HEALTHSOUTH CORP
Form 10-Q
October 26, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

ý	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012
OR

o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-10315

HealthSouth Corporation
(Exact name of Registrant as specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	63-0860407 (I.R.S. Employer Identification No.)
3660 Grandview Parkway, Suite 200 Birmingham, Alabama (Address of Principal Executive Offices)	35243 (Zip Code)

(205) 967-7116
(Registrant’s telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý Accelerated filer o Non-Accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).
Yes o No ý

The registrant had 95,661,996 shares of common stock outstanding, net of treasury shares, as of October 22, 2012.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains historical information, as well as forward-looking statements that involve known and unknown risks and relate to, among other things, future events, changes to Medicare reimbursement and other healthcare regulations from time to time, our business strategy, our financial plans, our future financial performance, our projected business results, or our projected capital expenditures. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” or “continue” or the negative of these terms or other comparable terminology. Such forward-looking statements are necessarily estimates based upon current information and involve a number of risks and uncertainties, many of which are beyond our control. Any forward-looking statement is based on information current as of the date of this report and speaks only as of the date on which such statement is made. Actual events or results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, factors that could cause actual results to differ materially from those estimated by us include, but are not limited to, the following:

- each of the factors discussed in Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2011 (the "2011 Form 10-K");
- uncertainties and factors discussed elsewhere in this Form 10-Q, in our other filings from time to time with the SEC, or in materials incorporated therein by reference;
- changes in the regulations of the healthcare industry at either or both of the federal and state levels, including those contemplated now and in the future as part of national healthcare reform and deficit reduction, and related increases in the costs of complying with such changes;
- reductions or delays in, or suspension of, reimbursement for our services by governmental or private payors, including our ability to obtain and retain favorable arrangements with third-party payors;
- increased costs of regulatory compliance and compliance monitoring in the healthcare industry, including the costs of investigating and defending asserted claims, whether meritorious or not;
- our ability to attract and retain nurses, therapists, and other healthcare professionals in a highly competitive environment with often severe staffing shortages and the impact on our labor expenses from potential union activity and staffing recruitment and retention;
- competitive pressures in the healthcare industry and our response to those pressures;
- our ability to successfully complete and integrate de novo developments, acquisitions, investments, and joint ventures consistent with our growth strategy, including realization of anticipated revenues, cost savings, and productivity improvements arising from the related operations;
- any adverse outcome of various lawsuits, claims, and legal or regulatory proceedings involving us;
- increased costs of defending and insuring against alleged professional liability and other claims and the ability to predict the costs related to such claims;
- potential disruptions or incidents affecting the proper operation, availability, or security of our information systems;
- the price of our common stock as it affects our willingness and ability to repurchase shares under the program discussed further in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Executive Overview," of this Form 10-Q;
- our ability to attract and retain key management personnel; and
- general conditions in the economy and capital markets.

The cautionary statements referred to in this section also should be considered in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf. We undertake no duty to update these forward-looking statements, even though our situation may change in the future. Furthermore, we cannot guarantee future results, events, levels of activity, performance, or achievements.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited)
HealthSouth Corporation and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In Millions, Except Per Share Data)			
Net operating revenues	$537.0	$497.7	$1,609.0	$1,508.8
Less: Provision for doubtful accounts	(7.0)	(5.1)	(19.8)	(14.9)
Net operating revenues less provision for doubtful accounts	530.0	492.6	1,589.2	1,493.9
Operating expenses:				
Salaries and benefits	262.3	245.0	780.7	730.6
Other operating expenses	75.4	70.3	222.8	216.6
General and administrative expenses	29.3	26.4	87.3	80.7
Supplies	23.8	24.7	76.2	76.7
Depreciation and amortization	21.3	19.5	60.8	58.6
Occupancy costs	11.8	12.5	36.6	36.2
Loss on disposal of assets	1.6	2.8	3.0	3.9
Government, class action, and related settlements	(3.5)	—	(3.5)	(10.6)
Professional fees—accounting, tax, and legal	4.1	4.0	13.2	16.2
Total operating expenses	426.1	405.2	1,277.1	1,208.9
Loss on early extinguishment of debt	1.3	12.7	1.3	38.8
Interest expense and amortization of debt discounts and fees	23.5	26.3	69.8	96.3
Other income	(6.1)	(0.2)	(7.4)	(1.5)
Equity in net income of nonconsolidated affiliates	(3.3)	(3.1)	(9.7)	(8.8)
Income from continuing operations before income tax expense	88.5	51.7	258.1	160.2
Provision for income tax expense	28.1	18.1	84.1	21.9
Income from continuing operations	60.4	33.6	174.0	138.3
(Loss) income from discontinued operations, net of tax	(0.5)	34.7	2.6	53.8
Net income	59.9	68.3	176.6	192.1
Less: Net income attributable to noncontrolling interests	(12.8)	(11.3)	(38.6)	(33.4)
Net income attributable to HealthSouth	47.1	57.0	138.0	158.7
Less: Convertible perpetual preferred stock dividends	(5.7)	(6.5)	(18.1)	(19.5)
Less: Repurchase of convertible perpetual preferred stock	—	—	(0.8)	—
Net income attributable to HealthSouth common shareholders	$41.4	$50.5	$119.1	$139.2
Weighted average common shares outstanding:				
Basic	94.7	93.3	94.6	93.2
Diluted	108.1	109.2	108.2	109.1
Basic and diluted earnings per common share:				
Income from continuing operations attributable to HealthSouth common shareholders	$0.44	$0.17	$1.23	$0.90

