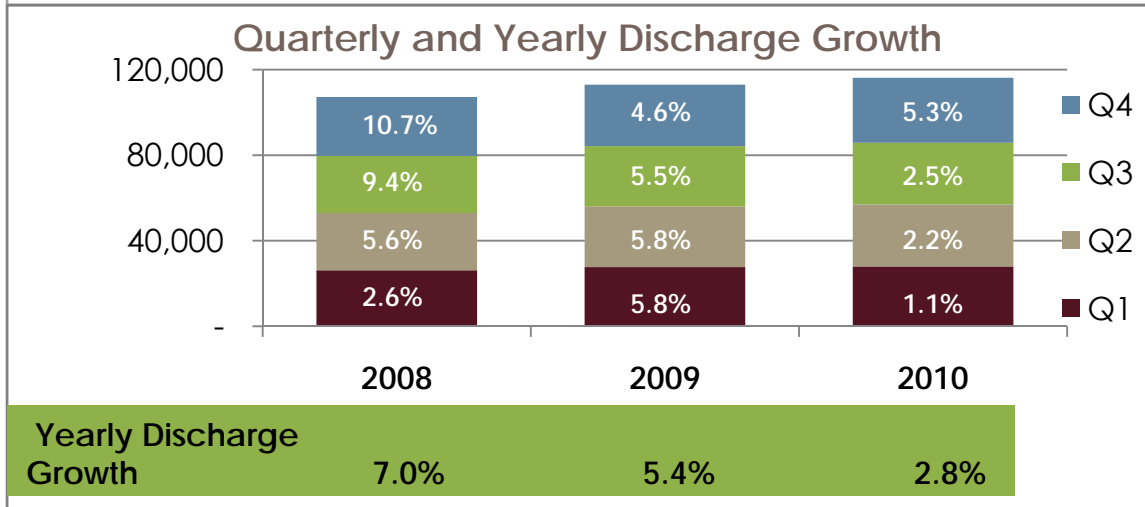
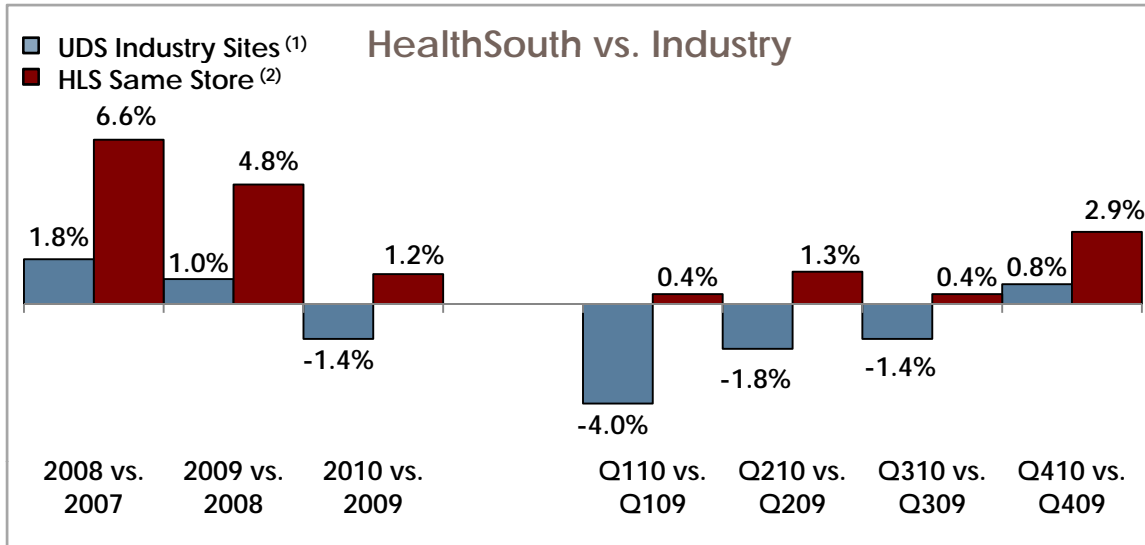
(3) Total income tax provision for full-year 2010, including the reversal of a substantial portion of the Company's valuation allowance against deferred tax assets.

