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

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FORM 10-Q

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

For the quarterly period ended September 30, 2017
OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-10315

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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 Birmingham, Alabama	35243
(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 ý No o

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

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

Large accelerated filer ý Accelerated filer o Smaller reporting company o
Non-Accelerated filer o (Do not check if a smaller reporting company) Emerging growth company o
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. o
Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes o No ý

The registrant had 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 it 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 “conti 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)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(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 September 30,		Nine Months Ended 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.
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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

(1) 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 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)

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.

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)

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 Ended September 30,		Nine Months Ended 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 Ended September 30,		Nine Months Ended 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 Ended September 30,		Nine Months Ended 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

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,		Nine Months Ended September 30,	
	2017	2016	2017	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,		Nine Months Ended September 30,	
	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):

	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):

		Fair Value Measurements at Reporting Date Using			
As of September 30, 2017	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique [1]
Other current assets:					
Current portion of restricted marketable securities	$ 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 September 30,		Nine Months Ended 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,		Nine Months Ended September 30,	
	2017	2016	2017	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,		Nine Months Ended September 30,	
	2017	2016	2017	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,		Nine Months Ended September 30,	
	2017	2016	2017	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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Condensed Consolidating Statement of Operations

	Three Months Ended September 30, 2016				
	HealthSouth Corporation	Guarantor 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

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

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

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
Cash and cash equivalents at end of period	$46.4	$ 3.3	$ 17.9	$ —	$ 67.6
Supplemental schedule of noncash financing activities:					
Conversion of convertible debt	$319.4	$ —	$ —	$ —	$ 319.4

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

	Nine Months Ended September 30, 2016				
	HealthSouth Corporation	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminating Entries	HealthSouth Consolidated
	(In Millions)				
Net cash provided by operating activities	$88.6	$ 260.2	$ 150.6	$ —	$ 499.4
Cash flows from investing activities:					
Purchases of property and equipment	(9.2)	(54.2)	(50.5)	—	(113.9)
Additions to capitalized software costs	(15.9)	(0.1)	(1.5)	—	(17.5)
Acquisitions of businesses, net of cash acquired	—	—	(19.6)	—	(19.6)
Net change in restricted cash	—	—	(7.1)	—	(7.1)
Funding of intercompany note receivable	(11.5)	—	—	11.5	—
Proceeds from repayment of intercompany note receivable	22.0	—	—	(22.0)	—
Other, net	(3.3)	0.5	4.6	—	1.8
Net cash used in investing activities	(17.9)	(53.8)	(74.1)	(10.5)	(156.3)
Cash flows from financing activities:					
Principal payments on debt, including pre-payments	(192.9)	(1.3)	(1.0)	—	(195.2)
Principal borrowings on intercompany note receivable	—	—	11.5	(11.5)	—
Principal payments on intercompany note payable	—	—	(22.0)	22.0	—
Borrowings on revolving credit facility	260.0	—	—	—	260.0
Payments on revolving credit facility	(240.0)	—	—	—	(240.0)
Repurchases of common stock, including fees and expenses	(24.1)	—	—	—	(24.1)
Dividends paid on common stock	(62.4)	—	—	—	(62.4)
Distributions paid to noncontrolling interests of consolidated affiliates	—	—	(49.5)	—	(49.5)
Taxes paid on behalf of employees for shares withheld	(9.9)	—	—	—	(9.9)
Other, net	3.3	(4.4)	(6.1)	—	(7.2)
Change in intercompany advances	210.2	(201.6)	(8.6)	—	—
Net cash used in financing activities	(55.8)	(207.3)	(75.7)	10.5	(328.3)
Increase (decrease) in cash and cash equivalents	14.9	(0.9)	0.8	—	14.8
Cash and cash equivalents at beginning of period	41.2	1.2	19.2	—	61.6
Cash and cash equivalents at end of period	$56.1	$ 0.3	$ 20.0	$ —	$ 76.4

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") relates to HealthSouth Corporation and its subsidiaries and should be read in conjunction with our condensed consolidated financial statements included under Part I, Item 1, Financial Statements (Unaudited), of this report. In addition, the following MD&A should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2016 and Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Exhibit 99.1 to our Current Report on Form 8-K filed on September 18, 2017 as well as Part I, Item 1, Business and Item 1A, Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed on February 22, 2017 (collectively, the "2016 Form 10-K").

This MD&A is designed to provide the reader with information that will assist in understanding our condensed consolidated financial statements, the changes in certain key items in those financial statements from period to period, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our condensed consolidated financial statements. See "Cautionary Statements Regarding Forward-Looking Statements" on page i of this report for a description of important factors that could cause actual results to differ from expected results. See also Item 1A, Risk Factors, of this report and to the 2016 Form 10-K.

Executive Overview

Our Business

We are 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 our network of inpatient rehabilitation hospitals, home health agencies, and hospice agencies. As discussed in this Item, "Segment Results of Operations," we manage our operations using two operating segments which are also our reportable segments: (1) inpatient rehabilitation and (2) home health and hospice. For additional information about our business, see Item 1, Business, of the 2016 Form 10-K.

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 rebranding is expected to be completed by the end of 2019. The total rebranding investment is estimated to be approximately $25 to $30 million, to be incurred between 2017 and 2019. Approximately $7 million to $10 million is expected to be incurred in 2017, of which $6 million to $8 million will be operating expenses and $1 million to $2 million will be capital expenditures. For the three and nine months ended September 30, 2017, General and administrative expenses in our condensed consolidated statements of operations included $1.5 million and $3.7 million, respectively, related to our rebranding and name change initiative.

Inpatient Rehabilitation

We are the nation's largest owner and operator of inpatient rehabilitation hospitals in terms of patients treated and discharged, revenues, and number of hospitals. We provide specialized rehabilitative treatment on both an inpatient and outpatient basis. We operate hospitals in 31 states and Puerto Rico, with concentrations 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 to HealthSouth hospitals, we manage four inpatient rehabilitation units through management contracts. Our inpatient rehabilitation segment represented approximately 80% of our Net operating revenues for the three and nine months ended September 30, 2017.

Home Health and Hospice

We are the nation's fourth largest provider of Medicare-certified skilled home health services in terms of revenues. As of September 30, 2017, we provide home health and hospice services in 235 locations across 28 states, with concentrations in the Southeast and Texas. 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. Our home health and hospice segment represented approximately 20% of our Net operating revenues for the three and nine months ended September 30, 2017.

2017 Overview

Our 2017 strategy focuses on the following priorities:

- continuing to provide high-quality, cost-effective care to patients in our existing markets;
- achieving organic growth at our existing hospitals, home health agencies, and hospice agencies;
- expanding our services to more patients who require post-acute healthcare services by constructing and acquiring new hospitals in new markets and acquiring home health and hospice agencies in new markets;
- continuing our shareholder distributions such as common stock dividends and repurchases of our common stock; and
- positioning the Company for success in the evolving healthcare delivery system through key operational initiatives including implementing a rebranding and name change, enhancing clinical collaboration between our inpatient rehabilitation hospitals and home health and hospice agencies, refining and expanding clinical data analytics utilization to further improve patient outcomes, leveraging clinical expertise to increase stroke admissions, completing the installation of our electronic clinical information system ("ACE-IT") in substantially all of our hospitals and enhancing utilization via continuous in-service upgrades, developing advanced analytics and predictive models for post-acute management (Post-Acute Innovation Center), and increasing participation in alternative payment models.

During the three and nine months ended September 30, 2017, Net operating revenues increased by 7.4% and 7.1% over the same periods of 2016 due primarily to pricing and volume growth in our inpatient rehabilitation segment and volume growth in our home health and hospice segment.

