

HEALTHSOUTH CORP
Form 10-Q
October 31, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017
OR
 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 63-0860407
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

3660 Grandview Parkway, Suite 200 35243
Birmingham, Alabama
(Address of Principal Executive Offices) (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 No

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 No

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," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Smaller reporting company
Non-Accelerated filer (Do not check if a smaller reporting company) Emerging growth company
If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The registrant had 98,310,804 shares of common stock outstanding, net of treasury shares, as of October 25, 2017.

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NOTE TO READERS

As used in this report, the terms “HealthSouth,” “we,” “us,” “our,” and the “Company” refer to HealthSouth Corporation and its consolidated subsidiaries, unless otherwise stated or indicated by context. This drafting style is suggested by the Securities and Exchange Commission and is not meant to imply that HealthSouth Corporation, the publicly traded parent company, owns or operates any specific asset, business, or property. The hospitals, operations, and businesses described in this filing are primarily owned and operated by subsidiaries of the parent company. In addition, we use the term “HealthSouth Corporation” to refer to HealthSouth Corporation alone wherever a distinction between HealthSouth Corporation and its subsidiaries is required or aids in the understanding of this filing.

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 laws and regulations from time to time, our business strategy, our dividend and stock repurchase strategies, our financial plans, our growth plans, our future financial performance, our projected business results, or our projected capital expenditures. In some cases, the reader can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “targets,” “potential,” or “contingent,” 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, such as decreases in revenues or increases in costs or charges, 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, 2016, as well as uncertainties and factors, if any, discussed elsewhere in this Form 10-Q, including in the “Executive Overview—Key Challenges” section of Part I, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations, in our other filings from time to time with the SEC, or in materials incorporated therein by reference;

changes in the rules and 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 (such as the reinstatement of the “75% Rule,” the introduction of site neutral payments with skilled nursing facilities for certain conditions, or the home health groupings model), payment system reforms, 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;

restrictive interpretations of the regulations governing the claims that are reimbursable by Medicare;

delays in the administrative appeals process associated with denied Medicare reimbursement claims, including from various Medicare audit programs, and our exposure to the related delay or reduction in the receipt of the reimbursement amounts for services previously provided;

the ongoing evolution of the healthcare delivery system, including alternative payment models and value-based purchasing initiatives, which may decrease our reimbursement rate or increase costs associated with our operations; our ability to comply with extensive and changing healthcare regulations as well as the 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, including from other providers that may be participating in integrated delivery payment arrangements in which we do not participate, and our response to those pressures;

changes in our payor mix or the acuity of our patients affecting reimbursement rates;

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, productivity improvements arising from the related operations and avoidance of unanticipated difficulties, costs or liabilities that could arise from acquisitions or integrations;

any adverse outcome of various lawsuits, claims, and legal or regulatory proceedings, including the ongoing investigations by the U.S. Departments of Justice and of Health and Human Services, Office of the Inspector General;

potential incidents affecting the proper operation, availability, or security of our information systems, including the patient information stored there;

- our ongoing rebranding and name change initiative and the impact on our existing operations, including our ability to attract patient referrals to our hospitals as well as the associated costs of rebranding;
- increased costs of defending and insuring against alleged professional liability and other claims and the ability to predict the costs related to claims;
- new or changing quality reporting requirements impacting operational costs or our Medicare reimbursement;
- the price of our common stock as it affects our willingness and ability to repurchase shares and the financial and accounting effects of any repurchases;
- our ability and willingness to continue to declare and pay dividends on our common stock;
- our ability to maintain proper local, state and federal licensing, including compliance with the Medicare conditions of participation, which is required to participate in the Medicare program;
- our ability to attract and retain key management personnel, including as a part of executive management succession planning; and
- general conditions in the economy and capital markets, including any instability or uncertainty related to governmental impasse over approval of the United States federal budget, an increase to the debt ceiling, or an international sovereign debt crisis.

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,	
	2017	2016	2017	2016
	(In Millions)			
Net operating revenues	\$995.6	\$926.8	\$2,951.7	\$2,757.3
Less: Provision for doubtful accounts	(12.6)	(14.8)	(42.7)	(46.7)
Net operating revenues less provision for doubtful accounts	983.0	912.0	2,909.0	2,710.6
Operating expenses:				
Salaries and benefits	542.1	497.4	1,600.0	1,469.6
Other operating expenses	137.6	126.3	397.2	367.0
Occupancy costs	18.6	17.6	54.8	53.5
Supplies	36.5	34.8	110.6	104.2
General and administrative expenses	39.7	30.3	128.6	96.6
Depreciation and amortization	46.2	43.5	137.2	128.8
Professional fees—accounting, tax, and legal	—	—	—	1.9
Total operating expenses	820.7	749.9	2,428.4	2,221.6
Loss on early extinguishment of debt	0.3	2.6	10.7	7.4
Interest expense and amortization of debt discounts and fees	36.8	42.5	118.5	130.5
Other income	(1.0)	(0.8)	(2.9)	(2.1)
Equity in net income of nonconsolidated affiliates	(2.1)	(2.5)	(6.2)	(7.3)
Income from continuing operations before income tax expense	128.3	120.3	360.5	360.5
Provision for income tax expense	43.1	42.1	111.4	124.2
Income from continuing operations	85.2	78.2	249.1	236.3
Loss from discontinued operations, net of tax	(0.1)	(0.1)	(0.2)	(0.3)
Net income	85.1	78.1	248.9	236.0
Less: Net income attributable to noncontrolling interests	(19.2)	(16.4)	(53.2)	(53.7)
Net income attributable to HealthSouth	\$65.9	\$61.7	\$195.7	\$182.3

(Continued)

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	2016	2017	2016	2017
	(In Millions, Except Per Share Data)			
Weighted average common shares outstanding:				
Basic	97.8	89.1	92.3	89.3
Diluted	99.0	99.4	99.1	99.5
Earnings per common share:				
Basic earnings per share attributable to HealthSouth common shareholders:				
Continuing operations	\$0.67	\$0.69	\$2.11	\$2.03
Discontinued operations	—	—	—	—
Net income	\$0.67	\$0.69	\$2.11	\$2.03
Diluted earnings per share attributable to HealthSouth common shareholders:				
Continuing operations	\$0.67	\$0.64	\$2.08	\$1.90
Discontinued operations	—	—	—	—
Net income	\$0.67	\$0.64	\$2.08	\$1.90
Cash dividends per common share	\$0.25	\$0.24	\$0.73	\$0.70
Amounts attributable to HealthSouth common shareholders:				
Income from continuing operations	\$66.0	\$61.8	\$195.9	\$182.6
Loss from discontinued operations, net of tax	(0.1)	(0.1)	(0.2)	(0.3)
Net income attributable to HealthSouth	\$65.9	\$61.7	\$195.7	\$182.3

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

HealthSouth Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(In Millions)			
COMPREHENSIVE INCOME				
Net income	\$85.1	\$78.1	\$248.9	\$236.0
Other comprehensive (loss) income, net of tax:				
Net change in unrealized gain (loss) on available-for-sale securities:				
Unrealized net holding gain (loss) arising during the period	0.1	(0.2)	0.5	0.4
Other comprehensive income (loss) before income taxes	0.1	(0.2)	0.5	0.4
Provision for income tax (expense) benefit related to other comprehensive income items	(0.1)	0.1	(0.2)	(0.2)
Other comprehensive (loss) income, net of tax	—	(0.1)	0.3	0.2
Comprehensive income	85.1	78.0	249.2	236.2
Comprehensive income attributable to noncontrolling interests	(19.2)	(16.4)	(53.2)	(53.7)
Comprehensive income attributable to HealthSouth	\$65.9	\$61.6	\$196.0	\$182.5

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, 2017	December 31, 2016
	(In Millions)	
Assets		
Current assets:		
Cash and cash equivalents	\$67.6	\$ 40.5
Accounts receivable, net of allowance for doubtful accounts of \$58.5 in 2017; \$53.9 in 2016	441.6	443.8
Other current assets	178.2	170.2
Total current assets	687.4	654.5
Property and equipment, net	1,482.3	1,391.8
Goodwill	1,971.7	1,927.2
Intangible assets, net	405.1	411.3
Deferred income tax assets	91.6	75.8
Other long-term assets	245.3	221.3
Total assets ⁽¹⁾	\$4,883.4	\$ 4,681.9
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$31.1	\$ 37.1
Accounts payable	81.8	68.3
Accrued expenses and other current liabilities	398.3	370.2
Total current liabilities	511.2	475.6
Long-term debt, net of current portion	2,591.3	2,979.3
Other long-term liabilities	186.4	160.0
	3,288.9	3,614.9
Commitments and contingencies		
Redeemable noncontrolling interests	221.3	138.3
Shareholders' equity:		
HealthSouth shareholders' equity	1,136.4	735.9
Noncontrolling interests	236.8	192.8
Total shareholders' equity	1,373.2	928.7
Total liabilities ⁽¹⁾ and shareholders' equity	\$4,883.4	\$ 4,681.9

Our consolidated assets as of September 30, 2017 and December 31, 2016 include total assets of variable interest entities of \$262.7 million and \$262.3 million, respectively, which cannot be used by us to settle the obligations of ⁽¹⁾ other entities. Our consolidated liabilities as of September 30, 2017 and December 31, 2016 include total liabilities of the variable interest entities of \$53.9 million and \$50.3 million, respectively. See Note 3, Variable Interest Entities.