(4) Adjusted income from continuing operations; see slides 36 and 39



Appendix

Historic Discharge Growth vs. Industry



- HealthSouth's volume growth has outpaced competitors'.
- TeamWorks = standardized and enhanced sales & marketing
- Bed additions will help facilitate continued organic growth.

⁽¹⁾ Data provided by UDSMR, a data gathering and analysis organization for the rehabilitation industry; represents ~ 65-70% of industry, including HealthSouth sites.

⁽²⁾ Includes consolidated HealthSouth inpatient rehabilitation hospitals and long-term acute care hospitals classified as same store during that time period.

Debt Schedule and Interest Expense

(Millions)	Corporate	Credit Rating		YE Debt Schedule		Debt Reduction	Annualized Interest Expense ⁽²⁾
		S&P	Moody	2010	2009	2010	
	B+	B1					
Advances under \$400 million revolving credit facility, March 2012 - 3 Month LIBOR +350bps				\$ -	\$ -	\$ -	\$ -
Advances under \$500 million revolving credit facility, March 2015 - 3 Month LIBOR +350bps	BB	Ba1		78.0	-	(78.0)	3.0
Term loan facility - March 2013				-	452.0	452.0	-
Term loan facility - March 2015				-	299.3	299.3	-
Bonds Payable:						-	
10.75% Senior Notes due 2016	B+	B2		495.5	494.9	(0.6)	53.8
7.25% Senior Notes due 2018	B+	B2		275.0	-	(275.0)	19.9
8.125% Senior Notes due 2020	B+	B2		285.5	285.2	(0.3)	23.6
7.75% Senior Notes due 2022	B+	B2		250.0	-	(250.0)	19.4
Other bonds payable				1.8	1.8	-	0.1
Other notes payable				36.4	28.0	(8.4)	3.3
Capital lease obligations				89.1	101.3	12.2	6.6
Long-term debt, net of current portion				\$ 1,511.3	\$ 1,662.5	\$ (151.2)	129.7
Debt to Adjusted Consolidated EBITDA ⁽¹⁾				3.5x	4.3x		
						Discontinued operations	(0.5)
						Revolver fee (50 bps)	1.9
						Letter of credit interest expense	1.8
						Amortization and fees	4.9
						Total estimated interest expense and amortization of debt discounts and fees	\$ 137.8

(1) Based on 2010 and 2009 Adjusted EBITDA of \$427.4 million and \$383.0 million, respectively; reconciliation to GAAP provided on slides 33 and 36 through 39.

(2) Based on debt balances as of December 31, 2010 and assumes 3 month LIBOR of 0.302%.

Revenues & Expenses (Sequential)

	Q4 2010	Q3 2010	Increase/ (Decrease)
Revenues (millions)			
Inpatient	\$ 481.3	\$ 451.8	6.5%
Outpatient and other	39.4	38.9	1.3%
Consolidated net operating	\$ 520.7	\$ 490.7	6.1%
(Actual Amounts)			
Discharges	30,311	28,828	5.1%
Net patient revenue / discharge	\$ 15,879	\$ 15,672	1.3%
Expenses (millions)			
Salaries and benefits	\$ 252.4	\$ 246.4	2.4%
Percent of net operating revenues	48.5%	50.2%	(170 bps)
EPOB (employees per occupied bed)	3.52	3.57	(1.4%)
Hospital-related expenses	\$ 122.1	\$ 115.4	5.8%
(other operating, supplies, occupancy, bad debts)			
Percent of net operating revenues	23.4%	23.5%	(10 bps)
General and administrative	\$ 23.1	\$ 21.5	7.4%
(excludes stock-based compensation)			
Percent of net operating revenues	4.4%	4.4%	0 bps

Revenues & Expenses (Year over Year)