Within our inpatient rehabilitation segment, discharge growth of 3.8% coupled with a 2.2% increase in net patient revenue per discharge in the third quarter of 2017 generated 5.7% growth in net operating revenue from our hospitals compared to the third quarter of 2016. Discharge growth included a 1.4% increase in same-store discharges. During the nine months ended September 30, 2017, discharge growth of 3.4% coupled with a 2.7% increase in net patient revenue per discharge generated 5.5% growth in net operating revenue from our hospitals compared to the nine months ended September 30, 2016. Discharge growth for the nine-month period included a 1.4% increase in same-store discharges. Our inpatient rehabilitation outcome and certain quality measures, as reported through the Uniform Data System for Medical Rehabilitation (the "UDS"), remained well above the average for hospitals included in the UDS database.

Within our home health and hospice segment, home health admission growth of 15.5% coupled with the impact of a 0.3% decrease in revenue per episode in the third quarter of 2017 generated 14.7% growth in home health and hospice revenue compared to the third quarter of 2016. Home health admission growth included a 8.8% increase in same-store admissions. During the nine months ended September 30, 2017, home health admission growth of 18.2% coupled with the impact of a 1.1% decrease in revenue per episode generated 14.0% growth in home health and hospice revenue compared to the nine months ended September 30, 2016. Home health admission growth for the nine-month period included a 12.0% increase in same-store admissions. The quality of patient care star rating for our home health agencies continued to be well above the national average, as reported by the United States Centers for Medicare and Medicaid Services ("CMS"). In addition, 30-day readmission rates at our home health agencies continued to be well below the national average, as reported by Avalere Health and the Alliance for Home Health Quality and Innovation.

Our growth efforts thus far in 2017 related to our inpatient rehabilitation segment have included the following:

- began operating the 33-bed inpatient rehabilitation hospital in Gulfport, Mississippi with our joint venture partner, Memorial Hospital at Gulfport, in April 2017;
- began operating a new 60-bed inpatient rehabilitation hospital in Westerville, Ohio with our joint venture partner, Mount Carmel Health System, in April 2017;
- began operating a new 48-bed inpatient rehabilitation hospital in Jackson, Tennessee and our existing 40-bed inpatient rehabilitation hospital in Martin, Tennessee with our joint venture partner, West Tennessee Healthcare, in July 2017;
- continued planning the operation of our 29-bed joint venture hospital with Tidelands Health in Murrells Inlet, South Carolina. The joint venture's operation of the hospital is expected to begin in the second quarter of 2018;

- continued planning the construction of our 68-bed joint venture hospital with Novant Health, Inc. in Winston-Salem, North Carolina. The joint venture's operation of the hospital is expected to begin in the fourth quarter of 2018;
- continued our capacity expansions by adding 103 new beds to existing hospitals; and
- continued development of the following de novo hospitals:

Location	# of Beds	Actual / Expected Construction Start Date	Expected Operational Date
Pearland, Texas	40	Q4 2016	Q4 2017
Shelby County, Alabama	34	Q1 2017	Q2 2018
Hilton Head, South Carolina	38	Q2 2017	Q2 2018
Murrieta, California	50	Q4 2017	2019
Lubbock, TX	40	Spring 2018	2019

We also continued our growth efforts in our home health and hospice segment, which have included the following:

- 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;
- acquired the assets of two home health locations from Community Health Services, Inc. located in Owensboro, Kentucky and Elizabethtown, Kentucky in February 2017;
- 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 in May 2017;
- acquired the assets of four home health locations from VNA Healthtrends located in Bourbonnais, Illinois; Des Plaines, Illinois; Schererville, Indiana; and Tempe, Arizona in July 2017 and two additional home health locations in Forsyth, Illinois and Canton, Ohio in August 2017; and
- began accepting patients at our new home health location in Braintree, Massachusetts and new hospice locations in Amarillo, Texas and Austin, Texas.

To support our growth efforts, we continued taking steps to further increase the strength and flexibility of our balance sheet. Specifically, during the second quarter of 2017 we exercised the early redemption option and subsequently retired all $320 million of 2.00% Convertible Senior Subordinated Notes due 2043 (the “Convertible Notes”) reducing our long-term debt balance by approximately $278 million. In addition, in September 2017, we amended our existing credit agreement to increase the size of our revolving credit facility from $600 million to $700 million, decrease the balance of our term loan facilities by approximately $110 million to $300 million, reduce the interest rate spread by 25 basis points, extend the agreement's maturity by two years to 2022, and changed the covenants to, among other things, allow for additional capacity for investments, restricted payments, and capital expenditures. For additional information regarding the retirement of the Convertible Notes or the amendment of our existing credit agreement, see Note 5, Long-term Debt, to the condensed consolidated financial statements included in Part I, Item 1, Financial Statements (Unaudited), of this report and the “Liquidity and Capital Resources” section of this Item.

We have also continued our shareholder distributions in 2017. 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. In addition, we repurchased 0.9 million shares of our common stock in the open market for approximately $38 million during the nine months ended September 30, 2017. See also the “Liquidity and Capital Resources” section of this Item.

Business Outlook

We believe our business outlook remains positive for two primary reasons. First, demographic trends, such as population aging, should increase long-term demand for facility-based and home-based patient services. While we treat patients of all ages, most of our patients are 65 and older, and the number of Medicare enrollees is expected to grow approximately 3% per year for the foreseeable future. We believe the demand for facility-based and home-based patient services will continue to increase as the U.S. population ages and life expectancies increase.

Second, we are an industry leader in the growing post-acute sector. As the nation's largest owner and operator of inpatient rehabilitation hospitals in terms of patients treated and discharged, revenues, and number of hospitals, we believe we differentiate ourselves from our competitors based on our broad platform of clinical expertise, the quality of our clinical outcomes, the sustainability of best practices, and the application of rehabilitative technology. As the fourth largest provider of Medicare-certified skilled home health services in terms of revenues, we believe we differentiate ourselves from our competitors by virtue of our scale and density in the markets we serve, the application of a highly integrated technology platform, our ability to manage a variety of care pathways, and a proven track record of consummating and integrating acquisitions.

We have invested considerable resources into clinical and management systems and protocols that have allowed us to consistently produce high-quality outcomes for our patients while continuing to contain cost growth. Our proprietary hospital management reporting system aggregates data from each of our key business systems into a comprehensive reporting package used by the management teams in our hospitals, as well as executive management, and allows them to analyze data and trends and create custom reports on a timely basis. Our commitment to technology also includes the on-going implementation of ACE-IT. As of September 30, 2017, we had installed this system in 116 of our 126 hospitals, and we expect to complete installation in substantially all of our existing hospitals by the end of 2017. We believe this system will improve patient care and safety, enhance staff recruitment and retention, and set the stage for connectivity with other providers and health information exchanges. Our home health and hospice segment also uses information technology to enhance patient care and manage the business by utilizing Homecare Homebase^{SM}, a comprehensive information platform that allows home health providers to process clinical, compliance, and marketing information as well as analyze data and trends for management purposes using custom reports on a timely basis. This allows our home health segment to manage the entire patient work flow and provide valuable data for health systems, payors, and Accountable Care Organizations ("ACO") partners. We are currently the home health provider to one ACO serving approximately 22,000 patients and are exploring several other participation opportunities.

We believe these factors align with our strengths in, and focus on, post-acute healthcare services. In addition, we believe we can address the demand for facility-based and home-based patient services in markets where we currently do not have a presence by constructing or acquiring new hospitals and by acquiring home health and hospice agencies in that highly fragmented industry.

Longer term, the nature and timing of the transformation of the current healthcare system to coordinated care delivery and payment models is uncertain and will likely remain so for some time, as the development and implementation of new care delivery and payment systems will require significant time and resources. Furthermore, many of the alternative approaches being explored may not work as intended. However, as outlined in the 2016 Form 10-K (see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Executive Overview—Key Challenges—Changes to Our Operating Environment Resulting from Healthcare Reform"), our goal is to position the Company in a prudent manner to be responsive to industry shifts. We have invested in our core business and created an infrastructure that enables us to provide high-quality care on a cost-effective basis. We have been disciplined in creating a capital structure that is flexible with no significant debt maturities prior to 2022. Our balance sheet remains strong and includes a substantial portfolio of owned real estate. We have significant availability under our revolving credit facility, and we continue to generate strong cash flows from operations. Importantly, we have flexibility with how we choose to deploy our cash and create value for shareholders, including bed expansions at existing inpatient rehabilitation hospitals, acquisition and de novo construction of inpatient rehabilitation hospitals, acquisition and opening of home health agencies and hospice agencies, repayments of long-term debt, common stock dividends, and repurchases of our common stock. While our financial leverage increased as a result of the acquisitions discussed in Note 2, Business Combinations, to the consolidated financial statements accompanying the 2016 Form

10-K, we anticipate in the longer term reducing our financial leverage based on growth of Adjusted EBITDA and an allocation of a portion of our free cash flow to debt reduction.