Income from discontinued operations, net of tax, attributable to HealthSouth common shareholders	—	0.37	0.03	0.59
Net income attributable to HealthSouth common shareholders	$0.44	$0.54	$1.26	$1.49
Amounts attributable to HealthSouth common shareholders:				
Income from continuing operations	$47.6	$22.2	$135.4	$103.8
(Loss) income from discontinued operations, net of tax	(0.5)	34.8	2.6	54.9
Net income attributable to HealthSouth	$47.1	$57.0	$138.0	$158.7

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed statements.
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HealthSouth Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In Millions)			
COMPREHENSIVE INCOME				
Net income	$59.9	$68.3	$176.6	$192.1
Other comprehensive income (loss), net of tax:				
Net change in unrealized gain on available-for-sale securities:				
Unrealized net holding gain (loss) arising during the period	1.1	(0.7)	2.1	0.2
Reclassifications to net income	—	—	—	(0.5)
Other comprehensive income (loss), net of tax	1.1	(0.7)	2.1	(0.3)
Comprehensive income	61.0	67.6	178.7	191.8
Less: Comprehensive income attributable to noncontrolling interests	(12.8)	(11.3)	(38.6)	(33.4)
Comprehensive income attributable to HealthSouth	$48.2	$56.3	$140.1	$158.4

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed statements.

HealthSouth Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

	September 30, 2012	December 31, 2011
	(In Millions)	
Assets		
Current assets:		
Cash and cash equivalents	$163.2	$30.1
Accounts receivable, net of allowance for doubtful accounts of $26.7 in 2012; $21.4 in 2011	247.5	222.8
Other current assets	138.1	138.1
Total current assets	548.8	391.0
Property and equipment, net	739.3	664.4
Goodwill	437.3	421.7
Intangible assets, net	73.6	57.7
Deferred income tax assets	526.5	608.1
Other long-term assets	130.7	128.3
Total assets	$2,456.2	$2,271.2
Liabilities and Shareholders’ Equity		
Current liabilities:		
Accounts payable	$51.9	$45.4
Accrued expenses and other current liabilities	325.9	267.8
Total current liabilities	377.8	313.2
Long-term debt, net of current portion	1,242.3	1,235.8
Other long-term liabilities	137.9	133.2
	1,758.0	1,682.2
Commitments and contingencies		
Convertible perpetual preferred stock	342.2	387.4
Shareholders’ equity:		
HealthSouth shareholders’ equity	244.7	117.0
Noncontrolling interests	111.3	84.6
Total shareholders’ equity	356.0	201.6
Total liabilities and shareholders’ equity	$2,456.2	$2,271.2

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed balance sheets.

HealthSouth Corporation and Subsidiaries
Condensed Consolidated Statements of Shareholders' Equity
(Unaudited)

Nine Months Ended September 30, 2012
(In Millions)

	HealthSouth Common Shareholders								
	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Noncontrolling Interests	Total	Comprehensive Income
Balance at beginning of period	95.2	$ 1.0	$ 2,874.7	$ (2,609.7)	$ (0.2)	$ (148.8)	$ 84.6	$ 201.6	
Comprehensive income:									
Net income	—	—	—	138.0	—	—	38.6	176.6	$ 176.6
Other comprehensive income, net of tax	—	—	—	—	2.1	—	—	2.1	2.1
Comprehensive income									$ 178.7
Receipt of treasury stock	(0.7)	—	—	—	—	(11.9)	—	(11.9)	
Dividends declared on convertible perpetual preferred stock	—	—	(18.1)	—	—	—	—	(18.1)	
Stock-based compensation	—	—	18.1	—	—	—	—	18.1	
Distributions declared	—	—	—	—	—	—	(34.2)	(34.2)	
Capital contributions from consolidated affiliates	—	—	—	—	—	—	11.4	11.4	
Consolidation of St. Vincent Rehabilitation Hospital	—	—	—	—	—	—	13.9	13.9	
Other	1.2	—	1.6	—	—	(2.1)	(3.0)	(3.5)	
Balance at end of period	95.7	$ 1.0	$ 2,876.3	$ (2,471.7)	$ 1.9	$ (162.8)	$ 111.3	$ 356.0	

Nine Months Ended September 30, 2011
(In Millions)
HealthSouth Common Shareholders

Total

	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Noncontrolling Interests		Comprehensive Income
Balance at beginning of period	93.4	$ 1.0	$ 2,873.5	$ (2,818.4)	$ 0.5	$ (141.8)	$ 83.0	$ (2.2)	
Comprehensive income:									
Net income	—	—	—	158.7	—	—	33.4	192.1	$ 192.1
Other comprehensive loss, net of tax	—	—	—	—	(0.3)	—	—	(0.3)	(0.3)
Comprehensive income									$ 191.8
Receipt of treasury stock	(0.2)	—	—	—	—	(4.3)	—	(4.3)	
Dividends declared on convertible perpetual preferred stock	—	—	(19.5)	—	—	—	—	(19.5)	
Stock-based compensation	—	—	14.4	—	—	—	—	14.4	
Stock options exercised	0.2	—	4.4	—	—	—	—	4.4	
Distributions declared	—	—	—	—	—	—	(29.5)	(29.5)	
Other	1.9	—	2.2	—	—	(2.5)	(3.0)	(3.3)	
Balance at end of period	95.3	$ 1.0	$ 2,875.0	$ (2,659.7)	$ 0.2	$ (148.6)	$ 83.9	$ 151.8	

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed statements.