<u>Revenues (millions)</u>	Full Year		Increase/ (Decrease)
	2010	2009	
Inpatient	\$ 1,841.2	\$ 1,743.4	5.6%
Outpatient and other	158.1	167.7	(5.7%)
Consolidated net operating	\$ 1,999.3	\$ 1,911.1	4.6%
(Actual Amounts)			
Discharges	116,153	112,975	2.8%
Net patient revenue / discharge	\$ 15,852	\$ 15,432	2.7%
<u>Expenses (millions)</u>			
Salaries and benefits	\$ 982.3	\$ 948.8	3.5%
Percent of net operating revenues	49.1%	49.6%	(50 bps)
EPOB (employees per occupied bed)	3.50	3.53	(0.8%)
Hospital-related expenses	\$ 473.9	\$ 464.5	2.0%
(other operating, supplies, occupancy, bad debts)			
Percent of net operating revenues	23.7%	24.3%	(60 bps)
General and administrative	\$ 89.8	\$ 91.1	(1.4%)
(excludes stock-based compensation)			
Percent of net operating revenues	4.5%	4.8%	(30 bps)

Payment Sources

	Percent of Revenues			
	Q4		Full Year	
	2010	2009	2010	2009
Medicare	71.4%	68.9%	70.5%	67.9%
Medicaid	1.5%	1.9%	1.7%	2.1%
Workers' compensation	1.5%	1.6%	1.6%	1.6%
Managed care and other discount plans ⁽¹⁾	20.9%	22.8%	21.5%	23.1%
Other third-party payors	2.3%	2.2%	2.3%	2.7%
Patients	1.2%	1.3%	1.2%	1.2%
Other income	1.2%	1.3%	1.2%	1.4%
Total	100.0%	100.0%	100.0%	100.0%

(1) Managed Medicare revenues represent ~ 8%, 7%, 8%, and 8% of total revenues for Q4 2010, Q4 2009, 2010, and 2009, respectively, and are included in "Managed care and other discount plans."

Operational and Labor Metrics ⁽¹⁾

	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Full Year 2010	Full Year 2009
(In Millions)										
Net patient revenue-inpatient	\$ 481.3	\$ 451.8	\$ 456.2	\$ 451.8	\$ 445.7	\$ 429.2	\$ 437.2	\$ 431.3	\$ 1,841.2	\$ 1,743.4
Net patient revenue-outpatient and other revenues	39.4	38.9	40.7	39.2	40.5	41.2	44.4	41.6	158.1	167.7
Net operating revenues	\$ 520.7	\$ 490.7	\$ 496.9	\$ 491.0	\$ 486.2	\$ 470.4	\$ 481.6	\$ 472.9	\$ 1,999.3	\$ 1,911.1

(Actual Amounts)

Discharges ⁽²⁾	30,311	28,828	29,016	27,998	28,772	28,125	28,379	27,699	116,153	112,975
Outpatient visits	247,823	258,042	265,628	255,445	265,067	281,913	291,944	283,621	1,026,938	1,122,545
Average length of stay	13.8	14.1	14.1	14.6	14.0	14.3	14.4	14.6	14.1	14.3
Occupancy %	67.2%	65.6%	67.4%	69.2%	66.5%	67.0%	69.4%	69.9%	66.7%	67.3%
# of licensed beds	6,745	6,745	6,684	6,563	6,572	6,507	6,454	6,443	6,745	6,572
Occupied beds	4,533	4,425	4,505	4,542	4,370	4,360	4,479	4,504	4,499	4,423
Full-time equivalents (FTEs) ⁽³⁾	15,868	15,721	15,600	15,416	15,428	15,528	15,590	15,469	15,651	15,504
Contract labor	86	74	87	82	64	60	120	143	82	97
Total FTE and contract labor	15,954	15,795	15,687	15,498	15,492	15,588	15,710	15,612	15,733	15,601

EPOB ⁽⁴⁾	3.52	3.57	3.48	3.41	3.55	3.58	3.51	3.47	3.50	3.53
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(1) Numbers have been reclassified to reflect current continuing operations.

(2) Represents discharges from HealthSouth's 94 consolidated hospitals and 6 LTCHs in Q4 2010 and Q3 2010, 92 consolidated hospitals and 6 LTCHs in Q2 2010, and 90 consolidated hospitals and 6 LTCHs prior to Q2 2010.