For these and other reasons, we believe we will be able to adapt to changes in reimbursement, sustain our business model, and grow through acquisition and consolidation opportunities as they arise.

Key Challenges

The healthcare industry is facing many well-publicized regulatory and reimbursement challenges. The industry is also facing uncertainty associated with the efforts, primarily arising from initiatives included in the 2010 Healthcare Reform Laws (as defined in Item 1, Business, "Regulatory and Reimbursement Challenges" of the 2016 Form 10 K) to identify and implement workable coordinated care and integrated delivery payment models. Successful healthcare providers are those who provide high-quality, cost-effective care and have the ability to adjust to changes in the regulatory and operating environments. We believe we have the necessary capabilities — scale, infrastructure, balance sheet, and management — to adapt to changes and continue to succeed in a highly regulated industry, and we have a proven track record of doing so.

As we continue to execute our business plan, the following are some of the challenges we face.

- Operating in a Highly Regulated Industry. We are required to comply with extensive and complex laws and regulations at the federal, state, and local government levels. These rules and regulations have affected, or could in the future affect, our business activities by having an impact on the reimbursement we receive for services provided or the costs of compliance, mandating new documentation standards, requiring additional licensure or certification, regulating our relationships with physicians and other referral sources, regulating the use of our properties, and limiting our ability to enter new markets or add new capacity to existing hospitals and agencies. Ensuring continuous compliance with extensive laws and regulations is an operating requirement for all healthcare providers.

We have invested, and will continue to invest, substantial time, effort, and expense in implementing and maintaining training programs as well as internal controls and procedures designed to ensure regulatory compliance, and we are committed to continued adherence to these guidelines. More specifically, because Medicare comprises a significant portion of our Net operating revenues, it is particularly important for us to remain compliant with the laws and regulations governing the Medicare program and related matters including anti-kickback and anti-fraud requirements. If we were unable to remain compliant with these regulations, our financial position, results of operations, and cash flows could be materially, adversely impacted.

Concerns held by federal policymakers about the federal deficit and national debt levels, as well as other healthcare policy priorities, could result in enactment of legislation affecting portions of the Medicare program, including post-acute care services that we provide. It is not clear whether Congress will pass legislation to modify or repeal the 2010 Healthcare Reform Laws, nor is it clear what, if any, other Medicare-related changes may ultimately be enacted and signed into law or otherwise implemented or caused by the Trump Administration through regulatory procedures, but it is possible that any reductions in Medicare spending will have a material impact on reimbursements for healthcare providers generally and post-acute providers specifically. We cannot predict what, if any, changes in Medicare spending or modifications to the healthcare laws and regulations will result from future budget or other legislative or regulatory initiatives.

On July 31, 2017, CMS released its Notice of Final Rulemaking for Fiscal Year 2018 (the "2018 Final IRF Rule") for inpatient rehabilitation facilities under the inpatient rehabilitation facility prospective payment system (the "IRF-PPS"). The 2018 Final IRF Rule will implement a net 1.0% market basket increase effective for discharges between October 1, 2017 and September 30, 2018, in accordance with the Medicare Access and CHIP (Children's Health Insurance Program) Reauthorization Act of 2015. The 2018 Final IRF Rule also includes other changes that impact our hospital-by-hospital base rate for Medicare reimbursement. Such changes include, but are not limited to, revisions to the wage index values, changes to case mix-group relative weights and average length of stay values, and updates to the outlier fixed loss threshold. Based on our analysis which utilizes, among other things, the acuity of our patients over the 12-month period prior to the 2018 Final IRF Rule's release and incorporates other adjustments included in it, we believe the 2018 Final IRF Rule will result in a net increase to our Medicare payment rates of approximately 0.8% effective October 1, 2017.

Reimbursement claims made by healthcare providers, including inpatient rehabilitation hospitals as well as home health and hospice agencies, are subject to audit from time to time by governmental payors and their agents, such as the Medicare Administrative Contractors ("MACs"), fiscal intermediaries and carriers, as well as the Office of Inspector General, CMS, and state Medicaid programs. Under programs designated as "widespread probes," certain of our MACs have conducted pre-payment claim reviews of our billings and denied payment for certain diagnosis codes. We

dispute, or “appeal,” most of these denials, and for claims we choose to take to administrative law judge hearings, we have historically experienced an approximate 70% success rate. The appeals process established by CMS has encountered significant delays in recent years. The resolution of these disputes can take in excess of three years. Currently, administrative law judges are hearing HealthSouth appeals

from claims denied up to seven years ago. The majority of the denials we have encountered in these probes derive from two of our MACs and relate to determinations regarding medical necessity and provision of therapy services which represent their uniquely restrictive interpretations of the CMS rules. We continue to discuss our objections to those interpretations with both MACs and CMS. We cannot predict what, if any, changes will result from those discussions. If these MACs continue to deny a significant number of claims for certain diagnosis codes, we may experience increases in the Provision for doubtful accounts, decreases in cash flow as a result of increasing accounts receivable, and/or a shift in the patients and conditions we treat, any of which could have an adverse effect on our financial position, results of operations, and liquidity.

In May 2014, the American Hospital Association and others filed a lawsuit seeking to compel the United States Department of Health and Human Services ("HHS") to meet the statutorily required deadlines for adjudication of denied Medicare claims. In December 2016, the presiding federal district court judge in the lawsuit ordered HHS to reduce the backlog of appeals by 30% by the end of 2017, by 60% by the end of 2018, by 90% by the end of 2019, and completely by the end of 2020. HHS appealed the federal district court decision and an appeals court has remanded the order for further consideration of how HHS can eliminate the backlog. On January 17, 2017, CMS published a rule implementing procedural and administrative changes to the appeals process, but it is unclear what, if any, impact these changes will have on the backlog. This new rule may be subject to legal challenge by healthcare providers as well. We cannot predict what, if any, further action CMS will take to reduce the backlog. In recent filings, CMS projects the backlog will increase by the end of 2020.

In August 2017, CMS announced the Targeted Probe and Educate ("TPE") initiative which limits initial claim volume that can be selected by a MAC for a given pre-payment review and requires the MAC to provide review results, additional education, and a 'period of improvement' prior to selecting new claims for review. The TPE initiative is expected to be rolled out nation-wide by the end of 2017.

On July 25, 2017, CMS released its Notice of Proposed Rulemaking for Calendar Year 2018 (the "2018 Proposed HH Rule") for home health agencies under the home health prospective payment system (the "HH-PPS"). CMS estimates the proposed rule would cut Medicare payments to home health agencies by 0.4% in 2018. Specifically, while the proposed rule provided for a net 1.0% market basket update as required under the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA), that update was reduced by a nominal case-mix growth coding intensity adjustment of 0.9% (the third year of a three-year phase-in) and the expiration of the rural payment add-on of 3%. The 2018 Proposed HH Rule included other changes that would impact our agency-by-agency episode payment for Medicare reimbursement in 2018. Such changes include, but are not limited to, revisions to the case-mix weights, wage index values, and national per-visit payment amounts. The 2018 Proposed HH Rule would provide further updates to the home health value-based purchasing and home health quality reporting programs. While we continue to review the details of the 2018 Proposed HH Rule, we do not currently expect our 2018 net pricing impact to be substantially different from the estimated 0.4% decrease to the industry.