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HealthSouth Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
	(In Millions)	
Cash flows from operating activities:		
Net income	$176.6	$192.1
Income from discontinued operations	(2.6)	(53.8)
Adjustments to reconcile net income to net cash provided by operating activities—		
Provision for doubtful accounts	19.8	14.9
Provision for government, class action, and related settlements	(3.5)	(10.6)
Depreciation and amortization	60.8	58.6
Loss on early extinguishment of debt	1.3	38.8
Amortization of debt discounts	2.7	3.3
Equity in net income of nonconsolidated affiliates	(9.7)	(8.8)
Distributions from nonconsolidated affiliates	7.9	9.7
Stock-based compensation	18.1	14.4
Deferred tax expense	80.4	23.4
Other	(2.3)	3.8
Increase in assets—		
Accounts receivable	(42.3)	(27.4)
Other assets	(8.0)	(13.1)
Increase (decrease) in liabilities—		
Accounts payable	1.4	0.8
Other liabilities	(5.8)	(10.2)
Premium on bond issuance	—	4.1
Premium paid on redemption of bonds	—	(26.9)
Refunds due patients and other third-party payors	3.3	(15.8)
Government, class action, and related settlements	2.6	6.5
Net cash provided by operating activities of discontinued operations	1.5	9.4
Total adjustments	128.2	74.9
Net cash provided by operating activities	302.2	213.2

(Continued)

HealthSouth Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Continued)
(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
	(In Millions)	
Cash flows from investing activities:		
Purchases of property and equipment	(112.5)	(55.9)
Capitalized software costs	(15.7)	(6.0)
Purchase of restricted investments	(8.6)	(8.0)
Net change in restricted cash	7.6	6.3
Net settlements on interest rate swaps	—	(10.9)
Other	(2.8)	—
Net cash provided by (used in) investing activities of discontinued operations		
Proceeds from sale of LTCHs	—	107.9
Other investing activities of discontinued operations	7.7	(0.7)
Net cash (used in) provided by investing activities	(124.3)	32.7
Cash flows from financing activities:		
Principal borrowings on term loan	—	100.0
Proceeds from bond issuance	275.0	120.0
Principal payments on debt, including pre-payments	(101.3)	(503.0)
Borrowings on revolving credit facility	135.0	338.0
Payments on revolving credit facility	(245.0)	(238.0)
Principal payments under capital lease obligations	(8.9)	(10.1)
Repurchase of convertible perpetual preferred stock	(46.0)	—
Debt issue costs	(7.0)	(4.3)
Dividends paid on convertible perpetual preferred stock	(18.9)	(19.5)
Distributions paid to noncontrolling interests of consolidated affiliates	(37.6)	(34.0)
Contributions from consolidated affiliates	9.5	—
Other	0.4	4.3
Net cash used in financing activities	(44.8)	(246.6)
Increase (decrease) in cash and cash equivalents	133.1	(0.7)
Cash and cash equivalents at beginning of period	30.1	48.3
Cash and cash equivalents of facilities in discontinued operations at beginning of period	—	0.1
Less: Cash and cash equivalents of facilities in discontinued operations at end of period	—	—
Cash and cash equivalents at end of period	$163.2	$47.7

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed statements.

HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

HealthSouth Corporation, incorporated in Delaware in 1984, including its subsidiaries, is the largest owner and operator of inpatient rehabilitation hospitals in the United States. We operate inpatient rehabilitation hospitals and provide specialized rehabilitative treatment on both an inpatient and outpatient basis. References herein to “HealthSouth,” the “Company,” “we,” “our,” or “us” refer to HealthSouth Corporation and its subsidiaries unless otherwise stated or indicated by context.

The accompanying unaudited condensed consolidated financial statements of HealthSouth Corporation and Subsidiaries should be read in conjunction with the consolidated financial statements and accompanying notes filed with the United States Securities and Exchange Commission in HealthSouth’s Annual Report on Form 10-K filed on February 23, 2012 (the “2011 Form 10-K”). The unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the SEC applicable to interim financial information. Certain information and note disclosures included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been omitted in these interim statements, as allowed by such SEC rules and regulations. The condensed consolidated balance sheet as of December 31, 2011 has been derived from audited financial statements, but it does not include all disclosures required by GAAP. However, we believe the disclosures are adequate to make the information presented not misleading.

The unaudited results of operations for the interim periods shown in these financial statements are not necessarily indicative of operating results for the entire year. In our opinion, the accompanying condensed consolidated financial statements recognize all adjustments of a normal recurring nature considered necessary to fairly state the financial position, results of operations, and cash flows for each interim period presented.

Reclassifications—

Effective January 1, 2012, we adopted Accounting Standards Update 2011-07, Healthcare Entities (Topic 954), "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Healthcare Entities," which requires certain healthcare entities to present the provision for doubtful accounts relating to patient service revenue as a deduction from patient service revenue in the statement of operations rather than as an operating expense. All periods presented have been reclassified to conform to this presentation. Our adoption of this standard had no net impact on our financial position, results of operations, or cash flows.

This standard also requires healthcare entities to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. See the "Net Operating Revenues" and "Allowance for Doubtful Accounts" sections of this note.

During the third quarter of 2012, we negotiated with our partner to amend the joint venture agreement related to St. Vincent Rehabilitation Hospital which resulted in a change in accounting for this hospital from the equity method of accounting to a consolidated entity. The amendment revised certain participatory rights held by our joint venture partner resulting in HealthSouth gaining control of this entity from an accounting perspective. See Note 2, Investments in and Advances to Nonconsolidated Affiliates.

HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements

Net Operating Revenues—
During the three and nine months ended September 30, 2012 and 2011, we derived consolidated Net operating revenues from the following payor sources:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012		2011		2012		2011	
Medicare	73.1	%	72.0	%	73.1	%	71.8	%
Medicaid	1.4	%	1.6	%	1.3	%	1.7	%
Workers' compensation	1.5	%	1.6	%	1.5	%	1.7	%
Managed care and other discount plans	19.1	%	20.0	%	19.4	%	19.8	%
Other third-party payors	2.0	%	1.9	%	1.8	%	2.0	%
Patients	1.4	%	1.3	%	1.4	%	1.2	%
Other income	1.5	%	1.6	%	1.5	%	1.8	%
Total	100.0	%	100.0	%	100.0	%	100.0	%

We recognize net patient service revenues in the reporting period in which we perform the service based on our current billing rates (i.e., gross charges), less actual adjustments and estimated discounts for contractual allowances (principally for patients covered by Medicare, Medicaid, and managed care and other health plans). We record gross service charges in our accounting records on an accrual basis using our established rates for the type of service provided to the patient. We recognize an estimated contractual allowance to reduce gross patient charges to the amount we estimate we will actually realize for the service rendered based upon previously agreed to rates with a payor. Our patient accounting system calculates contractual allowances on a patient-by-patient basis based on the rates in effect for each primary third-party payor. Other factors that are considered and could further influence the level of our reserves include the patient's total length of stay for in-house patients, each patient's discharge destination, the proportion of patients with secondary insurance coverage and the level of reimbursement under that secondary coverage, and the amount of charges that will be disallowed by payors. Such additional factors are assumed to remain consistent with the experience for patients discharged in similar time periods for the same payor classes, and additional reserves are provided to account for these factors. Payors include federal and state agencies, including Medicare and Medicaid, managed care health plans, commercial insurance companies, employers, and patients. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms that result from contract renegotiations and renewals. Due to complexities involved in determining amounts ultimately due under reimbursement arrangements with third-party payors, which are often subject to interpretation, we may receive reimbursement for healthcare services authorized and provided that is different from our estimates, and such differences could be material. In addition, laws and regulations governing the Medicare and Medicaid programs are complex, subject to interpretation, and are routinely modified for provider reimbursement. All healthcare providers participating in the Medicare and Medicaid programs are required to meet certain financial reporting requirements. Federal regulations require submission of annual cost reports covering medical costs and expenses associated with the services provided by each hospital to program beneficiaries. Annual cost reports required under the Medicare and Medicaid programs are subject to routine audits, which may result in adjustments to the amounts ultimately determined to be due to HealthSouth under these reimbursement programs. These audits often require several years to reach the final determination of amounts earned under the programs. If actual results are not consistent with our assumptions and judgments, we may be exposed to gains or losses that could be material.

The Centers for Medicare and Medicaid Services ("CMS") has been granted authority to suspend payments, in whole or in part, to Medicare providers if CMS possesses reliable information an overpayment, fraud, or willful misrepresentation exists. If CMS suspects payments are being made as the result of fraud or misrepresentation, CMS may suspend payment at any time without providing prior notice to us. The initial suspension period is limited to 180 days. However, the payment suspension period can be extended almost indefinitely if the matter is under investigation by the United States Department of Health and Human Services Office of Inspector General (the "HHS-OIG") or the

United States Department of Justice. Therefore, we are unable to predict if or when we may be subject to a suspension of payments by the Medicare and/or Medicaid programs, the possible length of the suspension period, or the potential cash flow impact of a payment suspension. Any such suspension would adversely impact our financial position, results of operations, and cash flows.

Allowance for Doubtful Accounts—

We provide for accounts receivable that could become uncollectible by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. Additions to the allowance for doubtful accounts are made by means of the Provision for doubtful accounts. We write off uncollectible accounts (after exhausting collection efforts) against the allowance for doubtful accounts. Subsequent recoveries are recorded via the Provision for doubtful accounts.

The collection of outstanding receivables from Medicare, managed care payors, other third-party payors, and patients is our primary source of cash and is critical to our operating performance. While it is our policy to verify insurance prior to a patient being admitted, there are various exceptions that can occur. Such exceptions include instances where we are (1) unable to obtain verification because the patient's insurance company was unable to be reached or contacted, (2) a determination is made that a patient may be eligible for benefits under various government programs, such as Medicaid, and it takes several days, weeks, or months before qualification for such benefits is confirmed or denied, and (3) the patient is transferred to our hospital from an acute care hospital without having access to a credit card, cash, or check to pay the applicable patient responsibility amounts (i.e., deductibles and co-payments). Based on our historical collection trends, our primary collection risks relate to patient accounts for which the patient was the primary payor or the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts remain outstanding. Changes in the economy, such as increased unemployment rates or periods of recession, can further exacerbate our ability to collect patient responsibility amounts.

We estimate our allowance for doubtful accounts based on the aging of our accounts receivable, our historical collection experience for each type of payor, and other relevant factors so that the remaining receivables, net of allowances, are reflected at their estimated net realizable values. Accounts requiring collection efforts are reviewed via system-generated work queues that automatically stage (based on age and size of outstanding balance) accounts requiring collection efforts for patient account representatives. Collection efforts include contacting the applicable party (both in writing and by telephone), providing information (both financial and clinical) to allow for payment or to overturn payor decisions to deny payment, and arranging payment plans with self-pay patients, among other techniques. When we determine all in-house efforts have been exhausted or it is a more prudent use of resources, accounts may be turned over to a collection agency. Accounts are written off after all collection efforts (internal and external) have been exhausted.

We have experienced denials of certain diagnosis codes by Medicare contractors based on medical necessity. We dispute, or "appeal," most of these denials, and we have historically collected approximately 58% of all amounts denied. The resolution of these disputes can take in excess of one year, and we cannot provide assurance as to our ongoing and future success of these disputes. As such, we make provisions against these receivables in accordance with our accounting policy that necessarily considers the age and historical collection trends of the receivables in this review process as part of our Provision for doubtful accounts. Because we do not write-off receivables until all collection efforts have been exhausted, we do not write-off receivables related to denied claims while they are in this review process. When the amount collected related to denied claims differs from the net amount previously recorded, these collection differences are recorded in the Provision for doubtful accounts. As a result, the timing of these denials by Medicare contractors and their subsequent collection can create volatility in our Provision for doubtful accounts.