(3) 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.

(4) 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.

Net Cash Provided by Operating Activities

Reconciliation of Adjusted EBITDA ⁽¹⁾ to Net Cash Provided by Operating Activities

(Millions)	Q4		Full Year		
	2010	2009	2010	2009	2008
Adjusted EBITDA	\$ 116.8	\$ 94.7	\$ 427.4	\$ 383.0	\$ 341.2
Provision for doubtful accounts	1.4	7.8	18.5	33.1	27.0
Professional fees—accounting, tax, and legal	(3.4)	(3.8)	(17.2)	(8.8)	(44.4)
Interest expense and amortization of debt discounts and fees	(34.5)	(30.8)	(125.9)	(125.8)	(159.5)
UBS Settlement proceeds, gross	-	-	-	100.0	
Equity in net income of nonconsolidated affiliates	(2.6)	(1.8)	(10.1)	(4.6)	(10.6)
Net income attributable to noncontrolling interests in continuing operations	10.7	8.2	40.8	33.4	29.8
Amortization of debt discounts and fees	1.2	1.7	6.3	6.6	6.5
Distributions from nonconsolidated affiliates	3.4	2.1	8.1	8.6	10.9
Current portion of income tax (expense) benefit	(4.7)	4.1	(1.9)	7.3	73.8
Change in assets and liabilities	(19.2)	(33.3)	(5.4)	(0.8)	(53.1)
Change in government, class action and related settlements liability	(2.1)	(0.2)	(2.9)	(11.2)	(7.4)
Other operating cash provided by (used in) discontinued operations	0.8	(4.1)	(4.7)	(13.5)	11.4
Other	(0.7)	(0.6)	(2.0)	(1.2)	1.6
Net cash provided by operating activities	\$ 67.1	\$ 44.0	\$ 331.0	\$ 406.1	\$ 227.2

(1) Notes on page 39.

Adjusted Free Cash Flow

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

(Millions)	Q4		Full Year		
	2010	2009	2010	2009	2008
Net cash provided by operating activities ⁽¹⁾⁽²⁾	\$ 67.1	\$ 44.0	\$ 331.0	\$ 406.1	\$ 227.2
Impact of discontinued operations	(0.8)	4.1	4.7	13.5	(11.4)
Net cash provided by operating activities of continuing operations	66.3	48.1	335.7	419.6	215.8
Capital expenditures for maintenance	(13.5)	(9.6)	(39.5)	(34.1)	(42.6)
Net settlements on interest rate swaps	(11.0)	(11.9)	(44.7)	(42.2)	(20.7)
Dividends paid on convertible perpetual preferred stock	(6.5)	(6.5)	(26.0)	(26.0)	(26.0)
Distributions paid to noncontrolling interests of consolidated affiliates	(8.1)	(9.9)	(34.4)	(32.7)	(33.4)
Non-recurring items:					
UBS Settlement proceeds, less fees to derivative plaintiffs' attorneys	-	-	-	(73.8)	
Cash paid for professional fees - accounting, tax and legal	3.4	3.8	17.2	15.3	18.2
Cash paid for government, class action and related settlements	2.1	0.2	2.9	11.2	7.4
Income tax refunds related to prior periods	(1.6)	(4.2)	(13.5)	(63.7)	(90.4)
Adjusted free cash flow	\$ 31.1 ⁽¹⁾⁽²⁾	\$ 10.0	\$ 197.7 ⁽¹⁾⁽²⁾	\$ 173.6	\$ 28.3

(1) Q4 2010 and full-year 2010 working capital benefited from a shift in timing of interest payments related to the refinancing in Q4 2010.

(2) Q4 2010 and full-year 2010 were negatively affected by the \$6.9 million unwind fee related to the termination of two forward-starting interest rate swaps, which is included in cash provided by operating activities and not included in the net settlements on interest rate swaps.