The 2018 Proposed HH Rule also proposes significant changes to the HH-PPS that would be effective on or after January 1, 2019. These changes would implement a new reimbursement case-mix methodology, called the home health groupings model ("HHGM"). The HHGM would use 30-day periods, rather than 60-day episodes, and rely more heavily on clinical characteristics and other patient information (such as principal diagnosis, functional level, referral source, and timing), rather than the current therapy service-use thresholds, to set payments. CMS estimates these changes would reduce Medicare home health payments by up to 4.3% in the aggregate in 2019 if implemented in a fully non-budget neutral basis. We are in the process of evaluating the proposals and their impact on our business, financial position, results of operations, and cash flows.

In addition to new reimbursement related rules, CMS has recently delayed rules we previously discussed in our 2016 Form 10-K. On January 3, 2017, CMS published its final rule providing for the creation and testing of three new episode payment models ("EPMs") as well as modification of the Comprehensive Care for Joint Replacement ("CJR") model. The three new Medicare EPMs are: (1) acute myocardial infarction model, (2) coronary artery bypass graft ("CABG") model, and (3) surgical hip/femur fracture treatment excluding lower extremity joint replacement ("SHFFT") model. Under the EPMs, as with the CJR model, acute care hospitals are financially accountable for the quality and cost of an episode of care, which is intended to incentivize increased coordination of care among hospitals, physicians,

and post-acute care providers. CMS subsequently delayed the start date for the EPMs to January 1, 2018. On August 15, 2017, CMS issued a proposed rule that would cancel the EPMs and revise certain aspects of the CJR model, including making acute care hospital participation voluntary, and not mandatory, in approximately half of the geographic areas originally designated for the model.

In 2016, CMS launched a three-year pre-claim review demonstration project for home health services. The project is intended to test whether pre-claim review improves methods for the identification, investigation, and prosecution of Medicare fraud and whether the pre-claim review helps reduce expenditures while maintaining or improving quality of care. The project covers agencies in the states of Illinois, Florida, Texas, Michigan, and Massachusetts and began in Illinois on August 3, 2016. Because of difficulties encountered in administering the project, implementation in Illinois has been paused, the start date in Florida has been delayed indefinitely, and the start dates for the other states have not been announced.

For additional discussion of our regulatory environment, including the payment models and the demonstration project, see Item 1, Business, "Sources of Revenues" and "Regulation," Item 1A, Risk Factors, and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Executive Overview—Key Challenges," to the 2016 Form 10-K and Note 11, Contingencies and Other Commitments, "Governmental Inquiries and Investigations," to the condensed consolidated financial statements included in Part I, Item 1, Financial Statements (Unaudited), of this report.

- Changes to Our Operating Environment Resulting from Healthcare Reform. Our challenges related to healthcare reform are discussed in Item 1, Business, "Sources of Revenues," Item 1A, Risk Factors, and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Executive Overview—Key Challenges," to the 2016 Form 10-K. Many provisions within the 2010 Healthcare Reform Laws have impacted, or could in the future impact, our business. Most notably for us are the reductions to our hospitals' annual market basket updates, including productivity adjustments, mandated reductions to home health and hospice Medicare reimbursements, and future payment reforms such as ACOs and bundled payments.

  While the change in administration has added to regulatory uncertainty, the healthcare industry in general has been facing uncertainty associated with the efforts to identify and implement workable coordinated care and integrated delivery payment models. In these models, hospitals, physicians, and other care providers work together to provide coordinated healthcare on a more efficient, patient-centered basis. These providers are then paid based on the efficiency and overall value and quality of the services they provide to a patient. While this is consistent with our goal and proven track record of being a high-quality, cost-effective provider, broad-based implementation of a new care delivery and payment model would represent a significant transformation for the healthcare industry. As the industry and its regulators explore this transformation, we are attempting to position the Company in preparation for whatever changes are ultimately made to the delivery system.

  Given the complexity and the number of changes in the 2010 Healthcare Reform Laws and other pending regulatory initiatives, we cannot predict their ultimate impact. As noted above, it is not clear whether Congress will pass legislation to modify or repeal the 2010 Healthcare Laws, nor can we predict whether other legislation affecting Medicare and post-acute care providers will be enacted, or what actions the Trump Administration may take or cause through the regulatory process that may result in modifications to the 2010 Healthcare Laws or the Medicare program. Therefore, the ultimate nature and timing of the transformation of the healthcare delivery system is uncertain, and will likely remain so for some time. We will continue to evaluate these laws and regulations and position the Company for this industry shift. Based on our track record, we believe we can adapt to these regulatory and industry changes. Further, we have engaged, and will continue to engage, actively in discussions with key legislators and regulators to attempt to ensure any healthcare laws or regulations adopted or amended promote our goal of high-quality, cost-effective care.

- Maintaining Strong Volume Growth. Various factors, including competition and increasing regulatory and administrative burdens, may impact our ability to maintain and grow our hospital, home health, and hospice volumes. In any particular market, we may encounter competition from local or national entities with longer operating histories or other competitive advantages, such as acute care hospitals who provide post-acute services similar to ours or other post-acute providers with relationships with referring acute care hospitals or physicians. Aggressive payment review practices by Medicare contractors, aggressive enforcement of regulatory policies by government agencies, and restrictive or burdensome rules, regulations or statutes governing admissions practices may lead us to not accept patients who would be appropriate for and would benefit from the services we provide. In addition, from time to time, we must get regulatory approval to expand our services and locations in states with certificate of need laws. This

approval may be withheld or take longer than expected. In the case of new-store volume growth, the addition of hospitals, home health agencies, and hospice agencies to our portfolio also may be difficult and take longer than expected.

- Recruiting and Retaining High-Quality Personnel. See Item 1A, Risk Factors, to the 2016 Form 10-K for a discussion of competition for staffing, shortages of qualified personnel, and other factors that may increase our

labor costs. Recruiting and retaining qualified personnel for our inpatient hospitals and home health and hospice agencies remain a high priority for us. We attempt to maintain a comprehensive compensation and benefits package that allows us to remain competitive in this challenging staffing environment while remaining consistent with our goal of being a high-quality, cost-effective provider of post-acute services.

See also Item 1, Business, Item 1A, Risk Factors, and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Executive Overview—Key Challenges," to the 2016 Form 10 K.

These key challenges notwithstanding, we believe we have a strong business model, a strong balance sheet, and a proven track record of achieving strong financial and operational results. We are attempting to position the Company to respond to changes in the healthcare delivery system, and believe we will be in a position to take advantage of any opportunities that arise as the industry moves to this new stage. We believe we are positioned to continue to grow, adapt to external events, and create value for our shareholders in 2017 and beyond.

Results of Operations

Payor Mix

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

	Three Months Ended September 30,		Nine Months Ended 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%

For additional information regarding our payors, see the "Sources of Revenues" section of Item 1, Business, of the 2016 Form 10-K.