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

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

Nine Months Ended September 30, 2017								
(In Millions)								
HealthSouth Common Shareholders								
	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interests	Total
Balance at beginning of period	88.9	\$ 1.1	\$2,799.1	\$(1,448.4)	\$ (1.2)	\$(614.7)	\$ 192.8	\$928.7
Net income	—	—	—	195.7	—	—	43.3	239.0
Receipt of treasury stock	(0.9)	—	—	—	—	(19.8)	—	(19.8)
Dividends declared on common stock	—	—	(70.3)	—	—	—	—	(70.3)
Stock-based compensation	—	—	15.2	—	—	—	—	15.2
Stock options exercised	1.1	—	20.4	—	—	(19.3)	—	1.1
Stock warrants exercised	0.7	—	26.6	—	—	—	—	26.6
Distributions declared	—	—	—	—	—	—	(37.1)	(37.1)
Capital contributions from consolidated affiliates	—	—	—	—	—	—	37.8	37.8
Fair value adjustments to redeemable noncontrolling interests, net of tax	—	—	(44.4)	—	—	—	—	(44.4)
Repurchases of common stock in open market	(0.9)	—	—	—	—	(38.1)	—	(38.1)
Conversion of convertible debt, net of tax	8.9	—	53.7	—	—	274.5	—	328.2
Other	0.5	—	5.7	1.1	0.3	(0.8)	—	6.3
Balance at end of period	98.3	\$ 1.1	\$2,806.0	\$(1,251.6)	\$ (0.9)	\$(418.2)	\$ 236.8	\$1,373.2

Nine Months Ended September 30, 2016								
(In Millions)								
HealthSouth Common Shareholders								
	Number of Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interests	Total
Balance at beginning of period	90.1	\$ 1.1	\$2,834.9	\$(1,696.0)	\$ (1.2)	\$(527.4)	\$ 167.9	\$779.3
Net income	—	—	—	182.3	—	—	42.5	224.8
Receipt of treasury stock	(0.4)	—	—	—	—	(9.9)	—	(9.9)
Dividends declared on common stock	—	—	(63.4)	—	—	—	—	(63.4)
Stock-based compensation	—	—	16.1	—	—	—	—	16.1
Stock options exercised	0.3	—	6.6	—	—	(4.8)	—	1.8
Distributions declared	—	—	—	—	—	—	(43.1)	(43.1)

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Capital contributions from consolidated affiliates	—	—	—	—	—	—	17.0	17.0
Fair value adjustments to redeemable noncontrolling interests, net of tax	—	—	10.2	—	—	—	—	10.2
Repurchases of common stock in open market	(0.7)	—	—	—	—	(24.1)	—	(24.1)
Other	0.5	—	2.4	—	0.2	(0.7)	3.2	5.1
Balance at end of period	89.8	\$ 1.1	\$2,806.8	\$(1,513.7)	\$ (1.0)	\$(566.9)	\$ 187.5	\$913.8

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, 2017 2016 (In Millions)	
Cash flows from operating activities:		
Net income	\$248.9	\$236.0
Loss from discontinued operations, net of tax	0.2	0.3
Adjustments to reconcile net income to net cash provided by operating activities—		
Provision for doubtful accounts	42.7	46.7
Depreciation and amortization	137.2	128.8
Loss on early extinguishment of debt	10.7	7.4
Equity in net income of nonconsolidated affiliates	(6.2)	(7.3)
Distributions from nonconsolidated affiliates	6.6	5.9
Stock-based compensation	37.9	17.4
Deferred tax expense	51.3	110.6
Other, net	9.8	11.7
Change in assets and liabilities, net of acquisitions—		
Accounts receivable	(54.2)	(75.7)
Other assets	(7.4)	(4.4)
Accounts payable	6.1	1.9
Accrued payroll	3.1	8.7
Accrued interest payable	7.3	6.0
Other liabilities	12.5	11.8
Premium paid on redemption of bonds	—	(5.8)
Net cash used in operating activities of discontinued operations	(0.7)	(0.6)
Total adjustments	256.7	263.1
Net cash provided by operating activities	505.8	499.4

(Continued)

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

	Nine Months Ended September 30, 2017 2016 (In Millions)	
Cash flows from investing activities:		
Purchases of property and equipment	(155.7)	(113.9)
Additions to capitalized software costs	(14.6)	(17.5)
Acquisitions of businesses, net of cash acquired	(36.6)	(19.6)
Net change in restricted cash	(9.9)	(7.1)
Other, net	7.6	1.8
Net cash used in investing activities	(209.2)	(156.3)
Cash flows from financing activities:		
Principal payments on debt, including pre-payments	(125.4)	(195.2)
Borrowings on revolving credit facility	241.3	260.0
Payments on revolving credit facility	(255.3)	(240.0)
Repurchases of common stock, including fees and expenses	(38.1)	(24.1)
Dividends paid on common stock	(67.0)	(62.4)
Proceeds from exercising stock warrants	26.6	—
Distributions paid to noncontrolling interests of consolidated affiliates	(38.3)	(49.5)
Taxes paid on behalf of employees for shares withheld	(19.8)	(9.9)
Other, net	6.5	(7.2)
Net cash used in financing activities	(269.5)	(328.3)
Increase in cash and cash equivalents	27.1	14.8
Cash and cash equivalents at beginning of period	40.5	61.6
Cash and cash equivalents at end of period	\$67.6	\$76.4
Supplemental schedule of noncash financing activity:		
Conversion of convertible debt	\$319.4	\$—

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 one of the nation's largest providers of post-acute healthcare services, offering both facility-based and home-based patient services in 36 states and Puerto Rico through its network of inpatient rehabilitation hospitals, home health agencies, and hospice agencies. On July 10, 2017, we announced the plan to rebrand and change our name from HealthSouth Corporation to Encompass Health Corporation, effective January 1, 2018. The corporate name change will be accompanied by a NYSE ticker symbol change from "HLS" to "EHC." On October 20, 2017, our board of directors approved an amended and restated certificate of incorporation in order to change the name effective as of January 1, 2018. Beginning in the first quarter of 2018, both of our business segments will begin transitioning to the Encompass Health name. 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 contained in Exhibit 99.1 to HealthSouth's Current Report on Form 8-K filed with the United States Securities and Exchange Commission on September 18, 2017 (the "2016 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, 2016 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.

See also Note 12, Segment Reporting.

Net Operating Revenues—

We derived consolidated Net operating revenues from the following payor sources:

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Medicare	75.7 %	74.8 %	75.3 %	75.0 %
Medicare Advantage	8.4 %	7.9 %	8.7 %	7.9 %
Managed care	9.4 %	10.1 %	9.6 %	9.9 %
Medicaid	2.9 %	3.3 %	2.8 %	3.3 %
Other third-party payors	1.3 %	1.5 %	1.3 %	1.4 %
Workers' compensation	0.7 %	0.8 %	0.7 %	0.8 %
Patients	0.5 %	0.5 %	0.5 %	0.5 %
Other income	1.1 %	1.1 %	1.1 %	1.2 %
Total	100.0%	100.0%	100.0%	100.0%

HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements

Inpatient Rehabilitation Revenues

Our inpatient rehabilitation segment derived its Net operating revenues from the following payor sources:

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Medicare	73.3 %	73.3 %	73.1 %	73.3 %
Medicare Advantage	8.1 %	7.6 %	8.4 %	7.7 %
Managed care	10.7 %	11.4 %	11.0 %	11.3 %
Medicaid	3.4 %	3.0 %	3.1 %	3.0 %
Other third-party payors	1.6 %	1.8 %	1.6 %	1.7 %
Workers' compensation	0.9 %	1.0 %	0.9 %	1.0 %
Patients	0.6 %	0.6 %	0.6 %	0.6 %
Other income	1.4 %	1.3 %	1.3 %	1.4 %
Total	100.0%	100.0%	100.0%	100.0%

Home Health and Hospice Revenues

Our home health and hospice segment derived its Net operating revenues from the following payor sources:

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Medicare	85.2 %	81.8 %	84.7 %	82.4 %
Medicare Advantage	9.6 %	8.8 %	10.0 %	8.9 %
Managed care	3.9 %	4.5 %	3.8 %	3.7 %
Medicaid	1.1 %	4.7 %	1.3 %	4.8 %
Patients	0.1 %	0.1 %	0.1 %	0.1 %
Other income	0.1 %	0.1 %	0.1 %	0.1 %
Total	100.0%	100.0%	100.0%	100.0%

See Note 1, Summary of Significant Accounting Policies, to the consolidated financial statements accompanying the 2016 Form 10-K for our policies related to Net operating revenues, Accounts receivable, and our Allowance for doubtful accounts.

Recent Accounting Pronouncements—

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" and has subsequently issued supplemental and/or clarifying ASUs (collectively "ASC 606"). ASC 606 outlines a five-step framework that intends to clarify the principles for recognizing revenue and eliminate industry-specific guidance. In addition, ASC 606 revises current disclosure requirements in an effort to help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. ASC 606 will be effective for our annual reporting period beginning on January 1, 2018, including interim periods within that year. ASC 606 may be applied retrospectively to each period presented or on a modified retrospective basis with the cumulative effect recognized as of the date of adoption. We are currently assessing the impact this guidance may have on our consolidated financial statements by analyzing our current portfolio of third-party payor contracts, including a review of historical accounting policies and practices to identify potential differences in applying the new guidance. We are also evaluating the nature and amount of data available to us in assessing implementation of ASC 606. Under ASC 606, substantially all amounts that were previously presented as Provision for doubtful accounts will be considered an implicit price

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concession in determining Net operating revenues. Amounts considered to be doubtful accounts under ASC 606 will be presented as a component of Total operating expenses within the consolidated statements of operations. Except for the adjustments discussed above, we do not expect the adoption of ASC 606 to have a material impact on our consolidated financial statements. We expect to adopt ASC 606 retrospectively effective January 1, 2018.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities." This standard revises the classification and measurement of investments in certain equity investments and the presentation of certain fair value changes for certain financial liabilities measured at fair value. This revised standard requires the change in fair value of many equity investments to be recognized in Net income. This revised standard requires a modified retrospective application with a cumulative effect adjustment recognized in retained earnings as of the date of adoption and is effective for our interim and annual periods beginning January 1, 2018. While we are currently assessing the impact this guidance may have on our consolidated financial statements, we expect to recognize mark-to-market gains and losses associated with our available-for-sale equity securities through Net income instead of Accumulated other comprehensive income. We continue to review the requirements of this revised standard, but do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," in order to increase transparency and comparability by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the new standard, lessees will recognize a right-of-use asset and a corresponding lease liability for all leases other than leases that meet the definition of a short-term lease. The liability will be equal to the present value of future minimum lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense while finance leases will result in an expense pattern similar to current capital leases. Classification will be based on criteria that are similar to those applied in current lease accounting. This standard will be effective for our annual reporting period beginning on January 1, 2019. Early adoption is permitted. In transition, we will be required to recognize and measure leases beginning in the earliest period presented using a modified retrospective approach; therefore, we anticipate restating our consolidated financial statements for the two fiscal years prior to the year of adoption. While we are currently assessing the impact this guidance may have on our consolidated financial statements, we expect that virtually all of our existing operating leases will be reflected as right-of-use assets and liabilities on our consolidated balance sheets under the new standard. We do not expect to early adopt this standard. See Note 6, Property and Equipment, to the consolidated financial statements accompanying the 2016 Form 10-K for disclosure related to our operating leases.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting (Topic 718)," to simplify various aspects of share-based payment accounting and presentation. The new standard requires entities to record all of the tax effects related to share-based payments at settlement (or expiration) through the income statement. This change is required to be applied prospectively to all excess tax benefits and tax deficiencies resulting from settlements after the date of adoption of the ASU. The standard eliminates the requirement to delay recognition of a windfall tax benefit until it reduces current taxes payable. This change is required to be applied on a modified retrospective basis. In addition, all income tax-related cash flows resulting from share-based windfall tax benefits are required to be reported as operating activities on the statement of cash flows as opposed to the current presentation as an inflow from financing activities and an outflow from operating activities. Either prospective or retrospective transition of this provision is permitted. The standard also clarifies that all cash payments made to taxing authorities on the employees' behalf for withheld shares should be presented as financing activities on the statement of cash flows on a retrospective basis. Finally, the standard allows entities to make an accounting policy election to either estimate forfeitures for each period or account for forfeitures as they occur. For HealthSouth, this guidance was effective for its annual reporting period beginning January 1, 2017, including interim periods within that reporting period. As a result of our adoption of this guidance effective January 1, 2017, we recorded \$0.4 million and \$9.0 million of tax benefits in excess of compensation cost ("windfalls") to Provision for income tax expense in our condensed consolidating statement of operations for the three and nine months ended September 30, 2017,