If actual results are not consistent with our assumptions and judgments, we may be exposed to gains or losses that could be material. Changes in general economic conditions, business office operations, payor mix, or trends in federal or state governmental and private employer healthcare coverage could affect our collection of accounts receivable, financial position, results of operations, and cash flows.

Share-Based Payments—

In February and May 2012, we issued 0.9 million and 0.2 million, respectively, of restricted stock awards to members of our management team and our board of directors. Approximately 0.6 million of these awards contain only a service condition, while the remainder contain both a service and a performance condition. For the awards that include a performance condition, the number of shares that will ultimately be granted to employees may vary based on the Company’s performance

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during the applicable two-year performance measurement period. Additionally, in February 2012, we granted 0.2 million stock options to members of our management team. The fair value of these awards and options was determined using the policies described in Note 1, Summary of Significant Accounting Policies, and Note 16, Share-Based Payments, to the consolidated financial statements accompanying the 2011 Form 10-K.

We use the with-and-without method to determine when we will recognize excess tax benefits from stock-based compensation. Under this method, we recognize these excess tax benefits only after we fully realize the tax benefits of net operating losses. See Note 7, Income Taxes.

Recent Accounting Pronouncements—

In May 2011, the Financial Accounting Standards Board amended its guidance to clarify its intent about the application of existing fair value measurement and disclosure requirements. The primary impact to us resulted from additional disclosure requirements included in the amended guidance, including the requirements to categorize by level of the fair value hierarchy items not measured at fair value in our balance sheet but for which fair value is required to be disclosed. We adopted this guidance as of January 1, 2012. Our adoption of this standard primarily impacted our fair value disclosures related to our long-term debt and had no impact on our financial position, results of operations, or cash flows. See Note 6, Fair Value Measurements.

See also the "Reclassifications" section of this note.

Since the filing of the 2011 Form 10-K, we do not believe any other recently issued, but not yet effective, accounting standards will have a material effect on our consolidated financial position, results of operations, or cash flows.

2. Investments in and Advances to Nonconsolidated Affiliates

As of September 30, 2012 and December 31, 2011, we had $20.9 million and $29.0 million, respectively, of investments in and advances to nonconsolidated affiliates included in Other long-term assets in our condensed consolidated balance sheets. Investments in and advances to nonconsolidated affiliates represent our investments in 13 partially owned subsidiaries, of which 9 are general or limited partnerships, limited liability companies, or joint ventures in which HealthSouth or one of its subsidiaries is a general or limited partner, managing member, member, or venturer, as applicable. We do not control these affiliates but have the ability to exercise significant influence over the operating and financial policies of certain of these affiliates. Our ownership percentages in these affiliates range from approximately 1% to 51%. We account for these investments using the cost and equity methods of accounting.

The following summarizes the combined results of operations of our equity method affiliates (on a 100% basis, in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net operating revenues	$18.6	$22.4	$64.2	$64.0
Operating expenses	(9.6)	(13.3)	(37.5)	(39.1)
Income from continuing operations, net of tax	7.1	7.0	21.5	19.6
Net income	7.1	7.0	21.5	19.6

During the third quarter of 2012, we negotiated with our partner to amend the joint venture agreement related to St. Vincent Rehabilitation Hospital which resulted in a change in accounting for this hospital from the equity method of accounting to a consolidated entity. The amendment revised certain participatory rights held by our joint venture partner resulting in HealthSouth gaining control of this entity from an accounting perspective. In accordance with the applicable guidance, we accounted for this change in control as a business combination and consolidated this entity using the acquisition method. The consolidation of St. Vincent Rehabilitation Hospital did not have a material impact on our financial position, results of operations, or cash flows. As a result of our consolidation of this hospital and the remeasurement of our previously held equity interest at fair value, goodwill increased by $15.6 million and we recorded a $4.9 million gain as part of Other income during the three and nine months ended September 30, 2012.

3. Long-term Debt

Our long-term debt outstanding consists of the following (in millions):

	September 30, 2012	December 31, 2011
Credit Agreement-		
Advances under revolving credit facility	$—	$110.0
Term loan facility	—	97.5
Bonds payable-		
7.25% Senior Notes due 2018	336.6	336.7
8.125% Senior Notes due 2020	286.1	285.8
7.75% Senior Notes due 2022	311.9	312.0
5.75% Senior Notes due 2024	275.0	—
Other bonds payable	—	1.5
Other notes payable	37.3	35.3
Capital lease obligations	75.0	75.9
	1,321.9	1,254.7
Less: Current portion	(79.6)	(18.9)
Long-term debt, net of current portion	$1,242.3	$1,235.8

The following chart shows scheduled principal payments due on long-term debt for the next five years and thereafter (in millions):

	Face Amount	Net Amount
October 1 through December 31, 2012	$67.5	$67.8
2013	14.2	14.2
2014	10.5	10.5
2015	8.0	8.0
2016	8.0	8.0
2017	7.1	7.1
Thereafter	1,207.1	1,206.3
Total	$1,322.4	$1,321.9

On August 10, 2012, we amended and restated our existing credit agreement (the "2012 Credit Agreement"). The following is a summary of the material provisions that changed as a result of this amendment and restatement:

- It increased the maximum capacity under the senior secured revolving credit facility from $500 million to $600 million;
- It reduced by 50 basis points each of the various applicable interest rates for any outstanding balance on the revolving credit facility, depending on the leverage ratio (as defined in the 2012 Credit Agreement), during a given interest rate period;
- It repaid and eliminated the existing $95 million term loan by drawing under the revolving credit facility;