Our Results

For the three and nine months ended September 30, 2017 and 2016, our consolidated results of operations were as follows:

	Three Months Ended September 30,		Percentage Change	Nine Months Ended September 30,		Percentage Change
	2017	2016	2017 vs. 2016	2017	2016	2017 vs. 2016
	(In Millions, Except Percentage Change)					
Net operating revenues	$995.6	$926.8	7.4 %	$2,951.7	$2,757.3	7.1 %
Less: Provision for doubtful accounts	(12.6)	(14.8)	(14.9)%	(42.7)	(46.7)	(8.6)%
Net operating revenues less provision for doubtful accounts	983.0	912.0	7.8 %	2,909.0	2,710.6	7.3 %
Operating expenses:						
Salaries and benefits	542.1	497.4	9.0 %	1,600.0	1,469.6	8.9 %
Other operating expenses	137.6	126.3	8.9 %	397.2	367.0	8.2 %
Occupancy costs	18.6	17.6	5.7 %	54.8	53.5	2.4 %
Supplies	36.5	34.8	4.9 %	110.6	104.2	6.1 %
General and administrative expenses	39.7	30.3	31.0 %	128.6	96.6	33.1 %
Depreciation and amortization	46.2	43.5	6.2 %	137.2	128.8	6.5 %
Professional fees—accounting, tax, and legal	—	—	N/A	—	1.9	(100.0)%
Total operating expenses	820.7	749.9	9.4 %	2,428.4	2,221.6	9.3 %
Loss on early extinguishment of debt	0.3	2.6	(88.5)%	10.7	7.4	44.6 %
Interest expense and amortization of debt discounts and fees	36.8	42.5	(13.4)%	118.5	130.5	(9.2)%
Other income	(1.0)	(0.8)	25.0 %	(2.9)	(2.1)	38.1 %
Equity in net income of nonconsolidated affiliates	(2.1)	(2.5)	(16.0)%	(6.2)	(7.3)	(15.1)%
Income from continuing operations before income tax expense	128.3	120.3	6.7 %	360.5	360.5	— %
Provision for income tax expense	43.1	42.1	2.4 %	111.4	124.2	(10.3)%
Income from continuing operations	85.2	78.2	9.0 %	249.1	236.3	5.4 %
Loss from discontinued operations, net of tax	(0.1)	(0.1)	— %	(0.2)	(0.3)	(33.3)%
Net income	85.1	78.1	9.0 %	248.9	236.0	5.5 %
Less: Net income attributable to noncontrolling interests	(19.2)	(16.4)	17.1 %	(53.2)	(53.7)	(0.9)%
Net income attributable to HealthSouth	$65.9	$61.7	6.8 %	$195.7	$182.3	7.4 %

Provision for Doubtful Accounts and Operating Expenses as a % of Net Operating Revenues

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Provision for doubtful accounts	1.3 %	1.6 %	1.4 %	1.7 %
Operating expenses:				
Salaries and benefits	54.4%	53.7%	54.2%	53.3%
Other operating expenses	13.8%	13.6%	13.5%	13.3%
Occupancy costs	1.9 %	1.9 %	1.9 %	1.9 %
Supplies	3.7 %	3.8 %	3.7 %	3.8 %
General and administrative expenses	4.0 %	3.3 %	4.4 %	3.5 %
Depreciation and amortization	4.6 %	4.7 %	4.6 %	4.7 %
Professional fees—accounting, tax, and legal	— %	— %	— %	0.1 %
Total operating expenses	82.4%	80.9%	82.3%	80.6%

In the discussion that follows, we use “same-store” comparisons to explain the changes in certain performance metrics and line items within our financial statements. We calculate same-store comparisons based on hospitals and agencies open throughout both the full current periods and prior periods presented. These comparisons include the financial results of market consolidation transactions in existing markets, as it is difficult to determine, with precision, the incremental impact of these transactions on our results of operations.

Net Operating Revenues

Our consolidated Net operating revenues increased in the three and nine months ended September 30, 2017 over the same periods of 2016 due primarily to pricing and volume growth in our inpatient rehabilitation segment and volume growth in our home health and hospice segment. The three and nine months ended September 30, 2016 included the benefit of a retroactive indirect medical education (“IME”) adjustment of approximately $4 million at the former Reliant hospital in Woburn, Massachusetts. Medicare provides that hospitals with residents in an approved graduate medical education program receive an additional payment for a Medicare discharge to reflect higher patient care costs of teaching hospitals relative to non-teaching hospitals. See additional discussion in the “Segment Results of Operations” section of this Item.

Provision for Doubtful Accounts

Provision for doubtful accounts decreased in the three and nine months ended September 30, 2017 compared to the same periods of 2016 in terms of dollars and as a percent of Net operating revenues primarily due to a reduction in pre-payment claims denials. During the three months ended September 30, 2017, new additional documentation request protocols were issued to MACs by CMS under the TPE program, as previously discussed in the “Executive Overview” section of this Item.

Salaries and Benefits

Salaries and benefits increased in the three and nine months ended September 30, 2017 compared to the same periods of 2016 primarily due to increased patient volumes, including an increase in the number of full-time equivalents as a result of our 2017 and 2016 development activities, and increases in salary and benefit costs.

Salaries and benefits as a percent of Net operating revenues increased during the three and nine months ended September 30, 2017 compared to the same period of 2016 primarily as a result of an increase in full-time equivalents, salary and benefit cost increases, the aforementioned IME adjustment in the third quarter of 2016, and incremental compensation and benefit costs related to Hurricanes Harvey, Irma, and Maria. Full-time equivalents increased due to staffing increases at the former Reliant hospitals since their acquisition on October 1, 2015 and the ramping up of new hospitals in Bryan, Texas; Broken Arrow, Oklahoma; Modesto, California; Gulfport, Mississippi; Westerville, Ohio; and Jackson, Tennessee.

Salaries and benefits are expected to increase in the fourth quarter of 2017 due to an approximate 2.75% merit increase provided to our nonmanagement hospital employees effective October 1, 2017.

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Other Operating Expenses

Other operating expenses increased during the three and nine months ended September 30, 2017 compared to the same periods of 2016 primarily due to increased patient volumes at our hospitals. As a percent of Net operating revenues, Other operating expenses increased during the three and nine months ended September 30, 2017 compared to the same periods of 2016 primarily due to the aforementioned IME adjustment and hurricane-related expenses and losses.

Supplies

Supplies increased during the three and nine months ended September 30, 2017 compared to the same period of 2016 due primarily to increased patient volumes. As a percent of Net operating revenues, Supplies decreased during the three and nine months ended September 30, 2017 compared to the same period of 2016 primarily due to continued supply chain initiatives.

General and Administrative Expenses

General and administrative expenses increased during the three and nine months ended September 30, 2017 compared to the same periods of 2016 due primarily to increased salary and benefit costs, including expenses associated with stock appreciation rights. General and administrative expenses increased as a percent of Net operating revenues during the three and nine months ended September 30, 2017 compared to the same periods of 2016 primarily due to expenses associated with stock appreciation rights, our rebranding and name change, and the TeamWorks clinical collaboration initiative. For additional information on stock appreciation rights, see Note 13, Share-Based Payments, to the consolidated financial statements accompanying the 2016 Form 10-K, on the rebranding and name change initiative, see the “Executive Overview” section of this Item, and on TeamWorks, see Item 1, Business, “Overview of the Company—Competitive Strengths,” to the 2016 Form 10-K.

Depreciation and Amortization

Depreciation and amortization increased during the three and nine months ended September 30, 2017 compared to the same periods of 2016 due to our capital expenditures and development activities throughout 2016 and 2017.

Loss on Early Extinguishment of Debt

The Loss on early extinguishment of debt during the three months ended September 30, 2017 resulted from an amendment to our existing credit agreement. The Loss on early extinguishment of debt during the nine months ended September 30, 2017 primarily resulted from exercising the early redemption option on all $320 million of Convertible Notes resulting in the issuance of 8.9 million shares of common stock.

The Loss on early extinguishment of debt during the three and nine months ended September 30, 2016 resulted from the redemptions of our 7.75% Senior Notes due 2022 (the “2022 Notes”) in March, May, and September of 2016.

See Note 5, Long-term Debt, to the condensed consolidated financial statements included in Part I, Item 1, Financial Statements (Unaudited) and Note 9, Long-term Debt, to the consolidated financial statements accompanying the 2016 Form 10 K for additional information regarding these transactions.

Interest Expense and Amortization of Debt Discounts and Fees

The decrease in Interest expense and amortization of debt discounts and fees during the three and nine months ended September 30, 2017 compared to the same periods of 2016 primarily resulted from the redemptions of our 2022 Notes in 2016.

See Note 5, Long-term Debt, to the condensed consolidated financial statements included in Part I, Item 1, Financial Statements (Unaudited), of this report and Note 9, Long-term Debt, to the consolidated financial statements accompanying the 2016 Form 10-K.