Outstanding Share Summary

(Millions)

	Weighted Average for the Period			
	Q4	Q4	FY	FY
	2010	2009	2010	2009
Basic Shares outstanding ^{(1) (2)}	92.8	92.6	92.8	88.8
Diluted Shares outstanding ^{(1) (2) (3)}	108.8	107.8	108.5	103.3

	End of Period	
	FY	FY
	2010	2009
Basic Shares outstanding ^{(1) (2)}	92.8	92.6
Diluted Shares outstanding ^{(1) (2) (3)}	108.5	107.1

Notes:

- (1) 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 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.
- (2) 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 were not assumed exercised for the dilutive shares outstanding because they are anti-dilutive in the periods presented.
- (3) The difference between the basic and diluted shares outstanding is primarily related to our convertible perpetual preferred stock.

Reconciliation of Net Income to Adjusted Income from Continuing Operations and Adjusted EBITDA ^{(1) (3) (4)}

(in millions, except per share data)	2010									
	Q1		Q2		Q3		Q4		Full Year	
	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share
Net income	\$ 50.5	\$ 0.54	\$ 57.5	\$ 0.62	\$ 41.9	\$ 0.45	\$ 789.9	\$ 8.51	\$ 939.8	\$ 10.13
Loss (income) from disc ops, net of tax, attributable to HealthSouth	3.1	0.03	(0.1)	(0.00)	0.6	0.01	(2.9)	(0.03)	0.7	0.01
Net income attributable to noncontrolling interests	(9.8)	(0.11)	(10.2)	(0.11)	(10.1)	(0.11)	(10.7)	(0.12)	(40.8)	(0.44)
Income (loss) from continuing operations attributable to HealthSouth	43.8	0.47	47.2	0.51	32.4	0.35	776.3	8.37	899.7	9.70
Gov't, class action, and related settlements	-	-	-	-	0.8	0.01	0.3	-	1.1	0.01
Pro fees - acct, tax, and legal	2.9	0.03	5.7	0.06	5.2	0.06	3.4	0.04	17.2	0.19
Loss (gain) on interest rate swaps	4.3	0.05	(0.3)	(0.00)	9.0	0.10	0.3	-	13.3	0.14
Adjustment for prior period amounts in tax provision	0.9	0.01	(5.2)	(0.06)	(0.7)	(0.01)	(739.9)	(7.97)	(744.9)	(8.03)
Adjusted income from continuing operations ⁽¹⁾⁽³⁾	\$ 51.9	0.56	\$ 47.4	0.51	\$ 46.7	0.50	\$ 40.4	0.44	\$ 186.4	2.01
Adjustment for dilution ⁽²⁾		(0.08)		(0.07)		(0.07)		(0.07)		(0.29)
Adjusted income from continuing operations per diluted share ⁽²⁾⁽³⁾		<u>\$ 0.48</u>		<u>\$ 0.44</u>		<u>\$ 0.43</u>		<u>\$ 0.37</u>		<u>\$ 1.72</u>
Current period amounts in tax provision	1.6		3.0		-		3.7		8.3	
Interest expense and amortization of debt discounts and fees	30.5		30.1		30.8		34.5		125.9	
Depreciation and amortization	18.3		18.7		19.3		20.1		76.4	
	102.3		99.2		96.8		98.7		397.0	
Other adjustments per the Company's Credit Agreement:										
Net noncash loss on disposal of assets	-		0.4		0.1		1.0		1.5	
Loss on early extinguishment of debt	0.3		0.1		-		11.9		12.3	
Stock-based compensation expense	3.8		4.0		3.4		5.2		16.4	
Other	-		-		0.2		-		0.2	
Adjusted EBITDA ⁽¹⁾⁽²⁾⁽⁴⁾	<u>\$ 106.4</u>		<u>\$ 103.7</u>		<u>\$ 100.5</u>		<u>\$ 116.8</u>		<u>\$ 427.4</u>	
Weighted average common shares outstanding:										
Basic		92.7		92.8		92.8		92.8		92.8
Diluted		108.0		108.2		108.3		108.8		108.5

(1) (2) (3) (4) – Notes on page 39.

