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HealthSouth Corporation and Subsidiaries

Consolidated Statements of Operations

	For the Year Ended December 31,		
	2009	2008	2007
	(As Adjusted)		
	(In Millions, Except Per Share Data)		
	\$ 1,911.1	\$ 1,829.5	\$ 1,723.5
Net operating revenues	\$ 1,911.1	\$ 1,829.5	\$ 1,723.5
Operating expenses:			
Salaries and benefits	948.8	928.2	857.5
Other operating expenses	271.4	264.9	241.0
General and administrative expenses	104.5	105.5	127.9
Supplies	112.4	108.2	99.6
Depreciation and amortization	70.9	82.4	74.8
Impairment of long-lived assets	-	0.6	15.1
Gain on UBS Settlement	-	(121.3)	-
Occupancy costs	47.6	48.8	51.4
Provision for doubtful accounts	33.1	27.0	33.2
Loss on disposal of assets	3.5	2.0	5.9
Government, class action, and related settlements expense	36.7	(67.2)	(2.8)
Professional fees—accounting, tax, and legal	8.8	44.4	51.6
Total operating expenses	1,637.7	1,423.5	1,555.2
Loss on early extinguishment of debt	12.5	5.9	28.2
Interest expense and amortization of debt discounts and fees	125.8	159.5	229.4
Other income	(3.4)	-	(15.5)
Loss on interest rate swaps	19.6	55.7	30.4
Equity in net income of nonconsolidated affiliates	(4.6)	(10.6)	(10.3)
Income (loss) from continuing operations before income tax benefit	123.5	195.5	(93.9)
Provision for income tax benefit	(3.2)	(70.1)	(322.4)
Income from continuing operations	126.7	265.6	228.5
Income from discontinued operations, net of tax	2.1	16.2	490.2
Net income	128.8	281.8	718.7
Less: Net income attributable to noncontrolling interests	(34.0)	(29.4)	(65.3)
Net income attributable to HealthSouth	94.8	252.4	653.4
Less: Convertible perpetual preferred stock dividends	(26.0)	(26.0)	(26.0)
Net income attributable to HealthSouth common shareholders	\$ 68.8	\$ 226.4	\$ 627.4
Weighted average common shares outstanding:			
Basic	88.8	83.0	78.7
Diluted	103.3	96.4	92.0
Earnings per common share:			
<i>Basic:</i>			
Income from continuing operations attributable to HealthSouth common shareholders	\$ 0.76	\$ 2.53	\$ 2.17
Income from discontinued operations, net of tax, attributable to HealthSouth common shareholders	0.01	0.20	5.80
Net income per share attributable to HealthSouth common shareholders	\$ 0.77	\$ 2.73	\$ 7.97
<i>Diluted:</i>			

Income from continuing operations attributable to HealthSouth common shareholders	\$ 0.76	\$ 2.45	\$ 2.14
Income from discontinued operations, net of tax, attributable to HealthSouth common shareholders	<u>0.01</u>	<u>0.17</u>	<u>4.96</u>
Net income per share attributable to HealthSouth common shareholders	<u>\$ 0.77</u>	<u>\$ 2.62</u>	<u>\$ 7.10</u>
Amounts attributable to HealthSouth:			
Income from continuing operations	\$ 93.3	\$ 235.8	\$ 197.1
Income from discontinued operations, net of tax	<u>1.5</u>	<u>16.6</u>	<u>456.3</u>
Net income attributable to HealthSouth	<u>\$ 94.8</u>	<u>\$ 252.4</u>	<u>\$ 653.4</u>

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

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HealthSouth Corporation and Subsidiaries