Income from Continuing Operations Before Income Tax Expense

Our pre-tax income from continuing operations increased during the three months ended September 30, 2017 compared to the same periods of 2016 primarily due to increased Net operating revenues as discussed above.

Provision for Income Tax Expense

Our Provision for income tax expense 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 for the

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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 for the three and nine months ended September 30, 2016 primarily resulted from the application of our estimated effective blended federal and state income tax rate.

We currently estimate our cash payments for taxes to be approximately $90 million to $100 million, net of refunds, for 2017. These payments are expected to result from federal and state income tax expenses based on estimates of taxable income for 2017, net of tax deferral associated with pre-payment claims denials as discussed in Note 9, Income Taxes, to the condensed consolidated financial statements included in Part I, Item 1, Financial Statements (Unaudited), of this report. For the three months ended September 30, 2017 and 2016, current income tax expense was $36.0 million and $4.6 million, respectively. For the nine months ended September 30, 2017 and 2016, current income tax expense was $60.1 million and $13.6 million, respectively.

In certain jurisdictions, we do not expect to generate sufficient income to use all of the available state NOLs and other credits prior to their expiration. This determination is based on our evaluation of all available evidence in these jurisdictions including results of operations during the preceding three years, our forecast of future earnings, and prudent tax planning strategies. 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 tax jurisdiction, or if the timing of future tax deductions differs from our expectations.

We recognize the financial statement effects of uncertain tax positions when it is more likely than not, based on the technical merits, a position will be sustained upon examination by and resolution with the taxing authorities. Total remaining unrecognized tax benefits were $0.3 million and $2.8 million as of September 30, 2017 and December 31, 2016, respectively.

See Note 9, Income Taxes, to the condensed consolidated financial statements included in Part I, Item 1, Financial Statements (Unaudited), of this report and Note 15, Income Taxes, to the consolidated financial statements accompanying the 2016 Form 10-K.

Net Income Attributable to Noncontrolling Interests

The increase in Net Income Attributable to Noncontrolling Interests during the three months ended September 30, 2017 compared to the same period of 2016 primarily resulted from increased profitability of our joint ventures. The decrease in Net Income Attributable to Noncontrolling Interests during the nine months ended September 30, 2017 compared to the same period of 2016 primarily resulted from expenses associated with stock appreciation rights. See Note 13, Share-Based Payments, to the consolidated financial statements accompanying the 2016 Form 10-K.

Segment Results of Operations

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. For additional information regarding our business segments, including a detailed description of the services we provide, financial data for each segment, and a reconciliation of total segment Adjusted EBITDA to income from continuing operations before income tax expense, see Note 12, Segment Reporting, to the condensed consolidated financial statements included in Part I, Item 1, Financial Statements (Unaudited), of this report.

Inpatient Rehabilitation

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

	Three Months Ended September 30,		Nine Months Ended 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%

Additional information regarding our inpatient rehabilitation segment's operating results for the three and nine months ended September 30, 2017 and 2016 is as follows:

	Three Months Ended September 30,		Percentage Change	Nine Months Ended September 30,		Percentage Change
	2017	2016	2017 vs. 2016	2017	2016	2017 vs. 2016
	(In Millions, Except Percentage Change)					
Net operating revenues:						
Inpatient	$768.6	$724.1	6.1 %	$2,297.7	$2,164.6	6.1 %
Outpatient and other	26.2	27.6	(5.1)%	79.6	88.9	(10.5)%
Inpatient rehabilitation segment revenues	794.8	751.7	5.7 %	2,377.3	2,253.5	5.5 %
Less: Provision for doubtful accounts	(11.3)	(13.7)	(17.5)%	(38.4)	(43.8)	(12.3)%
Net operating revenues less provision for doubtful accounts	783.5	738.0	6.2 %	2,338.9	2,209.7	5.8 %
Operating expenses:						
Salaries and benefits	403.2	371.2	8.6 %	1,195.7	1,107.2	8.0 %
Other operating expenses	117.4	110.1	6.6 %	342.1	321.7	6.3 %
Supplies	33.1	31.9	3.8 %	100.6	96.1	4.7 %
Occupancy costs	15.7	15.0	4.7 %	46.3	46.0	0.7 %
Other income	(1.0)	(0.8)	25.0 %	(2.9)	(2.1)	38.1 %
Equity in net income of nonconsolidated affiliates	(1.9)	(2.3)	(17.4)%	(5.6)	(6.7)	(16.4)%
Noncontrolling interests	16.7	14.3	16.8 %	48.6	47.9	1.5 %
Segment Adjusted EBITDA	$200.3	$198.6	0.9 %	$614.1	$599.6	2.4 %
	(Actual Amounts)					
Discharges	42,948	41,368	3.8 %	128,012	123,831	3.4 %
Net patient revenue per discharge	$17,896	$17,504	2.2 %	$17,949	$17,480	2.7 %
Outpatient visits	138,689	158,981	(12.8)%	444,558	486,391	(8.6)%
Average length of stay (days)	12.8	12.7	0.8 %	12.8	12.8	— %
Occupancy %	68.2 %	67.8 %	0.6 %	68.6 %	68.4 %	0.3 %
# of licensed beds	8,748	8,441	3.6 %	8,748	8,441	3.6 %
Full-time equivalents*	20,740	19,663	5.5 %	20,489	19,506	5.0 %
Employees per occupied bed	3.52	3.48	1.1 %	3.46	3.42	1.2 %

* Excludes approximately 440 full-time equivalents for the three and nine months ended September 30, 2017 and approximately 420 full-time equivalents for the three and nine months ended September 30, 2016, who are considered part of corporate overhead with their salaries and benefits included in General and administrative expenses in our consolidated statements of operations. Full-time equivalents included in the above table represent HealthSouth employees who participate in or support the operations of our hospitals and exclude an estimate of full-time equivalents related to contract labor.

We actively manage the productive portion of our Salaries and benefits utilizing certain metrics, including employees per occupied bed, or "EPOB." This metric is determined by dividing the number of full-time equivalents, including an estimate of full-time equivalents from the utilization of contract labor, by the number of occupied beds during each period. The number of occupied beds is determined by multiplying the number of licensed beds by our occupancy percentage.

Net Operating Revenues

Net operating revenues were 5.7% higher during the three months ended September 30, 2017 compared to the same period of 2016. This increase included a 3.8% increase in patient discharges and a 2.2% increase in net patient revenue per

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discharge. Discharge growth included a 1.4% increase in same-store discharges. Discharge growth from new stores resulted from joint ventures in Bryan, Texas (August 2016), Broken Arrow, Oklahoma (August 2016), Gulfport, Mississippi (April 2017), Westerville, Ohio (April 2017), and Jackson, Tennessee (July 2017), as well as a wholly owned hospital in Modesto, California (October 2016). In addition, same-store discharge growth was negatively impacted 200 to 250 discharges, or 50 to 60 basis points, due to Hurricanes Harvey, Irma, and Maria. Growth in net patient revenue per discharge primarily resulted from patient mix. Net patient revenue per discharge in the third quarter of 2016 included the benefit of the aforementioned IME adjustment.

Net operating revenues were 5.5% higher during the nine months ended September 30, 2017 compared to the same period of 2016. This increase included a 3.4% increase in patient discharges and a 2.7% increase in net patient revenue per discharge. Discharge growth included a 1.4% increase in same-store discharges. Discharge growth and net patient revenue per discharge for the year-to-date period of 2017 were impacted by the same factors as discussed above for the third quarter of 2017. In addition, during the nine months ended September 30, 2016, net patient revenue per discharge was impacted by the ramping up of a new hospital in Hot Springs, Arkansas (February 2016) which is required to treat a minimum of 30 patients for zero revenue as part of the Medicare certification process.

The decrease in outpatient and other revenues for the three and nine months ended September 30, 2017 was primarily due to the closure of six outpatient programs in the latter half of 2016. In addition, the decrease in outpatient and other revenues for the nine months ended September 30, 2017 was also attributable to a $1.4 million provider tax recovery in the second quarter of 2016.