Reconciliation of Net Income to Adjusted Income from Continuing Operations and Adjusted EBITDA ^{(1) (3) (4)}

(in millions, except per share data)	2009									
	Q1		Q2		Q3		Q4		Full Year	
	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share
Net income	\$ 53.5	\$ 0.61	\$ 3.6	\$ 0.04	\$ 24.8	\$ 0.28	\$ 46.9	\$ 0.51	\$ 128.8	\$ 1.45
Loss (income) from disc ops, net of tax, attributable to HealthSouth	3.0	0.03	(1.1)	(0.01)	9.1	0.10	(12.5)	(0.14)	(1.5)	(0.02)
Net income attributable to noncontrolling interests	(8.6)	(0.10)	(9.1)	(0.10)	(8.0)	(0.09)	(8.3)	(0.09)	(34.0)	(0.38)
Income (loss) from continuing operations attributable to HealthSouth	47.9	0.55	(6.6)	(0.08)	25.9	0.30	26.1	0.28	93.3	1.05
Gov't, class action, and related settlements	(15.9)	(0.18)	48.7	0.56	8.5	0.10	(4.6)	(0.05)	36.7	0.41
Pro fees - acct, tax, and legal	4.8	0.05	(3.3)	(0.04)	3.5	0.04	3.8	0.04	8.8	0.10
Gain on early extinguishment of debt	(1.8)	(0.02)	(1.3)	(0.01)	-	-	-	-	-	-
Loss on interest rate swaps	5.0	0.06	3.8	0.04	7.9	0.09	2.9	0.03	19.6	0.22
Adjustment for prior period amounts in tax provision	(0.3)	(0.00)	(1.4)	(0.02)	(3.0)	(0.03)	(4.1)	(0.04)	(8.8)	(0.10)
Adjusted income from continuing operations ⁽¹⁾⁽³⁾	\$ 39.7	0.45	\$ 39.9	0.46	\$ 42.8	0.49	\$ 24.1	0.26	\$ 149.6	1.68
Adjustment for dilution ⁽²⁾		(0.06)		(0.07)		(0.07)		(0.04)		(0.23)
Adjusted income from continuing operations per diluted share ⁽²⁾⁽³⁾		\$ 0.39		\$ 0.39		\$ 0.42		\$ 0.22		\$ 1.45
Current period amounts in tax provision	1.5		1.1		1.3		1.7		5.6	
Interest expense and amortization of debt discounts and fees	34.4		31.1		29.5		30.8		125.8	
Depreciation and amortization	17.4		17.6		17.8		18.1		70.9	
	93.0		89.7		91.4		74.7		351.9	
Other adjustments per the Company's Credit Agreement:										
Impairment charges, including investments	0.7		0.1		0.3		0.2		1.4	
Net noncash loss on disposal of assets	1.0		1.3		0.7		0.5		3.5	
Loss on early extinguishment of debt	-		-		-		15.6		12.5	
Stock-based compensation expense	3.7		2.9		3.4		3.4		13.4	
Other	-		-		0.1		0.3		0.3	
Adjusted EBITDA ⁽¹⁾⁽²⁾⁽⁴⁾	\$ 98.4		\$ 94.0		\$ 95.9		\$ 94.7		\$ 383.0	
Weighted average common shares outstanding:										
Basic		87.5		87.6		87.6		92.6		88.8
Diluted		100.9		101.5		102.2		107.8		103.3

(1) (2) (3) (4) – Notes on page 39.

Reconciliation of Net Income to Adjusted Income from Continuing Operations and Adjusted EBITDA ^{(1) (3) (4)}