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- It amended the existing $200 million accordion feature to permit future increases in revolving borrowing capacity or new term loans, or both, in an aggregate amount not to exceed $300 million;
- It permitted secured borrowings by nonguarantor subsidiaries outside the 2012 Credit Agreement in an aggregate amount not to exceed $100 million;
- It permitted, in addition to the existing specified types of permitted restricted payments, restricted payments for the repurchase of the Company's 6.50% series A convertible perpetual preferred stock so long as there is no default or event of default and the leverage ratio is no greater than 3:1 after giving pro forma effect to each repurchase;
- It permitted capital expenditures of $300 million in each of fiscal years 2012 and 2013 and $250 million in each fiscal year thereafter, which amounts are subject to increase based on any unused amount from the prior fiscal year, plus (a) an aggregate cumulative amount equal to 50% of the Excess Cash Flow (as defined in the 2012 Credit Agreement), and (b) certain other amounts including net cash proceeds from certain equity issuances; and
- It extended the maturity date for the revolving credit facility from May 2016 to August 2017.

All other material terms of the existing credit agreement remained the same and are described in more detail in Note 8, Long-term Debt, to the consolidated financial statements accompanying the 2011 Form 10-K. After closing on August 10, 2012, $195 million were drawn on the revolving credit facility, and $41.4 million were drawn on the $260 million letter of credit subfacility. As a result of this amendment, we recorded a $1.3 million Loss on early extinguishment of debt during the three and nine months ended September 30, 2012.

On September 11, 2012, we completed a public offering of $275 million aggregate principal amount of 5.75% Senior Notes due 2024 at a public offering price of 100% of the principal amount. Net proceeds from this offering were approximately $270 million. We used $195 million of the net proceeds to repay the amounts outstanding under our revolving credit facility. Additionally, on October 9, 2012, $64.5 million of the net proceeds were used to redeem $33.5 million of the outstanding principal amount of our existing 7.25% Senior Notes due 2018 and $31.0 million of the outstanding principal amount of our existing 7.75% Senior Notes due 2022. The notes were redeemed at a price of 103%, which resulted in an additional cash outlay of $1.9 million from the net proceeds. As a result of this redemption, we expect to record an approximate $2.7 million Loss on early extinguishment of debt in the fourth quarter of 2012. The balance of the net proceeds of this offering were used for general corporate purposes.

For additional information regarding our indebtedness, see Note 8, Long-term Debt, to the consolidated financial statements accompanying the 2011 Form 10-K.

4. Convertible Perpetual Preferred Stock

The following is a summary of the activity related to our Convertible perpetual preferred stock from December 31, 2011 to September 30, 2012 (in millions, except share data):

	Number of Shares Outstanding	Amount
Balance as of December 31, 2011	400,000	$387.4
Repurchase of preferred stock	(46,645)	(45.2)
Balance as of September 30, 2012	353,355	$342.2

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During the nine months ended September 30, 2012, we repurchased 46,645 shares of our 6.50% Series A Convertible Perpetual Preferred Stock for total cash consideration of $46.5 million, including fees. No common stock was issued as part of these transactions. The allocation of the purchase price is as follows (in millions):

	Nine Months Ended September 30, 2012
Carrying value of shares repurchased	$45.2
Cumulative dividends paid as part of purchase price	0.5
Excess paid in transaction	0.8
	$46.5

The difference between the fair value of the consideration paid to the holders of the preferred stock, or $46.5 million, and the carrying value of the preferred stock in our balance sheet, or $45.2 million, resulted in a charge of $1.3 million to Capital in excess of par value that was treated like a dividend and subtracted from Net income to arrive at Net income attributable to HealthSouth common shareholders in our condensed consolidated statement of operations for the nine months ended September 30, 2012. Of this amount, $0.5 million represents cumulative dividends through the date of the repurchase transactions.

As of September 30, 2012 and December 31, 2011, accrued dividends of $5.7 million and $6.5 million, respectively, were included in Accrued expenses and other current liabilities in our condensed consolidated balance sheets. These accrued dividends were paid in October 2012 and January 2012, respectively.

See Note 11, Convertible Perpetual Preferred Stock, to the financial statements accompanying the 2011 Form 10-K.

5. Guarantees

Primarily in conjunction with the sale of certain facilities, including the sale of our surgery centers, outpatient, and diagnostic divisions during 2007, HealthSouth assigned, or remained as a guarantor on, the leases of certain properties to certain purchasers and, as a condition of the lease, agreed to act as a guarantor of the purchaser’s performance on the lease. Should the purchaser fail to pay the obligations due on these leases, the lessor would have contractual recourse against us.

As of September 30, 2012, we were secondarily liable for 11 such guarantees. The remaining terms of these guarantees ranged from one month to 54 months. If we were required to perform under all such guarantees, the maximum amount we would be required to pay approximated $11.1 million.

We have not recorded a liability for these guarantees, as we do not believe it is probable we will have to perform under these agreements. If we are required to perform under these guarantees, we could potentially have recourse against the purchaser for recovery of any amounts paid. In addition, the purchasers of our surgery centers, outpatient, and diagnostic divisions have agreed to seek releases from the lessors in favor of HealthSouth with respect to the guarantee obligations associated with these divestitures. To the extent the purchasers of these divisions are unable to obtain releases for HealthSouth, the purchasers remain obligated under the terms of the applicable purchase agreements to indemnify HealthSouth for damages incurred under the guarantee obligations, if any. These guarantees are not secured by any assets under the agreements.

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6. Fair Value Measurements

Our financial assets and liabilities that are measured at fair value on a recurring basis are as follows (in millions):

		Fair Value Measurements at Reporting Date Using			
As of September 30, 2012	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique [1]
Other current assets:					
Current portion of restricted marketable securities	$22.7	$—	$22.7	$—	M
Other long-term assets:					
Restricted marketable securities	33.0	—	33.0	—	M
As of December 31, 2011					
Other current assets:					
Current portion of restricted marketable securities	$15.0	$—	$15.0	$—	M
Other long-term assets:					
Restricted marketable securities	30.2	—	30.2	—	M

(1)The three valuation techniques are: market approach (M), cost approach (C), and income approach (I).