Consolidated Balance Sheets

	As of December 31,	
	2009	2008 (As Adjusted)
	(In Millions, Except Share Data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 80.9	\$ 32.1
Restricted cash	67.8	154.0
Restricted marketable securities	2.7	20.3
Accounts receivable, net of allowance for doubtful accounts of \$ 33.1 in 2009; \$30.9 in 2008	219.7	234.9
Prepaid expenses and other current assets	54.9	58.6
Insurance recoveries receivable	-	182.8
Total current assets	426.0	682.7
Property and equipment, net	664.8	662.1
Goodwill	416.4	414.7
Intangible assets, net	37.4	42.4
Investments in and advances to nonconsolidated affiliates	29.3	36.7
Income tax refund receivable	10.0	55.9
Other long-term assets	97.6	103.7
Total assets	\$ 1,681.5	\$ 1,998.2
Liabilities and Shareholders' Deficit		
Current liabilities		
Current portion of long-term debt	\$ 21.5	\$ 23.6
Accounts payable	50.2	45.5
Accrued payroll	77.9	89.8
Refunds due patients and other third-party payors	53.0	48.8
Other current liabilities	182.0	270.0
Government, class action, and related settlements	6.6	268.5
Total current liabilities	391.2	746.2
Long-term debt, net of current portion	1,641.0	1,789.6
Self-insured risks	100.0	108.6
Other long-term liabilities	59.5	53.6
	2,191.7	2,698.0
Commitments and contingencies		
Convertible perpetual preferred stock, \$.10 par value; 1,500,000 shares authorized; 400,000 shares issued in 2009 and 2008; liquidation preference of \$1,000 per share	387.4	387.4
Shareholders' deficit:		
HealthSouth shareholders' deficit:		
Common stock, \$.01 par value; 200,000,000 shares authorized; issued: 97,238,725 in 2009; 96,890,924 in 2008	1.0	1.0
Capital in excess of par value	2,879.9	2,956.5
Accumulated deficit	(3,717.4)	(3,812.2)
Accumulated other comprehensive loss	-	(3.2)
Treasury stock, at cost (3,957,047 shares in 2009 and 8,872,121 shares in 2008)	(137.5)	(311.5)

Total HealthSouth shareholders' deficit	<u>(974.0)</u>	<u>(1,169.4)</u>
Noncontrolling interests	<u>76.4</u>	<u>82.2</u>
Total shareholders' deficit	<u>(897.6)</u>	<u>(1,087.2)</u>
Total liabilities and shareholders' deficit	<u>\$ 1,681.5</u>	<u>\$ 1,998.2</u>

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

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HealthSouth Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income

	For the Year Ended December 31,		
	2009	2008	2007
	(As Adjusted)		
	(In Millions)		
COMPREHENSIVE INCOME			
Net income	\$ 128.8	\$ 281.8	\$ 718.7
Other comprehensive income (loss), net of tax:			
Net change in foreign currency translation adjustment	-	0.7	0.1
Net change in unrealized gain (loss) on available-for-sale securities:			
Unrealized net holding gain (loss) arising during the period	1.3	(1.5)	1.3
Reclassifications to net income	1.6	(1.4)	(3.8)
Net change in unrealized gain (loss) on forward-starting interest rate swaps:			
Unrealized net holding gain (loss) arising during the period	0.1	(0.2)	-
Reclassifications to net income	0.2	-	-
Other comprehensive income (loss), net of tax	3.2	(2.4)	(2.4)
Comprehensive income	132.0	279.4	716.3
Comprehensive income attributable to noncontrolling interests	(34.0)	(29.4)	(65.3)
Comprehensive income attributable to HealthSouth	\$ 98.0	\$ 250.0	\$ 651.0

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

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HealthSouth Corporation and Subsidiaries
Consolidated Statements of Shareholders' Deficit

For the Year Ended December 31, 2009								
(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
Balance at beginning of period	88.0	\$	1.0 \$2,956.5	\$	(3,812.2)\$	(3.2)\$	(311.5)\$	82.2 \$(1,087.
Comprehensive income:								
Net income	-	-	-	94.8	-	-	34.0	128.
Other comprehensive income, net of tax	-	-	-	-	3.2	-	-	3.
Comprehensive income								
Common stock issued under Securities Litigation Settlement	5.0	-	(63.5)	-	-	175.3	-	111.
Dividends declared on convertible perpetual preferred stock	-	-	(26.0)	-	-	-	-	(26.
Stock-based compensation	-	-	13.4	-	-	-	-	13.
Distributions declared	-	-	-	-	-	-	(34.6)	(34.
Other	0.3	-	(0.5)	-	-	(1.3)	(5.2)	(7.
Balance at end of period	93.3	\$	1.0 \$2,879.9	\$	(3,717.4)\$	- \$	(137.5)\$	76.4 \$ (897.

For the Year Ended December 31, 2008

(As Adjusted)
(In Millions)