See Note 2, Business Combinations, to the condensed consolidated financial statements included in Part I, Item 1, Financial Statements (Unaudited), of this report and Note 2, Business Combinations, to the consolidated financial statements accompanying the 2016 Form 10-K for information regarding Reliant and Cardinal Hill.

Adjusted EBITDA

The increase in Adjusted EBITDA during the three and nine months ended September 30, 2017 compared to the same periods of 2016 primarily resulted from revenue growth, as discussed above. Expense ratios were negatively impacted by the aforementioned IME adjustment and $2.5 million in hurricane-related expenses in the third quarter of 2017. Salaries and benefits as a percent of net operating revenues was further impacted by salary and benefit cost increases, staffing increases at the former Reliant hospitals, and the ramping up of new stores. The Provision for doubtful accounts as a percent of net operating revenues decreased primarily due to a reduction in new pre-payment claims denials, as previously discussed.

Home Health and Hospice

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

	Three Months Ended September 30,		Nine Months Ended 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%

Additional information regarding our home health and hospice segment's operating results for the three and nine months ended September 30, 2017 and 2016 is as follows:

	Three Months Ended September 30,		Percentage Change	Nine Months Ended September 30,		Percentage Change
	2017	2016	2017 vs. 2016	2017	2016	2017 vs. 2016
	(In Millions, Except Percentage Change)					
Net operating revenues:						
Home health	$181.2	$162.0	11.9 %	$519.4	$470.0	10.5 %
Hospice	19.6	13.1	49.6 %	55.0	33.8	62.7 %
Home health and hospice segment revenues	200.8	175.1	14.7 %	574.4	503.8	14.0 %
Less: Provision for doubtful accounts	(1.3)	(1.1)	18.2 %	(4.3)	(2.9)	48.3 %
Net operating revenues less provision for doubtful accounts	199.5	174.0	14.7 %	570.1	500.9	13.8 %
Operating expenses:						
Cost of services sold (excluding depreciation and amortization)	93.5	86.8	7.7 %	271.2	246.8	9.9 %
Support and overhead costs	68.9	59.5	15.8 %	203.4	174.5	16.6 %
Equity in net income of nonconsolidated affiliates	(0.2)	(0.2)	— %	(0.6)	(0.6)	— %
Noncontrolling interests	2.5	2.1	19.0 %	4.6	5.8	(20.7)%
Segment Adjusted EBITDA	$34.8	$25.8	34.9 %	$91.5	$74.4	23.0 %
	(Actual Amounts)					
Home health:						
Admissions	31,471	27,239	15.5 %	93,104	78,755	18.2 %
Recertifications	24,396	20,888	16.8 %	67,510	60,773	11.1 %
Episodes	53,757	46,866	14.7 %	155,118	136,484	13.7 %
Average revenue per episode	$3,022	$3,032	(0.3)%	$3,001	$3,033	(1.1)%
Episodic visits per episode	17.7	19.0	(6.8)%	18.1	19.0	(4.7)%
Total visits	1,101,109	1,001,021	10.0 %	3,266,690	2,906,793	12.4 %
Cost per visit	$76	$75	1.3 %	$74	$74	— %
Hospice:						
Admissions	1,273	832	53.0 %	3,515	2,341	50.1 %
Patient days	123,491	83,628	47.7 %	345,237	218,336	58.1 %
Revenue per day	$159	$157	1.3 %	$159	$155	2.6 %

Net Operating Revenues

Home health and hospice revenue was 14.7% higher during the three months ended September 30, 2017 compared to the same period of 2016. This increase included a 15.5% increase in home health admissions and was impacted by a 0.3% decrease in average revenue per episode. Home health revenue growth resulted from strong same-store and new-store volume growth. Home health admission growth included an 8.8% increase in same-store admissions that was negatively impacted 325 to 375 admissions, or 120 to 140 basis points, due to Hurricanes Harvey and Irma. The decrease in average revenue per episode resulted from Medicare reimbursement rate cuts partially offset by changes in patient mix and reconciliation payments attributed to various alternative payment models (e.g., BPCI; ACOs). The increase in hospice and other revenue primarily resulted from acquisitions completed in 2016.

Medicaid payments decreased during the third quarter of 2017 compared to the same quarter of 2016 as a result of the divestiture of our pediatric home health assets in November 2016. See Note 7, Goodwill and Other Intangible Assets, to the consolidated financial statements accompanying the 2016 Form 10-K.

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Home health and hospice revenue was 14.0% higher during the nine months ended September 30, 2017 compared to the same period of 2016. This increase included a 18.2% increase in home health admissions and was impacted by a 1.1% decrease in average revenue per episode. Home health admission growth included a 12.0% increase in same-store admissions. Home health revenue growth from new stores and decrease in average revenue per episode resulted from the same factors discussed above for the third quarter of 2017.

Adjusted EBITDA

The increase in Adjusted EBITDA during the three and nine months ended September 30, 2017 compared to the same periods of 2016 primarily resulted from revenue growth and staffing productivity gains. Adjusted EBITDA for the segment during the three and nine months ended September 30, 2017 was impacted by approximately $0.3 million in hurricane-related expenses, lower average revenue per episode, and salary and benefit cost increases. Adjusted EBITDA for the segment during the three months ended September 30, 2017 also included a $0.9 million benefit from the true-up to the purchase price of a 2016 acquisition and was impacted by slightly higher cost per visit.

Liquidity and Capital Resources

Our primary sources of liquidity are cash on hand, cash flows from operations, and borrowings under our revolving credit facility.

The objectives of our capital structure strategy are to ensure we maintain adequate liquidity and flexibility. Pursuing and achieving those objectives allows us to support the execution of our operating and strategic plans and weather temporary disruptions in the capital markets and general business environment. Maintaining adequate liquidity is a function of our unrestricted Cash and cash equivalents and our available borrowing capacity. Maintaining flexibility in our capital structure is a function of, among other things, the amount of debt maturities in any given year, the options for debt prepayments without onerous penalties, and limiting restrictive terms and maintenance covenants in our debt agreements.

We have been disciplined in creating a capital structure that is flexible with no significant debt maturities prior to 2022. Our balance sheet remains strong, and we have significant availability under our credit agreement. We continue to generate strong cash flows from operations, and we have significant flexibility with how we choose to invest our cash and return capital to shareholders. While our financial leverage increased as a result of the acquisitions discussed in Note 2, Business Combinations, to the consolidated financial statements accompanying the 2016 Form 10-K, we continue to reduce our financial leverage based on growth of Adjusted EBITDA and an allocation of a portion of our free cash flow to debt reduction.

Consistent with these objectives, during the second quarter of 2017 we exercised the early redemption option and subsequently retired all $320 million of the Convertible Notes reducing our long-term debt balance by approximately $278 million. Substantially all of the holders elected to convert their Convertible Notes to shares of our common stock, which resulted in the issuance of 8.9 million shares from treasury stock. We redeemed $0.6 million in principal at par in cash. As a result of these transactions, we recorded a $10.4 million Loss on early extinguishment of debt in the second quarter of 2017.

In September 2017, we amended our existing credit agreement to increase the size of our revolving credit facility from $600 million to $700 million, decrease the balance of our term loan facilities by approximately $110 million to $300 million, reduce the interest rate spread by 25 basis points, extend the agreement's maturity by two years to 2022, and changed the covenants to, among other things, allow for additional capacity for investments, restricted payments, and capital expenditures. As a result of this amendment, we recorded a $0.3 million Loss on early extinguishment of debt in the third quarter of 2017.

For additional information regarding our indebtedness, see Note 5, Long-term Debt, to the condensed consolidated financial statements included in Part I, Item 1, Financial Statements (Unaudited), of this report and Note 9, Long-term Debt, to the consolidated financial statements accompanying the 2016 Form 10-K.