respectively. In addition, we elected to retrospectively apply the guidance governing presentation of windfalls on the statement of cash flows, which resulted in a reclassification of windfalls of \$17.3 million from Cash flows from financing activities to Cash flows from operating activities for the year ended December 31, 2016 within our 2016 Form 10-K. We also retrospectively applied the change to the presentation of cash payments made to taxing authorities on the employees' behalf for withheld shares on our condensed consolidating statements of cash flows for the nine months ended September 30, 2016, which resulted in a reclassification of \$9.9 million from Cash flows from operating activities to Cash flows from financing activities. We did not

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elect an accounting policy change to record forfeitures as they occur and thus will continue to estimate forfeitures at each period. Except for the adjustments discussed above, the adoption of this guidance did not have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326)," which provides guidance for accounting for credit losses on financial instruments. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The new guidance is effective for HealthSouth for the annual period beginning January 1, 2020, including interim periods within that reporting period. Early adoption is permitted for HealthSouth beginning January 1, 2019. We continue to review the requirements of this standard and any potential impact it may have on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments," to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. In addition, the standard clarifies when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use. The new guidance requires retrospective application and is effective for HealthSouth for the annual reporting period beginning January 1, 2018, including interim periods within that reporting period. Early adoption is permitted. While we continue to review the requirements of this standard and any potential impact it may have on our consolidated financial statements, the clarification that debt prepayment premiums should be classified as financing activities will result in an immaterial increase in certain prior period operating cash inflows and a corresponding increase in financing cash outflows.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230), Restricted Cash," to clarify how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The new guidance requires amounts generally described as restricted cash and restricted cash equivalents be included with Cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. The new guidance requires retrospective application and is effective for our annual reporting period beginning January 1, 2018, including interim periods within that reporting period. Early adoption is permitted. We continue to review the requirements of this revised standard and any potential impact it may have on our consolidated financial statements.

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. Business Combinations

Inpatient Rehabilitation

During the nine months ended September 30, 2017, we completed the following inpatient rehabilitation acquisitions, none of which were individually material to our financial position, results of operations, or cash flows. Each acquisition was made to enhance our position and ability to provide inpatient rehabilitation services to patients in the applicable geographic areas.

In April 2017, we acquired 80% of Memorial Hospital at Gulfport, a 33-bed inpatient rehabilitation hospital in Gulfport, Mississippi, through a joint venture with Memorial Hospital at Gulfport. This acquisition was funded on March 31, 2017 using cash on hand.

- In April 2017, we also acquired approximately 80% of Mount Carmel West, an inpatient rehabilitation unit in Columbus, Ohio, through a joint venture with Mount Carmel Health System. This acquisition was funded through a contribution of a 60 bed de novo inpatient rehabilitation hospital to the consolidated joint venture.

In July 2017, we acquired 50% of the inpatient rehabilitation unit at Jackson-Madison County General Hospital through a joint venture with West Tennessee Healthcare. The acquisition was funded through a contribution of our existing inpatient rehabilitation hospital in Martin, Tennessee to the consolidated joint venture.

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In September 2017, we acquired 75% of Heritage Valley Beaver Hospital's inpatient rehabilitation unit in Beaver, Pennsylvania, through a joint venture with Heritage Valley Health System, Inc. The acquisition was funded through the exchange of 25% of our existing inpatient rehabilitation hospital in Sewickley, Pennsylvania.

We accounted for these transactions under the acquisition method of accounting and reported the results of operations of the acquired hospitals from their respective dates of acquisition. Assets acquired were recorded at their estimated fair values as of the respective acquisition dates. The fair values of the identifiable intangible assets were based on valuations using the income approach. The income approach is based on management's estimates of future operating results and cash flows discounted using a weighted-average cost of capital that reflects market participant assumptions. The excess of the fair value of the consideration conveyed over the fair value of the net assets acquired was recorded as goodwill. The goodwill reflects our expectations of our ability to gain access to and penetrate the acquired hospital's historical patient base and the benefits of being able to leverage operational efficiencies with favorable growth opportunities based on positive demographic trends in these markets. None of the goodwill recorded as a result of these transactions is deductible for federal income tax purposes.

The fair value of the assets acquired at the acquisition date were as follows (in millions):

Property and equipment	\$0.1
Identifiable intangible assets:	
Noncompete agreements (useful lives of 2 to 3 years)	0.6
Trade name (useful life of 20 years)	0.5
Certificate of need (useful life of 20 years)	9.8
Goodwill	24.0
Total assets acquired	\$35.0

Information regarding the net cash paid for the inpatient rehabilitation acquisitions during each period presented is as follows (in millions):

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Fair value of assets acquired	\$5.4	\$1.4	\$11.0	\$6.7
Goodwill	9.0	7.6	24.0	9.4
Fair value of noncontrolling interest owned by joint venture partner	(14.4)	(9.0)	(24.1)	(16.1)
Net cash paid for acquisition	\$—	\$—	\$10.9	\$—

Home Health and Hospice

During the nine months ended September 30, 2017, we completed the following home health acquisitions, none of which were individually material to our financial position, results of operations, or cash flows. Each acquisition was made to enhance our position and ability to provide post-acute healthcare services to patients in the applicable geographic areas. Each acquisition was funded using cash on hand.

In February 2017, we acquired the assets of Celtic Healthcare of Maryland, Inc., a home health provider with locations in Owings Mill, Maryland and Rockville, Maryland.

In February 2017, we also acquired the assets of two home health locations from Community Health Services, Inc., located in Owensboro, Kentucky and Elizabethtown, Kentucky.

In May 2017, we acquired the assets of two home health locations from Bio Care Home Health Services, Inc. and Kinsman Enterprises, Inc., located in Irving, Texas and Longview, Texas.

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In July 2017, we acquired the assets of four home health locations from VNA Healthtrends, located in Bourbonnais, Illinois; Des Plaines, Illinois; Schererville, Indiana; and Tempe, Arizona.

In August 2017, we acquired the assets of two home health locations from VNA Healthtrends, located in Canton, Ohio and Forsyth, Illinois.

We accounted for these transactions under the acquisition method of accounting and reported the results of operations of the acquired locations from their respective dates of acquisition. Assets acquired or liabilities assumed were recorded at their estimated fair values as of the respective acquisition dates. The fair values of identifiable intangible assets were based on valuations using the cost and income approaches. The cost approach is based on amounts that would be required to replace the asset (i.e., replacement cost). The income approach is based on management's estimates of future operating results and cash flows discounted using a weighted-average cost of capital that reflects market participant assumptions. The excess of the fair value of the consideration conveyed over the fair value of the net assets acquired was recorded as goodwill. The goodwill reflects our expectations of our ability to utilize the acquired locations' mobile workforce and established relationships within each community and the benefits of being able to leverage operational efficiencies with favorable growth opportunities based on positive demographic trends in these markets. All goodwill recorded as a result of these transactions is deductible for federal income tax purposes.

The fair value of the assets acquired and liabilities assumed at the acquisition date were as follows (in millions):

Total current assets	\$0.1
Identifiable intangible asset:	
Noncompete agreements (useful lives of 5 years)	0.7
Trade name (useful life of 1 year)	0.1
Certificates of need (useful lives of 10 years)	0.7
Licenses (useful lives of 10 years)	3.8
Goodwill	20.5
Total assets acquired	25.9
Total liabilities assumed	(0.2)
Net assets acquired	\$25.7

Information regarding the net cash paid for the home health acquisitions during each period presented is as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Fair value of assets acquired	\$2.7	\$1.9	\$5.4	\$3.4
Goodwill	13.1	8.3	20.5	16.3
Fair value of liabilities assumed	(0.1)	—	(0.2)	(0.1)
Net cash paid for acquisitions	\$15.7	\$10.2	\$25.7	\$19.6

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Pro Forma Results of Operations

The following table summarizes the results of operations of the above mentioned acquisitions from their respective dates of acquisition included in our consolidated results of operations and the unaudited pro forma results of operations of the combined entity had the date of the acquisitions been January 1, 2016 (in millions):

	Net Operating Revenues	Net Income Attributable to HealthSouth
Acquired entities only: Actual from acquisition date to September 30, 2017	\$ 17.5	\$ (5.9)
Combined entity: Supplemental pro forma from 07/01/2017-09/30/2017	996.1	65.9
Combined entity: Supplemental pro forma from 07/01/2016-09/30/2016	942.3	63.5
Combined entity: Supplemental pro forma from 01/01/2017-09/30/2017	2,975.9	198.4
Combined entity: Supplemental pro forma from 01/01/2016-09/30/2016	2,805.3	188.1

See Note 2, Business Combinations, to the consolidated financial statements accompanying the 2016 Form 10-K for information regarding acquisitions completed in 2016.