	2008									
	Q1		Q2		Q3		Q4		Full Year	
	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share
(in millions, except per share data)										
Net income	\$ 26.4	\$ 0.33	\$ 52.4	\$ 0.66	\$ 12.8	\$ 0.15	\$ 190.2	\$ 2.18	\$ 281.8	\$ 3.40
(Income) loss from disc ops, net of tax, attributable to HealthSouth	(15.1)	(0.19)	4.3	0.05	3.2	0.04	(9.0)	(0.10)	(16.6)	(0.20)
Net income attributable to noncontrolling interests	(6.6)	(0.08)	(8.3)	(0.10)	(6.2)	(0.07)	(8.3)	(0.09)	(29.4)	(0.35)
Income from continuing operations attributable to HealthSouth	4.7	0.06	48.4	0.61	9.8	0.11	172.9	1.98	235.8	2.84
Gain on UBS Settlement	-	-	-	-	-	-	(121.3)	(1.39)	(121.3)	(1.46)
Gov't, class action, and related settlements	(36.4)	(0.46)	(8.6)	(0.11)	17.1	0.20	(39.3)	(0.45)	(67.2)	(0.81)
Pro fees - acct, tax, and legal	3.6	0.05	5.3	0.07	4.0	0.05	31.5	0.36	44.4	0.53
Gain on early extinguishment of debt	-	-	-	-	-	-	-	-	-	-
Loss (gain) on interest rate swaps	36.6	0.46	(28.5)	(0.36)	8.0	0.09	39.6	0.45	55.7	0.67
Interest associated with UBS Settlement	-	-	-	-	-	-	(9.4)	(0.11)	(9.4)	(0.11)
Accelerated depreciation of corporate campus	10.0	0.13	-	-	-	-	-	-	10.0	0.12
Adjustment for prior period amounts in tax provision	(1.4)	(0.02)	(0.4)	(0.01)	(23.8)	(0.27)	(49.7)	(0.57)	(75.1)	(0.90)
Adjusted income from continuing operations ⁽¹⁾⁽³⁾	<u>\$ 17.1</u>	<u>0.22</u>	<u>\$ 16.2</u>	<u>0.20</u>	<u>\$ 15.1</u>	<u>0.17</u>	<u>\$ 24.3</u>	<u>0.28</u>	<u>\$ 72.9</u>	<u>0.88</u>
Adjustment for dilution ⁽²⁾		(0.03)		(0.03)		(0.02)		(0.04)		(0.12)
Adjusted income from continuing operations per diluted share ⁽²⁾⁽³⁾		<u>\$ 0.19</u>		<u>\$ 0.17</u>		<u>\$ 0.15</u>		<u>\$ 0.24</u>		<u>\$ 0.76</u>
Current period amounts in tax provision	1.5		1.1		1.3		1.3		5.0	
Interest expense and amortization of debt discounts and fees	47.4		43.4		40.3		37.8		168.9	
Depreciation and amortization	19.4		17.6		17.7		17.7		72.4	
	85.4		78.3		74.4		81.1		319.2	
Other adjustments per the Company's Credit Agreement:										
Impairment charges, including investments	-		0.6		-		1.8		2.4	
Net noncash loss on disposal of assets	0.1		0.8		0.2		1.4		2.0	
Loss on early extinguishment of debt	0.3		3.4		2.1		0.1		5.9	
Stock-based compensation expense	3.3		2.7		2.5		3.2		11.7	
Other	-		(0.2)		0.3		(0.1)		-	
Adjusted EBITDA ⁽¹⁾⁽²⁾⁽⁴⁾	<u>\$ 89.1</u>		<u>\$ 85.6</u>		<u>\$ 79.5</u>		<u>\$ 87.5</u>		<u>\$ 341.2</u>	
Weighted average common shares outstanding:										
Basic		78.9		79.5		87.4		87.4		83.0
Diluted		<u>92.3</u>		<u>93.0</u>		<u>101.0</u>		<u>100.7</u>		<u>96.4</u>

(1) (2) (3) (4) – Notes on page 39.

Reconciliation Notes

1. Adjusted income from continuing operations and Adjusted EBITDA are non-GAAP financial measures. 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 income from continuing operations as a financial measure and Adjusted EBITDA and the leverage ratio as liquidity measures 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 each period presented 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.
3. Adjusted income from continuing operations per diluted share and Adjusted EBITDA are two components of our historical guidance.
4. The Company's credit agreement allows certain other items to be added to arrive at Adjusted EBITDA, and there may be certain other deductions required.