



**Part II Organizational Action** (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ See Appendix A attached hereto.

Blank lined area for listing Internal Revenue Code sections.

18 Can any resulting loss be recognized? ▶ See Appendix A attached hereto.

Blank lined area for providing information on resulting loss recognition.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ See Appendix A attached hereto.

Blank lined area for providing other information necessary for the adjustment.

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

**Sign Here**

Signature ▶  Date ▶ 4/19/2017

Print your name ▶ Robert W. McCallum, III Title ▶ Vice President

**Paid Preparer Use Only**

Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
Firm's name ▶	Firm's EIN ▶		Phone no.	
Firm's address ▶				

# HEALTHSOUTH CORPORATION

## Appendix A to Form 8937

HealthSouth Corporation (NYSE:HLS) (the “Company”) has outstanding \$320 million in aggregate principal amount of 2.00% Convertible Senior Subordinated Notes due 2043 (the “2043 Notes”). The 2043 Notes are convertible, at the option of the holders, at any time prior to the close of business on the business day immediately preceding December 1, 2043, into shares of the Company’s common stock, par value \$.01 per share (the “Common Stock”). The terms of the 2043 Notes include antidilutive protection that provides for an increase in the number of shares of the Common Stock issuable upon conversion in the event of the payment of common stock dividends if such adjustment to the conversion rate results in a change of 1.0% or greater to the conversion rate in effect immediately prior to such adjustment (the “*de minimis* threshold”).

Section 6045B of the Internal Revenue Code (the “Code”) and the related Treasury Regulations provide that effective January 1, 2016, if a company pays a cash dividend with respect to stock resulting in a conversion rate adjustment on a convertible debt instrument that is treated as a deemed distribution under Section 305(b)(2) and (c) of the Code, an information return on Form 8937 must be filed with the Internal Revenue Service or, in lieu of filing, posted to the company’s public website.

The information contained in the attached Form 8937 and this Appendix A thereto is intended to satisfy those public reporting requirements and is intended to provide only a general summary of certain U.S. federal income tax consequences of the conversion rate adjustment. Such information is not intended to be a complete analysis or description of all potential federal or other tax consequences of the conversion rate adjustment. You should consult your own tax advisor to determine the particular federal, state, local, or foreign income, reporting or other tax consequences of the conversion rate adjustment applicable to you.

### **Line 14 - Description of the Organizational Action**

On October 20, 2016, the board of directors of the Company declared a quarterly cash dividend of \$0.24 per share of the Common Stock that was paid on January 17, 2017. The January 2017 dividend did not surpass the *de minimis* threshold, so the conversion rate for the 2043 Notes was not, at that time, subject to adjustment under the terms of the indenture.

On February 17, 2017, the board of directors of the Company declared a quarterly cash dividend on the Common Stock of \$0.24 per share, payable on April 17, 2017, to holders of record on April 3, 2017. The payment of the dividend on April 17, 2017 is the organizational action triggering the deemed distribution under Section 305(c) of the Code being reported on the attached Form 8937. The deemed distribution resulted from the requirement to adjust the conversion rate for the combined impact of the January and April 2017 dividends, together \$0.48 per share. Effective immediately after the open of business on March 30, 2017, the ex-date for such dividend payment, the conversion rate on the 2043 Notes increased from 26.9106 shares of the Common Stock per \$1,000 principal to 27.2221 shares of the Common Stock per \$1,000 principal.

### **Line 15 - Quantitative Effect of the Organizational Action**

In connection with the Company’s payment of the April 2017 dividend, the tax basis adjustment is an increase of \$13.06 per \$1,000 of principal amount of the 2043 Notes.

**Line 16 – Description of Calculation of the Change and Supporting Data**

The calculation of the adjusted conversion rate and the tax basis adjustment are set forth below. The “market value” under the indenture for the 2043 Notes is the average closing price for the five trading days preceding the day before the ex-date for the dividend (such date was March 29, 2017). This adjustment calculation includes, in addition to the April 2017 dividend, the \$0.24 per share dividend paid in January 2017 that did not trigger adjustment at that time because it did not surpass the *de minimis* threshold.

Adj. Conversion Rate =

$$\frac{\text{Prior Conversion Rate (26.9106)} \times \text{Market Value (\$41.94)}}{\text{Market Value (\$41.94)} - [\text{Dividends (\$.48)}]} = 27.2221$$

The basis adjustment =

Market Value (\$41.94) x (Adj. Rate (27.2221) – Prior Rate (26.9106)) = \$13.06 per \$1,000 of principal amount of the 2043 Notes.

**Line 17 - Applicable Internal Revenue Code Sections**

Sections 305(b)(2), 305(c), 301(c), 316, and 301(d)

**Line 18 - Associated Loss Recognition**

This is not a loss transaction.

**Line 19 – Other Information Applicable to Basis Adjustment**

The reportable tax year for this conversion rate adjustment is 2017 for the calendar year taxpayer.