3. Variable Interest Entities

As of September 30, 2017 and December 31, 2016, we consolidated ten limited partnership-like entities that are variable interest entities (“VIEs”) and of which we are the primary beneficiary. Our ownership percentages in these entities range from 6.8% to 99.5%. Through partnership and management agreements with or governing each of these entities, we manage all of these entities and handle all day-to-day operating decisions. Accordingly, we have the decision making power over the activities that most significantly impact the economic performance of our VIEs and an obligation to absorb losses or receive benefits from the VIE that could potentially be significant to the VIE. These decisions and significant activities include, but are not limited to, marketing efforts, oversight of patient admissions, medical training, nurse and therapist scheduling, provision of healthcare services, billing, collections, and creation and maintenance of medical records. The terms of the agreements governing each of our VIEs prohibit us from using the assets of each VIE to satisfy the obligations of other entities.

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The carrying amounts and classifications of the consolidated VIEs' assets and liabilities, which are included in our consolidated balance sheet, are as follows (in millions):

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 1.8	\$ 1.6
Accounts receivable, net of allowance for doubtful accounts	30.0	30.8
Other current assets	5.6	5.8
Total current assets	37.4	38.2
Property and equipment, net	143.1	140.0
Goodwill	73.5	73.5
Intangible assets, net	7.6	9.6
Other long-term assets	1.1	1.0
Total assets	\$ 262.7	\$ 262.3
Liabilities		
Current liabilities:		
Current portion of long-term debt	\$ 1.7	\$ 1.5
Accounts payable	6.9	6.8
Accrued expenses and other current liabilities	16.6	12.2
Total current liabilities	25.2	20.5
Long-term debt, net of current portion	28.7	29.8
Total liabilities	\$ 53.9	\$ 50.3

4. Investments in and Advances to Nonconsolidated Affiliates

As of September 30, 2017 and December 31, 2016, we had \$12.6 million and \$13.0 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 seven partially owned subsidiaries, of which six 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 60%. 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, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
Net operating revenues	\$9.9	\$11.3	\$31.0	\$33.4
Operating expenses	(5.6)	(6.0)	(18.1)	(18.1)
Income from continuing operations, net of tax	4.3	5.2	12.9	15.2
Net income	4.3	5.2	12.9	15.2

5. Long-term Debt

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

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	September 30, 2017	December 31, 2016
Credit Agreement—		
Advances under revolving credit facility	\$ 138.0	\$ 152.0
Term loan facilities	298.3	421.2
Bonds payable—		
5.125% Senior Notes due 2023	295.7	295.3
5.75% Senior Notes due 2024	1,193.7	1,193.2
5.75% Senior Notes due 2025	344.3	343.9
2.00% Convertible Senior Subordinated Notes due 2043	—	275.7
Other notes payable	80.1	55.8
Capital lease obligations	272.3	279.3
	2,622.4	3,016.4
Less: Current portion	(31.1)	(37.1)
Long-term debt, net of current portion	\$ 2,591.3	\$ 2,979.3

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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, 2017	\$7.4	\$7.4
2018	31.6	31.6
2019	31.7	31.6
2020	24.4	24.4
2021	25.8	25.8
2022	399.2	397.4
Thereafter	2,120.4	2,104.2
Total	\$2,640.5	\$2,622.4

In May 2017, we provided notice of our intent to exercise our early redemption option on the \$320 million outstanding principal amount of the 2.00% Convertible Senior Subordinated Notes due 2043 (the "Convertible Notes"). Pursuant to the indenture, the holders had the right to convert their Convertible Notes into shares of our common stock at a conversion rate of 27.2221 shares per \$1,000 principal amount of Convertible Notes, which rate was increased by the make-whole premium. Holders of \$319.4 million in principal of these Convertible Notes chose to convert their notes to shares of our common stock resulting in the issuance of 8.9 million shares from treasury stock, including 0.2 million shares due to the make-whole premium. Approximately 8.6 million of these shares were included in Diluted earnings per share attributable to HealthSouth common shareholders as of March 31, 2017. We redeemed the remaining \$0.6 million in principal at par in cash. The redemption and all conversions occurred in the second quarter of 2017. As a result of these transactions, we recorded a \$10.4 million Loss on early extinguishment of debt in the second quarter of 2017. See also Note 10, Earnings per Common Share for additional information on these Convertible Notes.

In September 2017, we amended our existing credit agreement. The following are the changes made to the material provisions of the credit agreement:

- increase the maximum capacity under the revolving credit facility from \$600 million to \$700 million;
- decrease the current term loan facility to \$300 million with a net repayment of approximately \$110 million;
- decrease the spread used to calculate the applicable interest rate on any outstanding revolving credit or term loan balances by 25 basis points;
- in addition to the specified amounts and types of permitted investments, allow for additional investments so long as the senior secured leverage ratio is no greater than 2.00:1 after giving pro forma effect to those additional investments;
- in addition to the specified amounts and types of permitted restricted payments, allow for additional restricted payments so long as the senior secured leverage ratio is no greater than 2.00:1 (rather than the 1.75:1 threshold ratio applicable to this provision previously) after giving pro forma effect to those additional restricted payments;
- increase the maximum amount of permitted capital expenditures in a given year from \$300 million to \$350 million, which amount is in addition to any unused portion of the permitted amount from the prior year;
- increase the maximum leverage ratio in the financial covenants applicable for the periods ending on or before September 30, 2019 from 4.25x to 4.50x;
- increase the accordion feature permitting future increases in revolving borrowing capacity or new term loans, or both, from an aggregate amount not to exceed \$300 million to the greater of (a) \$870 million and (b) our adjusted consolidated EBITDA for the most recently completed four-quarter period, after giving pro forma effect to any additional borrowings; and

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move the maturity date for both the revolving credit and term loan facilities from July 2020 to September 2022. All other material terms of the existing credit agreement remained the same and are described in more detail in Note 9, Long-term Debt, to the consolidated financial statements accompanying the 2016 Form 10-K. As a result of this amendment, we recorded a \$0.3 million Loss on early extinguishment of debt in the third quarter of 2017. In February 2016, we entered into a development/lease agreement with CR HQ, LLC (the “Developer”) to construct our new corporate headquarters in Birmingham, Alabama. Under the terms of this agreement, the Developer is responsible for all costs of constructing the new facility ‘shell’ which will then be leased to us for an initial term of 15 years with four, five-year renewal options. The lease is expected to commence in the first half of 2018. We are responsible for the costs associated with improvements to the interior of the building. Due to the nature and extent of the tenant improvements we will be making to the new corporate headquarters and certain provisions of the development/lease agreement, we are deemed to be the accounting owner of the new corporate headquarters during the construction period. Construction commenced in the second quarter of 2016. As of September 30, 2017 and December 31, 2016, Property and equipment, net includes \$46.8 million and \$20.3 million, respectively, for the construction costs incurred to date by the Developer, and Long-term debt, net of current portion includes a corresponding financing obligation liability of \$46.6 million and \$20.3 million, respectively. The remaining corresponding financing obligation liability of \$0.2 million as of September 30, 2017 is included in Current portion of long-term debt. It is estimated that the total financing obligation associated with the Developer’s costs to construct the new corporate headquarters will be \$56 million. The amounts recorded for construction costs and the corresponding liability are noncash activities for purposes of our condensed consolidated statement of cash flows. For additional information regarding our indebtedness, see Note 9, Long-term Debt, to the consolidated financial statements accompanying the 2016 Form 10-K.

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6. Redeemable Noncontrolling Interests

The following is a summary of the activity related to our Redeemable noncontrolling interests during the nine months ended September 30, 2017 and 2016 (in millions):

	Nine Months Ended September 30,	
	2017	2016
Balance at beginning of period	\$138.3	\$121.1
Net income attributable to noncontrolling interests	9.9	11.2
Distributions declared	(3.3)	(6.4)
Contribution to joint venture	2.3	—
Change in fair value	74.1	(16.5)
Balance at end of period	\$221.3	\$109.4

The following table reconciles the net income attributable to nonredeemable Noncontrolling interests, as recorded in the shareholders' equity section of the condensed consolidated balance sheets, and the net income attributable to Redeemable noncontrolling interests, as recorded in the mezzanine section of the condensed consolidated balance sheets, to the Net income attributable to noncontrolling interests presented in the condensed consolidated statements of operations for the three and nine months ended September 30, 2017 and 2016 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income attributable to nonredeemable noncontrolling interests	\$15.0	\$12.7	\$43.3	\$42.5
Net income attributable to redeemable noncontrolling interests	4.2	3.7	9.9	11.2
Net income attributable to noncontrolling interests	\$19.2	\$16.4	\$53.2	\$53.7

See also Note 7, Fair Value Measurements.

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7. Fair Value Measurements

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

As of	Fair Value Measurements at Reporting Date Using				Valuation Technique ⁽¹⁾
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
September 30, 2017					
Other current assets:					
Current portion of restricted marketable securities	\$ 18.5	\$ 18.5	\$	\$	—M
Other long-term assets:					
Restricted marketable securities	41.4	41.4	—	—	M
Redeemable noncontrolling interests	221.3	—	221.3	—	I
As of December 31, 2016					
Other current assets:					
Current portion of restricted marketable securities	\$ 24.2	\$ 24.2	\$	\$	—M
Other long-term assets:					
Restricted marketable securities	33.5	33.5	—	—	M
Redeemable noncontrolling interests	138.3	—	138.3	—	I

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

The fair values of our financial assets and liabilities are determined as follows:

Restricted marketable securities - The fair values of our available-for-sale restricted marketable securities are determined based on quoted market prices in active markets or quoted prices, dealer quotations, or alternative pricing sources supported by observable inputs in markets that are not considered to be active.

Redeemable noncontrolling interests - The fair value of the Redeemable noncontrolling interest related to our home health segment is determined using the product of a twelve-month specified performance measure and a specified median market price multiple based on a basket of public health companies. To determine the fair value of the Redeemable noncontrolling interests in our joint venture hospitals, we use the applicable hospitals' projected operating results and cash flows discounted using a rate that reflects market participant assumptions for the applicable facilities. The projected operating results use management's best estimates of economic and market conditions over the forecasted periods including assumptions for pricing and volume, operating expenses, and capital expenditures. See also Note 6, Redeemable Noncontrolling Interests.

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. During the three and nine months ended September 30, 2017 and September 30, 2016, we did not record any gains or losses 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.