In addition to assets and liabilities recorded at fair value on a recurring basis, we are also required to record assets and liabilities at fair value on a nonrecurring basis. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges or similar adjustments made to the carrying value of the applicable assets.

As a result of our consolidation of St. Vincent Rehabilitation Hospital and the remeasurement of our previously held equity interest at fair value, we recorded a $4.9 million gain as part of Other income during the three and nine months ended September 30, 2012. We determined the fair value of our previously held equity interest using valuation techniques that included the income approach and a third-party appraisal. The income approach included the use of the hospital's projected operating results and cash flows discounted using a rate that reflects market participant assumptions for the hospital. The projected operating results use management's best estimates of economic and market conditions over the forecasted period including assumptions for pricing and volume, operating expenses, and capital expenditures. During the three and nine months ended September 30, 2011, we did not record a gain or loss related to our nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis as part of our continuing operations.

During the three and nine months ended September 30, 2011, we recorded impairment charges of $4.6 million and $5.9 million, respectively, as part of our results of discontinued operations. These charges related to a hospital that was closed in 2011 and one that was closed in 2008. We determined the fair value of the impaired long-lived assets at the hospitals based on the assets’ estimated fair value using valuation techniques that included third-party appraisals and offers from potential buyers.

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As discussed in Note 1, Summary of Significant Accounting Policies, to the consolidated financial statements accompanying the 2011 Form 10-K, the carrying value equals fair value for our financial instruments that are not included in the table below and are classified as current in our condensed consolidated balance sheets. The carrying amounts and estimated fair values for all of our other financial instruments are presented in the following table (in millions):

	As of September 30, 2012		As of December 31, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt:				
Advances under revolving credit facility	$—	$—	$110.0	$110.0
Term Loan Facility	—	—	97.5	97.5
7.25% Senior Notes due 2018	336.6	364.3	336.7	330.0
8.125% Senior Notes due 2020	286.1	324.5	285.8	290.0
7.75% Senior Notes due 2022	311.9	339.5	312.0	301.1
5.75% Senior Notes due 2024	275.0	280.5	—	—
Other bonds payable	—	—	1.5	1.5
Other notes payable	37.3	37.3	35.3	35.3
Financial commitments:				
Letters of credit	—	41.4	—	44.6

See also Note 3, Long-term Debt.
Fair values for our long-term debt and financial commitments are determined using inputs, including quoted prices in nonactive markets, that are observable either directly or indirectly, or Level 2 inputs within the fair value hierarchy. See Note 1, Summary of Significant Accounting Policies, "Fair Value Measurements," to the consolidated financial statements accompanying the 2011 Form 10-K.

7. Income Taxes

Our Provision for income tax expense of $28.1 million and $84.1 million for the three and nine months ended September 30, 2012 included the following: (1) estimated income tax expense of approximately $30 million and $86 million, respectively, based on the application of our estimated effective blended federal and state income tax rate of approximately 39% to our pre-tax income from continuing operations attributable to HealthSouth offset by (2) an approximate $1 million reduction in our valuation allowance associated with certain capital loss carryforwards, as discussed below, and (3) an approximate $1 million reduction in unrecognized tax benefits due to settlements with taxing authorities and the lapse of applicable statutes of limitation for certain state matters.
We have significant federal and state net operating loss carryforwards ("NOLs") that expire in various amounts at varying times through 2031. Our utilization of our federal NOL could be subject to limitations under Internal Revenue Code Section 382 (“Section 382”) and may be limited in the event of certain cumulative changes in ownership interests of significant stockholders over a three-year period in excess of 50%. Section 382 imposes an annual limitation on the use of these losses to an amount equal to the value of a company at the time of an ownership change multiplied by the long-term tax exempt rate. At this time, we do not believe these limitations will restrict our ability to use our federal NOL before it expires. However, no such assurances can be provided.
The $553.1 million of net deferred tax assets included in the accompanying condensed consolidated balance sheet as of September 30, 2012 ($26.6 million included in Other current assets) reflects management’s assessment it is more likely than not we will be able to generate sufficient future taxable income to utilize those deferred tax assets based on our current estimates and assumptions. As of September 30, 2012, we maintained a valuation allowance of $49.1 million due to uncertainties related to our ability to utilize a portion of our deferred tax assets, primarily related to state NOLs, before they expire. During the third quarter of 2012, we reduced our valuation allowance associated with certain capital loss carryforwards

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by $1 million primarily as a result of capital gains generated by legal entity restructuring activities at one of our subsidiaries. The amount of the valuation allowance has been determined for each tax jurisdiction based on the weight of all available evidence including management's estimates of taxable income for each jurisdiction in which we operate over the periods in which the related deferred tax assets will be recoverable. It is possible we may be required to increase or decrease our valuation allowance at some future time if our forecast of future earnings varies from actual results on a consolidated basis or in the applicable state tax jurisdictions, or if the timing of future tax deductions differs from our expectations.

Our NOLs exclude approximately $8.3 million related to operating loss carryforwards resulting from excess tax benefits related to share-based awards, the tax benefits of which, when recognized, will be accounted for as a credit to Capital in excess of par value in the period they reduce taxes payable.

Our Provision for income tax expense of $18.1 million for the three months ended September 30, 2011 included the following: (1) estimated income tax expense of approximately $16 million based on the application of our estimated effective blended federal and state income tax rate of approximately 40% to our pre-tax income from continuing operations attributable to HealthSouth and (2) approximately $4 million of estimated income tax expense primarily associated with federal income tax on state income tax refunds received offset by (3) approximately $2 million of income tax benefit associated with a reduction in unrecognized tax benefits due to settlements with state taxing authorities and the corresponding receipt of interest income on these refunds.