HealthSouth Common Shareholders

	Number of Common Shares	Capital in Excess of Par	Accumulated Other Comprehensive Treasury Noncontro
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	<u>Outstanding</u>	<u>Common Stock</u>	<u>Value</u>	<u>Accumulated Deficit</u>	<u>Loss</u>	<u>Stock</u>	<u>Interest</u>
Balance at beginning of period	78.7	\$	0.9 \$2,820.4	\$	(4,064.6)	\$(0.8)	\$(310.4)
Comprehensive income:							
Net income	-		-		252.4	-	-
Other comprehensive loss, net of tax	-		-		-	(2.4)	-
Comprehensive income							
Issuance of common stock	8.8		0.1	150.1	-	-	-
Dividends declared on convertible perpetual preferred stock	-		-	(26.0)	-	-	-
Stock-based compensation	-		-	11.7	-	-	-
Distribution declared	-		-	-	-	-	-
Settlements with partners	-		-	-	-	-	-
Government, class action, and related settlements	-		-	-	-	-	-
Transfer of surgery centers to ASC	-		-	-	-	-	-
Other	0.5		-	0.3	-	-	(1.1)
Balance at end of period	<u>88.0</u>	<u>\$</u>	<u>1.0</u>	<u>\$2,956.5</u>	<u>\$</u>	<u>(3,812.2)</u>	<u>\$(311.5)</u>

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HealthSouth Corporation and Subsidiaries

Consolidated Statements of Shareholders' Deficit (Continued)

	For the Year Ended December 31, 2007							
	(As Adjusted)							
	(In Millions)							
	HealthSouth Common Shareholders							
	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Notes Receivable from Shareholders, Officers, and Management Employees	Noncontr Intere
Balance at beginning of period	78.7	\$	0.9 \$2,849.5	\$	(4,713.8)	\$	1.6 \$ (322.7)	\$ (0.1)
Comprehensive income:								
Net income	-	-	-	653.4	-	-	-	-
Other comprehensive loss , net of tax	-	-	-	-	(2.4)	-	-	-
Comprehensive income								
Adoption of accounting guidance for unrecognized tax benefits	-	-	-	(4.2)	-	-	-	-
Dividends declared on convertible perpetual preferred stock	-	-	(26.0)	-	-	-	-	-
Stock-based compensation	-	-	8.9	-	-	-	-	-
Retirement of treasury stock	-	-	(14.8)	-	-	14.8	-	-
Distributions declared- continuing operations	-	-	-	-	-	-	-	-
Distributions declared- discontinued operations	-	-	-	-	-	-	-	-
Net investment in consolidated affiliates that became equity								

method affiliates	-	-	-	-	-	-	-	-				
Settlements with partners	-	-	-	-	-	-	-	-				
Government, class action, and related settlements-continuing operations	-	-	-	-	-	-	-	-				
Government, class action, and related settlements-discontinued operations	-	-	-	-	-	-	-	-				
Divestitures of surgery centers, outpatient, and diagnostic divisions	-	-	-	-	-	-	-	-				
Other	-	-	2.8	-	-	(2.5)	0.1	(
Balance at end of period	<u>78.7</u>	<u>\$ 0.9</u>	<u>\$2,820.4</u>	<u>\$</u>	<u>(4,064.6)</u>	<u>\$</u>	<u>(0.8)</u>	<u>\$</u>	<u>(310.4)</u>	<u>\$</u>	<u>-</u>	<u>\$</u>

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

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HealthSouth Corporation and Subsidiaries

Consolidated Statements of Cash Flows

	For the Year Ended December 31,		
	2009	2008	2007
	(As Adjusted)		
	(In Millions)		
Cash flows from operating activities:			
Net income	\$ 128.8	\$ 281.8	\$ 718.7
Income from discontinued operations	(2.1)	(16.2)	(490.2)
Adjustments to reconcile net income to net cash provided by operating activities—			
Provision for doubtful accounts	33.1	27.0	33.2
Provision for government, class action, and related settlements	36.7	(90.6)	(2.8)
UBS Settlement proceeds, gross	100.0	(97.9)	-
Depreciation and amortization	70.9	82.4	74.8
Amortization of debt issue costs, debt discounts, and fees	6.6	6.5	7.8
Impairment of long-lived assets	-	0.6	15.1
Realized (gain) loss on sale of investments	(0.8)	1.4	(12.3)
Loss on disposal of assets	3.5	2.0	5.9
Loss on early extinguishment of debt	12.5	5.9	28.2
Loss on interest rate swaps	19.6	55.7	30.4
Equity in net income of nonconsolidated affiliates	(4.6)	(10.6)	(10.3)
Distributions from nonconsolidated affiliates	8.6	10.9	5.3
Stock-based compensation	13.4	11.7	8.9
Deferred tax provision	4.1	3.7	8.0
Other	1.3	2.0	(0.2)
(Increase) decrease in assets—			
Accounts receivable	(17.8)	(45.0)	(38.8)
Prepaid expenses and other assets	3.7	7.5	39.5
Income tax refund receivable	45.9	(3.4)	162.1
Increase (decrease) in liabilities—			
Accounts payable	4.8	(4.2)	(18.0)
Accrued payroll	(12.4)	9.0	(5.8)
Accrued fees and expenses for derivative plaintiffs' attorneys in UBS Settlement	(26.2)	-	-
Other liabilities	(1.4)	2.9	(83.3)
Refunds due patients and other third-party payors	4.2	(2.5)	(41.0)
Self-insured risks	(1.6)	(17.4)	(22.7)
Government, class action, and related settlements	(11.2)	(7.4)	(171.4)
Net cash (used in) provided by operating activities of discontinued operations	(13.5)	11.4	(10.5)
Total adjustments	279.4	(38.4)	2.1
Net cash provided by operating activities	406.1	227.2	230.6