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As discussed in Note 1, Summary of Significant Accounting Policies, “Fair Value Measurements,” to the consolidated financial statements accompanying the 2016 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, 2017		As of December 31, 2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt:				
Advances under revolving credit facility	\$ 138.0	\$ 138.0	\$ 152.0	\$ 152.0
Term loan facilities	298.3	300.0	421.2	422.5
5.125% Senior Notes due 2023	295.7	310.0	295.3	297.8
5.75% Senior Notes due 2024	1,193.7	1,231.5	1,193.2	1,216.6
5.75% Senior Notes due 2025	344.3	365.8	343.9	349.6
2.00% Convertible Senior Subordinated Notes due 2043	—	—	275.7	382.6
Other notes payable	80.1	80.1	55.8	55.8
Financial commitments:				
Letters of credit	—	35.4	—	33.3

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 2016 Form 10-K.

8. Share-Based Payments

In February and May 2017, we issued a total of 0.6 million restricted stock awards to members of our management team and our board of directors. Approximately 0.2 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 during the applicable two-year performance measurement period. Additionally, in February 2017, we granted 0.1 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 13, Share-Based Payments, to the consolidated financial statements accompanying the 2016 Form 10-K.

9. Income Taxes

Our Provision for income tax expense of \$43.1 million for the three months ended September 30, 2017 primarily resulted from the application of our estimated effective blended federal and state income tax rate. Our Provision for income tax expense of \$111.4 million for the nine months ended September 30, 2017 primarily resulted from the application of our estimated effective blended federal and state income tax rate as well as tax benefits resulting from exercises and vesting of share-based compensation. Our Provision for income tax expense of \$42.1 million and \$124.2 million for the three and nine months ended September 30, 2016, respectively, primarily resulted from the application of our estimated effective blended federal and state income tax rate.

We have state net operating losses (“NOLs”) of \$62.0 million that expire in various amounts at varying times through 2031. The \$91.6 million of net deferred tax assets included in the accompanying condensed consolidated balance sheet as of September 30, 2017 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, 2017, we maintained a valuation allowance of \$28.4 million due to uncertainties regarding our ability to utilize a portion of our state NOLs and other credits before they expire. The amount of the valuation allowance has been determined for each tax jurisdiction

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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.

During the third quarter of 2016, we filed a non-automatic tax accounting method change related to billings denied under pre-payment claims reviews conducted by certain of our Medicare Administrative Contractors. In March 2017, the IRS approved our request resulting in additional tax benefits of approximately \$55 million through September 30, 2017. Approximately \$39 million of this amount represents pre-payment claims denials received in years prior to and including the year ended December 31, 2015. These benefits are expected to reverse as pre-payment claims denials are settled and collected. This change did not have a material impact on our effective tax rate.

Total remaining gross unrecognized tax benefits were \$0.3 million and \$2.8 million as of September 30, 2017 and December 31, 2016, respectively, all of which would affect our effective tax rate if recognized. A reconciliation of the beginning and ending liability for unrecognized tax benefits is as follows (in millions):

	Gross Unrecognized Income Tax Benefits
Balance at December 31, 2016	\$ 2.8
Gross amount of decreases in unrecognized tax benefits related to prior periods	(0.4)
Decreases in unrecognized tax benefits relating to settlements with taxing authorities	(2.1)
Balance at September 30, 2017	\$ 0.3

Our continuing practice is to recognize interest and penalties related to income tax matters in income tax expense.

Interest recorded as part of our income tax provision during the three and nine months ended September 30, 2017 and 2016 was not material. Accrued interest income related to income taxes as of September 30, 2017 and December 31, 2016 was not material.

In December 2014, we signed an agreement with the IRS to begin participating in their Compliance Assurance Process, a program in which we and the IRS endeavor to agree on the treatment of significant tax positions prior to the filing of our federal income tax return. We renewed this agreement in December 2015 for the 2016 tax year and in December 2016 for the 2017 tax year. As a result of these agreements, the IRS surveyed our 2013, 2012, and 2011 federal income tax returns and is currently examining 2016 and 2017. Our 2014 federal income tax return has been filed, and the IRS has not indicated its intent to examine or survey this return. In February 2017, the IRS issued a no-change Revenue Agent's Report effectively closing our 2015 tax audit. We have settled federal income tax examinations with the IRS for all tax years through 2013 as well as 2015. Our state income tax returns are also periodically examined by various regulatory taxing authorities. We are currently under audit by three states for tax years ranging from 2012 through 2015.

For the tax years that remain open under the applicable statutes of limitation, amounts related to unrecognized tax benefits have been considered by management in its estimate of our potential net recovery of prior years' income taxes. Based on discussions with taxing authorities, we do not anticipate that any of our unrecognized tax benefits will be released within the next 12 months.

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10. Earnings per Common Share

The following table sets forth the computation of basic and diluted earnings per common share (in millions, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Basic:				
Numerator:				
Income from continuing operations	\$85.2	\$78.2	\$249.1	\$236.3
Less: Net income attributable to noncontrolling interests included in continuing operations	(19.2)	(16.4)	(53.2)	(53.7)
Less: Income allocated to participating securities	(0.2)	(0.2)	(0.6)	(0.6)
Income from continuing operations attributable to HealthSouth common shareholders	65.8	61.6	195.3	182.0
Loss from discontinued operations, net of tax, attributable to HealthSouth common shareholders	(0.1)	(0.1)	(0.2)	(0.3)
Net income attributable to HealthSouth common shareholders	\$65.7	\$61.5	\$195.1	\$181.7
Denominator:				
Basic weighted average common shares outstanding	97.8	89.1	92.3	89.3
Basic earnings per share attributable to HealthSouth common shareholders:				
Continuing operations	\$0.67	\$0.69	\$2.11	\$2.03
Discontinued operations	—	—	—	—
Net income	\$0.67	\$0.69	\$2.11	\$2.03
Diluted:				
Numerator:				
Income from continuing operations	\$85.2	\$78.2	\$249.1	\$236.3
Less: Net income attributable to noncontrolling interests included in continuing operations	(19.2)	(16.4)	(53.2)	(53.7)
Add: Interest on convertible debt, net of tax	—	2.4	4.6	7.2
Add: Loss on extinguishment of convertible debt, net of tax	—	—	6.2	—
Income from continuing operations attributable to HealthSouth common shareholders	66.0	64.2	206.7	189.8
Loss from discontinued operations, net of tax, attributable to HealthSouth common shareholders	(0.1)	(0.1)	(0.2)	(0.3)
Net income attributable to HealthSouth common shareholders	\$65.9	\$64.1	\$206.5	\$189.5
Denominator:				
Diluted weighted average common shares outstanding	99.0	99.4	99.1	99.5
Diluted earnings per share attributable to HealthSouth common shareholders:				
Continuing operations	\$0.67	\$0.64	\$2.08	\$1.90
Discontinued operations	—	—	—	—
Net income	\$0.67	\$0.64	\$2.08	\$1.90

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The following table sets forth the reconciliation between basic weighted average common shares outstanding and diluted weighted average common shares outstanding (in millions):

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Basic weighted average common shares outstanding	97.8	89.1	92.3	89.3
Convertible senior subordinated notes	—	8.5	5.4	8.5
Restricted stock awards, dilutive stock options, and restricted stock units	1.2	1.8	1.4	1.7
Diluted weighted average common shares outstanding	99.0	99.4	99.1	99.5

In October 2016, February 2017, and May 2017, our board of directors declared cash dividends of \$0.24 per share that were paid in January 2017, April 2017, and July 2017, respectively. On July 20, 2017, our board of directors approved an increase in our quarterly dividend and declared a cash dividend of \$0.25 per share that was paid on October 16, 2017 to stockholders of record on October 2, 2017. On October 20, 2017, our board of directors declared a cash dividend of \$0.25 per share, payable on January 16, 2018 to stockholders of record on January 2, 2018. As of September 30, 2017 and December 31, 2016, accrued common stock dividends of \$25.3 million and \$22.2 million, respectively, were included in Accrued expenses and other current liabilities in our condensed consolidated balance sheets. Future dividend payments are subject to declaration by our board of directors.

On September 30, 2009, we issued 5.0 million shares of common stock and 8.2 million common stock warrants in full satisfaction of our obligation to do so under the January 2007 comprehensive settlement of the consolidated securities action brought against us by our stockholders and bondholders. Under the terms of the related warrant agreement, the warrants were exercisable at a price of \$41.40 per share by means of a cash or a cashless exercise at the option of the holder. The warrants were not assumed exercised for dilutive shares outstanding because they were antidilutive in the periods presented. The warrants expired on January 17, 2017.

The following table summarizes information relating to these warrants and their activity through their expiration date (number of warrants in millions):

	Number of Warrants	Weighted-Average Exercise Price
Common stock warrants outstanding as of December 31, 2016	8.2	\$ 41.40
Cashless exercise	(6.5)	41.40
Cash exercise	(0.6)	41.40
Expired	(1.1)	41.40
Common stock warrants outstanding as of January 17, 2017	—	

The above exercises resulted in the issuance of 0.7 million shares of common stock. Cash exercises resulted in gross proceeds of approximately \$27 million.

See Note 9, Long-term Debt and Note 16, Earnings per Common Share, to the consolidated financial statements accompanying the 2016 Form 10-K for additional information related to our Convertible Notes, common stock, common stock warrants, and convertible perpetual preferred stock.

11. Contingencies and Other Commitments

We operate in a highly regulated and litigious industry. As a result, various lawsuits, claims, and legal and regulatory proceedings have been and can be expected to be instituted or asserted against us. The resolution of any such lawsuits, claims, or legal and regulatory proceedings could materially and adversely affect our financial position, results of operations, and cash flows in a given period.

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Nichols Litigation—

We have been named as a defendant in a lawsuit filed March 28, 2003 by several individual stockholders in the Circuit Court of Jefferson County, Alabama, captioned Nichols v. HealthSouth Corp. The plaintiffs allege that we, some of our former officers, and our former investment bank engaged in a scheme to overstate and misrepresent our earnings and financial position. The plaintiffs are seeking compensatory and punitive damages. This case was stayed in the Circuit Court on August 8, 2005. The plaintiffs filed an amended complaint on November 9, 2010 to which we responded with a motion to dismiss filed on December 22, 2010. During a hearing on February 24, 2012, plaintiffs' counsel indicated his intent to dismiss certain claims against us. Instead, on March 9, 2012, the plaintiffs amended their complaint to include additional securities fraud claims against HealthSouth and add several former officers to the lawsuit. On September 12, 2012, the plaintiffs further amended their complaint to request certification as a class action. One of the former officers named as a defendant has repeatedly attempted to remove the case to federal district court, most recently on December 11, 2012. We filed our latest motion to remand the case back to state court on January 10, 2013. On September 27, 2013, the federal court remanded the case back to state court. On November 25, 2014, the plaintiffs filed another amended complaint to assert new allegations relating to the time period of 1997 to 2002. On December 10, 2014, we filed a motion to dismiss on the grounds the plaintiffs lack standing because their claims are derivative in nature, and the claims are time-barred by the statute of limitations. On May 26, 2016, the court granted our motion to dismiss. The plaintiffs appealed the dismissal of the case to the Supreme Court of Alabama on June 28, 2016. The Supreme Court has not yet scheduled a hearing on the appeal.