Our Provision for income tax expense of $21.9 million for the nine months ended September 30, 2011 included the following: (1) estimated income tax expense of approximately $50 million based on the application of our estimated effective blended federal and state income tax rate of approximately 40% to our pre-tax income from continuing operations attributable to HealthSouth and (2) approximately $4 million of estimated income tax expense primarily associated with federal income tax on state income tax refunds received offset by (3) the settlement of federal income tax claims with the Internal Revenue Service for tax years 2007 and 2008 which resulted in an income tax benefit of approximately $24 million and (4) other items, primarily related to a reduction in unrecognized tax benefits due to the lapse of the applicable statute of limitations for certain federal and state claims, which resulted in a tax benefit of approximately $8 million.

We recognize the financial statement effects of uncertain tax positions when it is more likely than not, based on the technical merits, a position will be sustained upon examination by and resolution with the taxing authorities. Total remaining gross unrecognized tax benefits were $79.0 million and $6.0 million as of September 30, 2012 and December 31, 2011, respectively, all of which would affect our effective tax rate if recognized. The amount of gross unrecognized tax benefits changed during the nine months ended September 30, 2012 primarily based on ongoing discussions with taxing authorities as part of our continued pursuit of the maximization of our tax benefits, primarily related to our federal NOL, as discussed below. In October 2012, we submitted additional net positive claims to the IRS. Because these claims were determined and submitted to the IRS after the balance sheet date, they are not included in the gross unrecognized income tax benefits reconciliation presented below.

A reconciliation of the beginning and ending liability for unrecognized tax benefits is as follows (in millions):

	Gross Unrecognized Income Tax Benefits	Accrued Interest and Penalties
Balance at December 31, 2011	$6.0	$0.1
Gross amount of increases in unrecognized tax benefits related to prior periods	74.1	—
Decreases in unrecognized tax benefits relating to settlements with taxing authorities	(0.7)	—
Reductions to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations	(0.4)	(0.1)
Balance at September 30, 2012	$79.0	$—

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Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. Net interest income recorded as part of our income tax provision during the three and nine months ended September 30, 2012 and 2011 was not material. Accrued interest income related to income taxes as of September 30, 2012 and December 31, 2011 was not material.

HealthSouth and its subsidiaries' federal and state income tax returns are periodically examined by various regulatory taxing authorities. In connection with such examinations, we have settled federal income tax examinations with the IRS for all tax years through 2008. We are currently under audit by the IRS for the 2009 and 2010 tax years and by one state for tax years 2007 and 2008.

For the tax years that remain open under the applicable statutes of limitations, amounts related to unrecognized tax benefits have been considered by management in its estimate of our potential net recovery of prior years' income taxes. However, at this time, we cannot estimate a range of the reasonably possible change that may occur.

In addition, we continue to actively pursue, through ongoing discussions with taxing authorities, the maximization of our income tax benefits, primarily related to our federal NOL. As part of our pursuit of these benefits, we requested a pre-filing agreement with the IRS, the primary purpose of which was to consider whether certain amounts related to the restatement of our financial statements for periods prior to 2003 result in net increases to our federal NOL and adjustments to other tax attributes. The pre-filing agreement program permits taxpayers to resolve certain tax issues in advance of filing their corporate income tax returns. Due to the unique nature of our claims and uncertainties around this process, we did not recognize any amounts associated with our request as of September 30, 2012. In July 2012, the IRS granted our request to utilize the pre-filing agreement process. Depending upon the process undertaken by the IRS to audit and settle these matters, the accounting recognition criteria for these positions could be met either in part or in total as the process continues or upon completion of the process. Therefore, as we continue this process with the IRS, it is reasonably possible that over the next twelve-month period we may experience an increase or decrease to our unrecognized tax benefits, our NOLs, other tax attributes, or any combination thereof that could have a material net favorable impact on income tax expense and our effective income tax rate. Due to the aforementioned uncertainties regarding the outcome of this process, it is not possible to determine the range of any impact at this time.

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8. Earnings per Common Share

The calculation of earnings per common share is based on the weighted-average number of our common shares outstanding during the applicable period. The calculation for diluted earnings per common share recognizes the effect of all dilutive potential common shares that were outstanding during the respective periods, unless their impact would be antidilutive. The following table sets forth the computation of basic and diluted earnings per common share (in millions, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Numerator:				
Income from continuing operations	$60.4	$33.6	$174.0	$138.3
Less: Net income attributable to noncontrolling interests included in continuing operations	(12.8)	(11.4)	(38.6)	(34.5)
Less: Convertible perpetual preferred stock dividends	(5.7)	(6.5)	(18.1)	(19.5)
Less: Repurchase of convertible perpetual preferred stock	—	—	(0.8)	—
Income from continuing operations attributable to HealthSouth common shareholders	41.9	15.7	116.5	84.3
(Loss) income from discontinued operations, net of tax, attributable to HealthSouth common shareholders	(0.5)	34.8	2.6	54.9
Net income attributable to HealthSouth common shareholders	$41.4	$50.5	$119.1	$139.2
Denominator:				
Basic weighted average common shares outstanding	94.7	93.3	94.6	93.2
Diluted weighted average common shares outstanding	108.1	109.2	108.2	109.1
Basic and diluted earnings per common share:				
Income from continuing operations attributable to HealthSouth common shareholders	$0.44	$0.17	$1.23	$0.90
Income from discontinued operations, net of tax, attributable to HealthSouth common shareholders	—	0.37	0.03	0.59
Net income attributable to HealthSouth common shareholders	$0.44			