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

	For the Year Ended December 31,		
	2009	2008	2007
	(As Adjusted)		
	(In Millions)		
Cash flows from investing activities:			
Capital expenditures	(72.2)	(55.7)	(38.6)
Acquisition of business, net of assets acquired	-	(14.6)	-
Acquisition of intangible assets	(0.4)	(18.2)	(0.1)
Proceeds from disposal of assets	3.9	53.9	0.7
Proceeds from sale of restricted marketable securities	5.0	8.1	66.4
Proceeds from sale of investments	0.6	4.3	-
Purchase of restricted marketable securities	(3.8)	(4.8)	(23.0)
Net change in restricted cash	(11.7)	7.5	(3.3)
Net settlements on interest rate swaps	(42.2)	(20.7)	3.2
Net investment in interest rate swap	(6.4)	-	-
Other	(5.3)	0.6	0.1
Net cash (used in) provided by investing activities of discontinued operations—			
Proceeds from divestitures of divisions	-	-	1,169.8
Other investing activities of discontinued operations	(0.5)	(0.4)	9.3
Net cash (used in) provided by investing activities	(133.0)	(40.0)	1,184.5
Cash flows from financing activities:			
Checks in excess of bank balance	-	(11.4)	8.7
Principal borrowings on notes	15.5	-	12.5
Proceeds from bond issuance	290.0	-	-
Principal payments on debt, including pre-payments	(409.2)	(204.8)	(1,238.9)
Borrowings on revolving credit facility	10.0	128.0	397.0
Payments on revolving credit facility	(50.0)	(163.0)	(492.0)
Principal payments under capital lease obligations	(13.4)	(12.4)	(11.0)
Issuance of common stock	-	150.2	-
Dividends paid on convertible perpetual preferred stock	(26.0)	(26.0)	(26.0)
Debt amendment and issuance costs	(10.6)	-	(11.2)
Distributions paid to noncontrolling interests of consolidated affiliates	(32.7)	(33.4)	(23.4)
Other	0.8	0.6	0.6
Net cash provided by (used in) financing activities of discontinued operations	1.3	(3.8)	(52.9)
Net cash used in financing activities	(224.3)	(176.0)	(1,436.6)
Effect of exchange rate changes on cash and cash equivalents	-	0.8	0.1
Increase (decrease) in cash and cash equivalents	48.8	12.0	(21.4)
Cash and cash equivalents at beginning of year	32.1	19.8	27.2
Cash and cash equivalents of divisions and facilities held for sale at beginning of year	0.1	0.4	14.4
Less: Cash and cash equivalents of divisions and facilities held for sale at end of year	(0.1)	(0.1)	(0.4)
Cash and cash equivalents at end of year	\$ 80.9	\$ 32.1	\$ 19.8

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HealthSouth Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

	<u>For the Year Ended December 31.</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>(As Adjusted)</u>		
	(In Millions)		
Supplemental cash flow information:			
Cash (paid) received during the year for—			
Interest	\$ (121.3)	\$ (158.5)	\$ (306.1)
Income tax refunds	63.7	90.4	457.4
Income tax payments	(10.5)	(17.1)	(19.2)
Supplemental schedule of noncash investing and financing activities:			
Acquisition of business:			
Fair value of assets acquired	\$ -	\$ 18.1	\$ -
Goodwill	-	8.6	-
Fair value of capital lease obligation assumed	-	(11.0)	-
Fair value of other liabilities assumed	-	(1.3)	-
Noncompete agreement	-	0.2	-
Net cash paid for acquisition	<u>\$ -</u>	<u>\$ 14.6</u>	<u>\$ -</u>
Insurance recoveries receivable	\$ -	\$ 47.2	\$ -
Retirement of treasury stock	-	-	14.8
Property and equipment acquired through capital leases	-	11.2	-
Securities Litigation Settlement	294.6	-	-
Adoption of accounting guidance for unrecognized tax benefits	-	-	4.2
Other, net	0.3	1.3	5.8

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