We intend to vigorously defend ourselves in this case. Based on the stage of litigation, review of the current facts and circumstances as we understand them, the nature of the underlying claim, the results of the proceedings to date, and the nature and scope of the defense we continue to mount, we do not believe an adverse judgment or settlement is probable in this matter, and it is also not possible to estimate an amount of loss, if any, or range of possible loss that might result from an adverse judgment or settlement of this case.

Other Litigation—

One of our hospital subsidiaries was named as a defendant in a lawsuit filed August 12, 2013 by an individual in the Circuit Court of Etowah County, Alabama, captioned Honts v. HealthSouth Rehabilitation Hospital of Gadsden, LLC. The plaintiff alleged that her mother, who died more than three months after being discharged from our hospital, received an unprescribed opiate medication at the hospital. We deny the patient received any such medication, accounted for all the opiates at the hospital and argued the plaintiff established no causal liability between the actions of our staff and her mother's death. The plaintiff sought recovery for punitive damages. On May 18, 2016, the jury in this case returned a verdict in favor of the plaintiff for \$20.0 million. On June 17, 2016, we filed a renewed motion for judgment as a matter of law or, in the alternative, a motion for new trial or, in the further alternative, a motion seeking reduction of the damages awarded (collectively, the "post-judgment motions"). The trial court denied the post-judgment motions. We appealed the verdict as well as the rulings on the post-judgment motions to the Supreme Court of Alabama on October 12, 2016. The Supreme Court scheduled an oral hearing on the appeal for November 8, 2017.

We posted a bond in the amount of the judgment pending resolution of our appeal. We intend to vigorously defend ourselves in this case. Although we continue to believe in the merit of our defenses and counterarguments, we recorded a net charge of \$5.7 million to Other operating expenses in our consolidated statements of operations for the year ended December 31, 2016. As of September 30, 2017, we maintained a liability of \$20.2 million in Accrued expenses and other liabilities in our condensed consolidated balance sheet with a corresponding receivable of \$15.5 million in Other current assets for the portion of the liability we would expect to be covered through our excess insurance coverages. The portion of this liability that would be a covered claim through our captive insurance subsidiary, HCS, Ltd. is \$6.0 million.

Governmental Inquiries and Investigations—

On June 24, 2011, we received a document subpoena addressed to HealthSouth Hospital of Houston, a long-term acute care hospital ("LTCH") we closed in August 2011, and issued from the Dallas, Texas office of the United States

Department of Health and Human Services Office of Inspector General (“HHS-OIG”). The subpoena stated it was in connection with an investigation of possible false or otherwise improper claims submitted to Medicare and Medicaid and requested documents and materials relating to patient admissions, length of stay, and discharge matters at this closed LTCH. We furnished the documents requested and have heard nothing from the HHS-OIG since December 2012.

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On March 4, 2013, we received document subpoenas from an office of the HHS-OIG addressed to four of our hospitals. Those subpoenas also requested complete copies of medical records for 100 patients treated at each of those hospitals between September 2008 and June 2012. The investigation is being conducted by the United States Department of Justice (the “DOJ”). On April 24, 2014, we received document subpoenas relating to an additional seven of our hospitals. The new subpoenas reference substantially similar investigation subject matter as the original subpoenas and request materials from the period January 2008 through December 2013. Two of the four hospitals addressed in the original set of subpoenas have received supplemental subpoenas to cover this new time period. The most recent subpoenas do not include requests for specific patient files. However, in February 2015, the DOJ requested the voluntary production of the medical records of an additional 70 patients, some of whom were treated in hospitals not subject to the subpoenas, and we provided these records. We have not received any subsequent requests for medical records from the DOJ.

All of the subpoenas are in connection with an investigation of alleged improper or fraudulent claims submitted to Medicare and Medicaid and request documents and materials relating to practices, procedures, protocols and policies, of certain pre- and post-admissions activities at these hospitals including, among other things, marketing functions, pre-admission screening, post-admission physician evaluations, patient assessment instruments, individualized patient plans of care, and compliance with the Medicare 60% rule. Under the Medicare rule commonly referred to as the “60% rule,” an inpatient rehabilitation hospital must treat 60% or more of its patients from at least one of a specified list of medical conditions in order to be reimbursed at the inpatient rehabilitation hospital payment rates, rather than at the lower acute care hospital payment rates.

We are cooperating fully with the DOJ in connection with this investigation and are currently unable to predict the timing or outcome of it. We intend to vigorously defend ourselves in this matter. Based on discussions with the DOJ, review of the current facts and circumstances as we understand them, and the nature of the investigation, it is not possible to estimate an amount of loss, if any, or range of possible loss that might result from it.

Other Matters—

The False Claims Act allows private citizens, called “relators,” to institute civil proceedings alleging violations of the False Claims Act. These qui tam cases are sealed by the court at the time of filing. Prior to the release of the seal by the presiding court, the only parties typically privy to the information contained in the complaint are the relator, the federal government, and the court. It is possible that qui tam lawsuits have been filed against us and that those suits remain under seal or that we are unaware of such filings or prevented by existing law, or court order from discussing or disclosing the filing of such suits. We may be subject to liability under one or more undisclosed qui tam cases brought pursuant to the False Claims Act.

It is our obligation as a participant in Medicare and other federal healthcare programs to routinely conduct audits and reviews of the accuracy of our billing systems and other regulatory compliance matters. As a result of these reviews, we have made, and will continue to make, disclosures to the HHS-OIG and the United States Centers for Medicare and Medicaid Services relating to amounts we suspect represent over-payments from these programs, whether due to inaccurate billing or otherwise. Some of these disclosures have resulted in, or may result in, HealthSouth refunding amounts to Medicare or other federal healthcare programs.

12. Segment Reporting

Our internal financial reporting and management structure is focused on the major types of services provided by HealthSouth. We manage our operations using two operating segments which are also our reportable segments: (1) inpatient rehabilitation and (2) home health and hospice. These reportable operating segments are consistent with information used by our chief executive officer, who is our chief operating decision maker, to assess performance and allocate resources. The following is a brief description of our reportable segments:

Inpatient Rehabilitation - Our national network of inpatient rehabilitation hospitals stretches across 31 states and Puerto Rico, with a concentration of hospitals in the eastern half of the United States and Texas. As of September 30, 2017, we operate 126 inpatient rehabilitation hospitals, including one hospital that operates as a joint venture which we account for using the equity method of accounting. In addition, we manage four inpatient rehabilitation units through management contracts. We provide specialized rehabilitative treatment on both an inpatient and outpatient

basis. Our inpatient rehabilitation hospitals provide a higher level of rehabilitative care to

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patients who are recovering from conditions such as stroke and other neurological disorders, cardiac and pulmonary conditions, brain and spinal cord injuries, complex orthopedic conditions, and amputations.

Home Health and Hospice - As of September 30, 2017, we provide home health and hospice services in 235 locations across 28 states. Two of these home health locations operate as joint ventures which we account for using the equity method of accounting. Our home health services include a comprehensive range of Medicare-certified home nursing services to adult patients in need of care. These services include, among others, skilled nursing, physical, occupational, and speech therapy, medical social work, and home health aide services. Our hospice services primarily include in-home services to terminally ill patients and their families to address patients' physical needs, including pain control and symptom management, and to provide emotional and spiritual support.

The accounting policies of our reportable segments are the same as those described in Note 1, Summary of Significant Accounting Policies, to the consolidated financial statements accompanying the 2016 Form 10-K. All revenues for our services are generated through external customers. See Note 1, Basis of Presentation, "Net Operating Revenues," for the payor composition of our revenues. No corporate overhead is allocated to either of our reportable segments. Our chief operating decision maker evaluates the performance of our segments and allocates resources to them based on adjusted earnings before interest, taxes, depreciation, and amortization ("Segment Adjusted EBITDA").

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Selected financial information for our reportable segments is as follows (in millions):

	Inpatient Rehabilitation				Home Health and Hospice			
	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016	2017	2016	2017	2016
Net operating revenues	\$794.8	\$751.7	\$2,377.3	\$2,253.5	\$200.8	\$175.1	\$574.4	\$503.8
Less: Provision for doubtful accounts	(11.3)	(13.7)	(38.4)	(43.8)	(1.3)	(1.1)	(4.3)	(2.9)
Net operating revenues less provision for doubtful accounts	783.5	738.0	2,338.9	2,209.7	199.5	174.0	570.1	500.9
Operating expenses:								
Inpatient rehabilitation:								
Salaries and benefits	403.2	371.2	1,195.7	1,107.2	—	—	—	—
Other operating expenses	117.4	110.1	342.1	321.7	—	—	—	—
Supplies	33.1	31.9	100.6	96.1	—	—	—	—
Occupancy costs	15.7	15.0	46.3	46.0	—	—	—	—
Home health and hospice:								
Cost of services sold (excluding depreciation and amortization)	—	—	—	—	93.5	86.8	271.2	246.8
Support and overhead costs	—	—	—	—	68.9	59.5	203.4	174.5
	569.4	528.2	1,684.7	1,571.0	162.4	146.3	474.6	421.3
Other income	(1.0)	(0.8)	(2.9)	(2.1)	—	—	—	—
Equity in net income of nonconsolidated affiliates	(1.9)	(2.3)	(5.6)	(6.7)	(0.2)	(0.2)	(0.6)	(0.6)
Noncontrolling interests	16.7	14.3	48.6	47.9	2.5	2.1	4.6	5.8
Segment Adjusted EBITDA	\$200.3	\$198.6	\$614.1	\$599.6	\$34.8	\$25.8	\$91.5	\$74.4
Capital expenditures	\$59.1	\$42.7	\$164.7	\$128.9	\$1.7	\$2.2	\$5.6	\$4.6

	Inpatient Rehabilitation	Home Health and Hospice	HealthSouth Consolidated
As of September 30, 2017			
Total assets	\$ 3,812.4	\$1,141.4	\$ 4,883.4
Investments in and advances to nonconsolidated affiliates	10.0	2.6	12.6
As of December 31, 2016			
Total assets	\$ 3,629.6	\$1,123.7	\$ 4,681.9
Investments in and advances to nonconsolidated affiliates	10.6	2.4	13.0

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Segment reconciliations (in millions):

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Total segment Adjusted EBITDA	\$235.1	\$224.4	\$705.6	\$674.0
General and administrative expenses	(39.7)	(30.3)	(128.6)	(96.6)
Depreciation and amortization	(46.2)	(43.5)	(137.2)	(128.8)
Loss on disposal of assets	(3.0)	(1.6)	(3.3)	(2.0)
Professional fees—accounting, tax, and legal	—	—	—	(1.9)
Loss on early extinguishment of debt	(0.3)	(2.6)	(10.7)	(7.4)
Interest expense and amortization of debt discounts and fees	(36.8)	(42.5)	(118.5)	(130.5)
Net income attributable to noncontrolling interests	19.2	16.4	53.2	53.7
Income from continuing operations before income tax expense	\$128.3	\$120.3	\$360.5	\$360.5
			September 30, 2017	December 31, 2016
Total assets for reportable segments			\$ 4,953.8	\$ 4,753.3
Reclassification of deferred income tax liabilities to net deferred income tax assets			(70.4)	(71.4)
Total consolidated assets			\$ 4,883.4	\$ 4,681.9

Additional detail regarding the revenues of our operating segments by service line follows (in millions):

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Inpatient rehabilitation:				
Inpatient	\$768.6	\$724.1	\$2,297.7	\$2,164.6
Outpatient and other	26.2	27.6	79.6	88.9
Total inpatient rehabilitation	794.8	751.7	2,377.3	2,253.5
Home health and hospice:				
Home health	181.2	162.0	519.4	470.0
Hospice	19.6	13.1	55.0	33.8
Total home health and hospice	200.8	175.1	574.4	503.8
Total net operating revenues	\$995.6	\$926.8	\$2,951.7	\$2,757.3

13. Condensed Consolidating Financial Information

The accompanying condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X, Rule 3-10, "Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered." Each of the subsidiary guarantors is 100% owned by HealthSouth, and all guarantees are full and unconditional and joint and several, subject to certain customary conditions for release. HealthSouth's investments in its consolidated subsidiaries, as well as guarantor subsidiaries' investments in nonguarantor subsidiaries and nonguarantor subsidiaries' investments in guarantor subsidiaries, are presented under the equity method of accounting with the related investment presented within the line items Intercompany receivable and investments in consolidated affiliates and Intercompany payable in the accompanying condensed consolidating balance sheets.

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The terms of our credit agreement allow us to declare and pay cash dividends on our common stock so long as: (1) we are not in default under our credit agreement and (2) our senior secured leverage ratio (as defined in our credit agreement) remains less than or equal to 2x. The terms of our senior note indenture allow us to declare and pay cash dividends on our common stock so long as (1) we are not in default, (2) the consolidated coverage ratio (as defined in the indenture) exceeds 2x or we are otherwise allowed under the indenture to incur debt, and (3) we have capacity under the indenture's restricted payments covenant to declare and pay dividends. See Note 9, Long-term Debt, to the consolidated financial statements accompanying the 2016 Form 10-K.

Periodically, certain wholly owned subsidiaries of HealthSouth make dividends or distributions of available cash and/or intercompany receivable balances to their parents. In addition, HealthSouth makes contributions to certain wholly owned subsidiaries. When made, these dividends, distributions, and contributions impact the Intercompany receivable and investments in consolidated affiliates, Intercompany payable, and HealthSouth shareholders' equity line items in the accompanying condensed consolidating balance sheet but have no impact on the consolidated financial statements of HealthSouth Corporation.

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Condensed Consolidating Statement of Operations

	Three Months Ended September 30, 2017				
	HealthSouth Corporation	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminating Entries	HealthSouth Consolidated
	(In Millions)				
Net operating revenues	\$5.3	\$ 555.2	\$ 466.5	\$ (31.4)	\$ 995.6
Less: Provision for doubtful accounts	—	(7.7)	(4.9)	—	(12.6)
Net operating revenues less provision for doubtful accounts	5.3	547.5	461.6	(31.4)	983.0
Operating expenses:					
Salaries and benefits	9.1	266.4	271.9	(5.3)	542.1
Other operating expenses	8.0	83.6	58.2	(12.2)	137.6
Occupancy costs	0.4	23.4	8.7	(13.9)	18.6
Supplies	—	22.4	14.1	—	36.5
General and administrative expenses	35.6	—	4.1	—	39.7
Depreciation and amortization	2.0	25.8	18.4	—	46.2
Total operating expenses	55.1	421.6	375.4	(31.4)	820.7
Loss on early extinguishment of debt	0.3	—	—	—	0.3
Interest expense and amortization of debt discounts and fees	30.8	5.3	6.3	(5.6)	36.8
Other income	(5.7)	(0.1)	(0.8)	5.6	(1.0)
Equity in net income of nonconsolidated affiliates	—	(1.9)	(0.2)	—	(2.1)
Equity in net income of consolidated affiliates	(85.0)	(11.8)	—	96.8	—
Management fees	(35.8)	26.4	9.4	—	—
Income from continuing operations before income tax (benefit) expense	45.6	108.0	71.5	(96.8)	128.3
Provision for income tax (benefit) expense	(20.4)	43.1	20.4	—	43.1
Income from continuing operations	66.0	64.9	51.1	(96.8)	85.2
Loss from discontinued operations, net of tax	(0.1)	—	—	—	(0.1)
Net income	65.9	64.9	51.1	(96.8)	85.1
Less: Net income attributable to noncontrolling interests	—	—	(19.2)	—	(19.2)
Net income attributable to HealthSouth	\$65.9	\$ 64.9	\$ 31.9	\$ (96.8)	\$ 65.9
Comprehensive income	\$65.9	\$ 64.9	\$ 51.1	\$ (96.8)	\$ 85.1
Comprehensive income attributable to HealthSouth	\$65.9	\$ 64.9	\$ 31.9	\$ (96.8)	\$ 65.9

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	Three Months Ended September 30, 2016					
	HealthSouth Corporation	Subsidiaries	Grantor Subsidiaries	Nonguarantor Subsidiaries	Eliminating Entries	HealthSouth Consolidated
	(In Millions)					
Net operating revenues	\$4.9	\$ 541.8		\$ 409.8	\$ (29.7)	\$ 926.8
Less: Provision for doubtful accounts	—	(10.0)		(4.8)	—	(14.8)
Net operating revenues less provision for doubtful accounts	4.9	531.8		405.0	(29.7)	912.0
Operating expenses:						
Salaries and benefits	10.4	250.2		241.4	(4.6)	497.4
Other operating expenses	6.4	79.4		52.3	(11.8)	126.3
Occupancy costs	0.6	22.4		7.9	(13.3)	17.6
Supplies	—	22.4		12.4	—	34.8
General and administrative expenses	30.4	—		(0.1)	—	30.3
Depreciation and amortization	2.3	25.9		15.3	—	43.5
Total operating expenses	50.1	400.3		329.2	(29.7)	749.9
Loss on early extinguishment of debt	2.6	—		—	—	2.6
Interest expense and amortization of debt discounts and fees	36.3	5.4		5.8	(5.0)	42.5
Other income	(5.1)	(0.1)		(0.6)	5.0	(0.8)
Equity in net income of nonconsolidated affiliates	—	(2.3)		(0.2)	—	(2.5)
Equity in net income of consolidated affiliates	(85.7)	(9.8)		—	95.5	—
Management fees	(33.9)	25.8		8.1	—	—
Income from continuing operations before income tax (benefit) expense	40.6	112.5		62.7	(95.5)	120.3
Provision for income tax (benefit) expense	(21.2)	44.9		18.4	—	42.1
Income from continuing operations	61.8	67.6		44.3	(95.5)	78.2
Loss from discontinued operations, net of tax	(0.1)	—		—	—	(0.1)
Net income	61.7	67.6		44.3	(95.5)	78.1
Less: Net income attributable to noncontrolling interests	—	—		(16.4)	—	(16.4)
Net income attributable to HealthSouth	\$61.7	\$ 67.6		\$ 27.9	\$ (95.5)	\$ 61.7
Comprehensive income	\$61.6	\$ 67.6		\$ 44.3	\$ (95.5)	\$ 78.0
Comprehensive income attributable to HealthSouth	\$61.6	\$ 67.6		\$ 27.9	\$ (95.5)	\$ 61.6

HealthSouth Corporation and Subsidiaries
 Notes to Condensed Consolidated Financial Statements
 Condensed Consolidating Statement of Operations

	Nine Months Ended September 30, 2017				
	HealthSouth Corporation	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminating Entries	HealthSouth Consolidated
	(In Millions)				
Net operating revenues	\$ 15.9	\$ 1,693.9	\$ 1,336.2	\$ (94.3	) \$ 2,951.7
Less: Provision for doubtful accounts	—	(27.3	) (15.4	) —	(42.7
Net operating revenues less provision for doubtful accounts	15.9	1,666.6	1,320.8	(94.3	) 2,909.0
Operating expenses:					
Salaries and benefits	29.1	803.7	783.0	(15.8	) 1,600.0
Other operating expenses	23.8	239.5	170.2	(36.3	) 397.2
Occupancy costs	1.4	70.0	25.6	(42.2	) 54.8
Supplies	—	69.4	41.2	—	110.6
General and administrative expenses	104.7	—	23.9	—	128.6
Depreciation and amortization	6.7	77.3	53.2	—	137.2
Total operating expenses	165.7	1,259.9	1,097.1	(94.3	) 2,428.4
Loss on early extinguishment of debt	10.7	—	—	—	10.7
Interest expense and amortization of debt discounts and fees	100.5	15.9	18.1	(16.0	) 118.5
Other income	(16.5	) (0.2	) (2.2	) 16.0	(2.9
Equity in net income of nonconsolidated affiliates	—	(5.6	) (0.6	) —	(6.2
Equity in net income of consolidated affiliates	(256.4	) (29.3	) —	285.7	—
Management fees	(107.8	) 80.7	27.1	—	—
Income from continuing operations before income tax (benefit) expense	119.7	345.2	181.3	(285.7	) 360.5
Provision for income tax (benefit) expense	(76.2	) 137.7	49.9	—	111.4
Income from continuing operations	195.9	207.5	131.4	(285.7	) 249.1
Loss from discontinued operations, net of tax	(0.2	) —	—	—	(0.2
Net income	195.7	207.5	131.4	(285.7	) 248.9
Less: Net income attributable to noncontrolling interests	—	—	(53.2	) —	(53.2
Net income attributable to HealthSouth	\$ 195.7	\$ 207.5	\$ 78.2	\$ (285.7	) \$ 195.7
Comprehensive income	\$ 196.0	\$ 207.5	\$ 131.4	\$ (285.7	) \$ 249.2
Comprehensive income attributable to HealthSouth	\$ 196.0	\$ 207.5	\$ 78.2	\$ (285.7	) \$ 196.0

HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Condensed Consolidating Statement of Operations

	Nine Months Ended September 30, 2016				
	HealthSouth Corporation	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminating Entries	HealthSouth Consolidated
	(In Millions)				
Net operating revenues	\$ 14.9	\$ 1,621.2	\$ 1,209.2	\$ (88.0)	\$ 2,757.3
Less: Provision for doubtful accounts	—	(32.1)	(14.6)	—	(46.7)
Net operating revenues less provision for doubtful accounts	14.9	1,589.1	1,194.6	(88.0)	2,710.6
Operating expenses:					
Salaries and benefits	32.7	746.4	704.2	(13.7)	1,469.6
Other operating expenses	18.9	230.1	152.4	(34.4)	367.0
Occupancy costs	2.4	67.2	23.8	(39.9)	53.5
Supplies	—	67.1	37.1	—	104.2
General and administrative expenses	94.7	—	1.9	—	96.6
Depreciation and amortization	7.1	77.3	44.4	—	128.8
Professional fees—accounting, tax, and legal	1.9	—	—	—	1.9
Total operating expenses	157.7	1,188.1	963.8	(88.0)	2,221.6
Loss on early extinguishment of debt	7.4	—	—	—	7.4
Interest expense and amortization of debt discounts and fees	111.7	16.3	17.2	(14.7)	130.5
Other income	(14.6)	(0.2)	(2.0)	14.7	(2.1)
Equity in net income of nonconsolidated affiliates	—	(6.7)	(0.6)	—	(7.3)
Equity in net income of consolidated affiliates	(259.7)	(30.8)	—	290.5	—
Management fees	(101.9)	77.0	24.9	—	—
Income from continuing operations before income tax (benefit) expense	114.3	345.4	191.3	(290.5)	360.5
Provision for income tax (benefit) expense	(68.3)	137.8	54.7	—	124.2
Income from continuing operations	182.6	207.6	136.6	(290.5)	236.3
Loss from discontinued operations, net of tax	(0.3)	—	—	—	(0.3)
Net income	182.3	207.6	136.6	(290.5)	236.0
Less: Net income attributable to noncontrolling interests	—	—	(53.7)	—	(53.7)
Net income attributable to HealthSouth	\$ 182.3	\$ 207.6	\$ 82.9	\$ (290.5)	\$ 182.3
Comprehensive income	\$ 182.5	\$ 207.6	\$ 136.6	\$ (290.5)	\$ 236.2
Comprehensive income attributable to HealthSouth	\$ 182.5	\$ 207.6	\$ 82.9	\$ (290.5)	\$ 182.5

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HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Condensed Consolidating Balance Sheet

	As of September 30, 2017				
	HealthSouth Corporation	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminating Entries	HealthSouth Consolidated
	(In Millions)				
Assets					
Current assets:					
Cash and cash equivalents	\$46.4	\$ 3.3	\$ 17.9	\$—	\$ 67.6
Accounts receivable, net	—	266.4	175.2	—	441.6
Other current assets	66.0	22.1	130.6	(40.5)	178.2
Total current assets	112.4	291.8	323.7	(40.5)	687.4
Property and equipment, net	87.7	977.3	417.3	—	1,482.3
Goodwill	—	854.6	1,117.1	—	1,971.7
Intangible assets, net	11.6	107.5	286.0	—	405.1
Deferred income tax assets	106.5	57.7	—	(72.6)	91.6
Other long-term assets	50.9	107.3	87.1	—	245.3
Intercompany notes receivable	503.4	—	—	(503.4)	—
Intercompany receivable and investments in consolidated affiliates	2,821.6	221.1	—	(3,042.7)	—
Total assets	\$3,694.1	\$ 2,617.3	\$ 2,231.2	\$(3,659.2)	\$ 4,883.4
Liabilities and Shareholders' Equity					
Current liabilities:					
Current portion of long-term debt	\$32.7	\$ 7.2	\$ 8.7	\$(17.5)	\$ 31.1
Accounts payable	11.2	46.2	24.4	—	81.8
Accrued expenses and other current liabilities	180.7	84.9	155.7	(23.0)	398.3
Total current liabilities	224.6	138.3	188.8	(40.5)	511.2
Long-term debt, net of current portion	2,301.7	244.2	45.4	—	2,591.3
Intercompany notes payable	—	—	503.4	(503.4)	—
Other long-term liabilities	31.4	17.0	210.4	(72.4)	186.4
Intercompany payable	—	—	135.8	(135.8)	—
	2,557.7	399.5	1,083.8	(752.1)	3,288.9
Commitments and contingencies					
Redeemable noncontrolling interests	—	—	221.3	—	221.3
Shareholders' equity:					
HealthSouth shareholders' equity	1,136.4	2,217.8	689.3	(2,907.1)	1,136.4
Noncontrolling interests	—	—	236.8	—	236.8
Total shareholders' equity	1,136.4	2,217.8	926.1	(2,907.1)	1,373.2
Total liabilities and shareholders' equity	\$3,694.1	\$ 2,617.3	\$ 2,231.2	\$(3,659.2)	\$ 4,883.4

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HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Condensed Consolidating Balance Sheet

	As of December 31, 2016				
	HealthSouth Corporation	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminating Entries	HealthSouth Consolidated
	(In Millions)				
Assets					
Current assets:					
Cash and cash equivalents	\$20.6	\$ 1.6	\$ 18.3	\$—	\$ 40.5
Accounts receivable, net	—	273.3	170.5	—	443.8
Other current assets	49.9	24.0	114.9	(18.6)	170.2
Total current assets	70.5	298.9	303.7	(18.6)	654.5
Property and equipment, net	41.6	979.7	370.5	—	1,391.8
Goodwill	—	858.4	1,068.8	—	1,927.2
Intangible assets, net	12.0	115.5	283.8	—	411.3
Deferred income tax assets	90.9	57.6	—	(72.7)	75.8
Other long-term assets	49.0	95.1	77.2	—	221.3
Intercompany notes receivable	528.8	—	—	(528.8)	—
Intercompany receivable and investments in consolidated affiliates	2,855.5	107.7	—	(2,963.2)	—
Total assets	\$3,648.3	\$ 2,512.9	\$ 2,104.0	\$(3,583.3)	\$ 4,681.9
Liabilities and Shareholders' Equity					
Current liabilities:					
Current portion of long-term debt	\$40.0	\$ 6.4	\$ 8.2	\$(17.5)	\$ 37.1
Accounts payable	7.0	37.2	24.1	—	68.3
Accrued expenses and other current liabilities	150.7	81.7	138.9	(1.1)	370.2
Total current liabilities	197.7	125.3	171.2	(18.6)	475.6
Long-term debt, net of current portion	2,679.2	248.9	51.2	—	2,979.3
Intercompany notes payable	—	—	528.8	(528.8)	—
Other long-term liabilities	35.5	15.2	181.6	(72.3)	160.0
Intercompany payable	—	—	167.6	(167.6)	—
	2,912.4	389.4	1,100.4	(787.3)	3,614.9
Commitments and contingencies					
Redeemable noncontrolling interests	—	—	138.3	—	138.3
Shareholders' equity:					
HealthSouth shareholders' equity	735.9	2,123.5	672.5	(2,796.0)	735.9
Noncontrolling interests	—	—	192.8	—	192.8
Total shareholders' equity	735.9	2,123.5	865.3	(2,796.0)	928.7
Total liabilities and shareholders' equity	\$3,648.3	\$ 2,512.9	\$ 2,104.0	\$(3,583.3)	\$ 4,681.9

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HealthSouth Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Condensed Consolidating Statement of Cash Flows

	Nine Months Ended September 30, 2017				
	HealthSouth Corporation	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminating Entries	HealthSouth Consolidated
	(In Millions)				
Net cash provided by operating activities	\$47.0	\$ 261.5	\$ 197.3	\$ —	\$ 505.8
Cash flows from investing activities:					
Purchases of property and equipment	(23.5)	(67.7)	(64.5)	—	(155.7)
Additions to capitalized software costs	(12.1)	(0.2)	(2.3)	—	(14.6)
Acquisitions of businesses, net of cash acquired	(10.9)	—	(25.7)	—	(36.6)
Net change in restricted cash	—	—	(9.9)	—	(9.9)
Proceeds from repayment of intercompany note receivable	33.0	—	—	(33.0)	—
Other, net	(2.7)	11.7	(1.4)	—	7.6
Net cash used in investing activities	(16.2)	(56.2)	(103.8)	(33.0)	(209.2)
Cash flows from financing activities:					
Principal payments on debt, including pre-payments	(123.1)	—	(2.3)	—	(125.4)
Principal payments on intercompany note payable	—	—	(33.0)	33.0	—
Borrowings on revolving credit facility	241.3	—	—	—	241.3
Payments on revolving credit facility	(255.3)	—	—	—	(255.3)
Repurchases of common stock, including fees and expenses	(38.1)	—	—	—	(38.1)
Dividends paid on common stock	(67.0)	—	—	—	(67.0)
Proceeds from exercising stock warrants	26.6	—	—	—	26.6
Distributions paid to noncontrolling interests of consolidated affiliates	—	—	(38.3)	—	(38.3)
Taxes paid on behalf of employees for shares withheld	(19.5)	—	(0.3)	—	(19.8)
Other, net	(1.5)	(5.0)	13.0	—	6.5
Change in intercompany advances	231.6	(198.6)	(33.0)	—	—
Net cash used in financing activities	(5.0)	(203.6)	(93.9)	33.0	(269.5)
Increase (decrease) in cash and cash equivalents	25.8	1.7	(0.4)	—	27.1
Cash and cash equivalents at beginning of period	20.6	1.6	18.3	—	40.5