Current Liquidity

As of September 30, 2017, we had $67.6 million in Cash and cash equivalents. Cash and cash equivalents as of September 30, 2017 excluded $70.8 million in restricted cash (included in Other current assets) and $59.9 million of restricted marketable securities ($18.5 million included in Other current assets and $41.4 million included in Other long-term assets). Our restricted assets pertain primarily to obligations associated with our captive insurance

company, as well as obligations we have under agreements with joint venture partners. See Note 4, Cash and Marketable Securities, to the consolidated financial statements accompanying the 2016 Form 10-K.

In addition to Cash and cash equivalents, as of September 30, 2017, we had approximately $527 million available to us under our revolving credit facility. Our credit agreement governs the substantial majority of our senior secured borrowing

capacity and contains a leverage ratio and an interest coverage ratio as financial covenants. Our leverage ratio is defined in our credit agreement as the ratio of consolidated total debt (less up to $100 million of cash on hand) to Adjusted EBITDA for the trailing four quarters. In calculating the leverage ratio under our credit agreement, we are permitted to use pro forma Adjusted EBITDA, the calculation of which includes historical income statement items and pro forma adjustments resulting from (1) the dispositions and repayments or incurrence of debt and (2) the investments, acquisitions, mergers, amalgamations, consolidations and operational changes from acquisitions to the extent such items or effects are not yet reflected in our trailing four-quarter financial statements. Our interest coverage ratio is defined in our credit agreement as the ratio of Adjusted EBITDA to consolidated interest expense, excluding the amortization of financing fees, for the trailing four quarters. As of September 30, 2017, the maximum leverage ratio requirement per our credit agreement was 4.50x and the minimum interest coverage ratio requirement was 3.0x, and we were in compliance with these covenants. Based on Adjusted EBITDA for the trailing four quarters and the interest rate in effect under our credit agreement during the three-month period ended September 30, 2017, if we had drawn on the first day and maintained the maximum amount of outstanding draws under our revolving credit facility for that entire period, we would still be in compliance with the maximum leverage ratio and minimum interest coverage ratio requirements.

We do not face near-term refinancing risk, as the amounts outstanding under our credit agreement do not mature until 2022, and our bonds all mature in 2023 and beyond. See the “Contractual Obligations” section below for information related to our contractual obligations as of September 30, 2017.

As part of the Encompass acquisition, we acquired all of the issued and outstanding equity interests of EHHI, other than equity interests contributed to Holdings, a subsidiary of HealthSouth and an indirect parent of EHHI, by certain sellers in exchange for shares of common stock of Holdings. These certain sellers were members of Encompass management. These sellers contributed a portion of their shares of common stock of EHHI in exchange for approximately 16.7% of the outstanding shares of common stock of Holdings. At any time after December 31, 2017, each management investor will have the right (but not the obligation) to have his or her shares of Holdings stock repurchased by HealthSouth for a cash purchase price per share equal to the fair value. The fair value is determined using the product of the trailing 12-month specified performance measure for Holdings and a specified median market price multiple based on a basket of public home health companies. Specifically, up to one-third of each management investor’s shares of Holdings stock may be sold prior to December 31, 2018; two-thirds of each management investor’s shares of Holdings stock may be sold prior to December 31, 2019; and all of each management investor’s shares of Holdings stock may be sold thereafter. At any time after December 31, 2019, HealthSouth will have the right (but not the obligation) to repurchase all or any portion of the shares of Holdings stock owned by one or more management investors for a cash purchase price per share equal to the fair value. As of September 30, 2017, the value of those outstanding shares of Holdings is approximately $194 million. See Note 6, Redeemable Noncontrolling Interests, to the accompanying consolidated financial statements.

We anticipate we will continue to generate strong cash flows from operations that, together with availability under our revolving credit facility, will allow us to invest in growth opportunities and continue to improve our existing business. We also will continue to consider additional shareholder value-enhancing strategies such as repurchases of our common stock and distribution of common stock dividends, including the potential growth of the quarterly cash dividend on our common stock, recognizing that these actions may increase our leverage ratio. See also the “Authorizations for Returning Capital to Stakeholders” section of this Item.

For a discussion of risks and uncertainties facing us see Item 1A, Risk Factors under Part II, Other Information, of this report and Item 1A, Risk Factors, of the 2016 Form 10-K.

Sources and Uses of Cash

The following table shows the cash flows provided by or used in operating, investing, and financing activities for the nine months ended September 30, 2017 and 2016 (in millions):

	Nine Months Ended September 30,	
	2017	2016

Net cash provided by operating activities	$505.8	$499.4
Net cash used in investing activities	(209.2)	(156.3)
Net cash used in financing activities	(269.5)	(328.3)
Increase in cash and cash equivalents	$27.1	$14.8

Operating activities. The increase in Net cash provided by operating activities for the nine months ended September 30, 2017 compared to the same period of 2016 primarily resulted from revenue growth, as described above, and improved collection of accounts receivable offset by increased payments for income taxes following the exhaustion of our federal net operating loss in the first quarter of 2017.

Investing activities. The increase in Net cash used in investing activities during the nine months ended September 30, 2017 compared to the same period of 2016 primarily resulted from the increase in cash used for capital expenditures and acquisitions of businesses.

Financing activities. The decrease in Net cash used in financing activities during the nine months ended September 30, 2017 compared to the same period of 2016 primarily resulted from the proceeds received from the exercising of stock warrants and the decrease in cash used for principal debt payments, including the redemption of $176 million of the 2022 in March, May, and September of 2016 offset by the increase in cash used for repurchases of common stock.

Contractual Obligations

Our consolidated contractual obligations as of September 30, 2017 are as follows (in millions):

	Total	October 1 through December 31, 2017	2018 - 2019	2020 - 2021	2022 and thereafter
Long-term debt obligations:					
Long-term debt, excluding revolving credit facility and capital lease obligations [a]	$2,212.1	$ 4.0	$35.7	$31.2	$2,141.2
Revolving credit facility	138.0	—	—	—	138.0
Interest on long-term debt [b]	863.0	30.0	246.3	244.9	341.8
Capital lease obligations [c]	489.2	8.5	67.9	56.3	356.5
Operating lease obligations [d][e]	416.4	17.1	123.6	88.8	186.9
Purchase obligations [e][f]	86.3	11.6	47.7	23.7	3.3
Other long-term liabilities [g][h]	3.4	—	0.4	0.4	2.6
Total	$4,208.4	$ 71.2	$521.6	$445.3	$3,170.3

(a) Included in long-term debt are amounts owed on our bonds payable and other notes payable. These borrowings are further explained in Note 5, Long-term Debt, to the condensed consolidated financial statements included in Part I, Item 1, Financial Statements (Unaudited), of this report and Note 9, Long-term Debt, to the consolidated financial statements accompanying the 2016 Form 10-K.

(b) Interest on our fixed rate debt is presented using the stated interest rate. Interest expense on our variable rate debt is estimated using the rate in effect as of September 30, 2017. Interest pertaining to our credit agreement and bonds is included to their respective ultimate maturity dates. Interest related to capital lease obligations is excluded from this line. Future minimum payments, which are accounted for as interest, related to sale/leaseback transactions involving real estate accounted for as financings are included in this line (see Note 6, Property and Equipment, and Note 9, Long-term Debt, to the consolidated financial statements accompanying the 2016 Form 10-K). Amounts exclude amortization of debt discounts, amortization of loan fees, or fees for lines of credit that would be included in interest expense in our consolidated statements of operations.

(c) Amounts include interest portion of future minimum capital lease payments.

(d) Our inpatient rehabilitation segment leases approximately 17% of its hospitals as well as other property and equipment under operating leases in the normal course of business. Our home health and hospice segment leases relatively small office spaces in the localities it serves, space for its corporate office, and other equipment under operating leases in the normal course of business. Some of our hospital leases contain escalation clauses based on changes in the Consumer Price Index while others have fixed escalation terms. The minimum lease payments do not include contingent rental expense. Some lease agreements provide us with the option to renew the lease or purchase the leased property. Our future operating lease obligations would change if we exercised these renewal options and if we entered into

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additional operating lease agreements. For more information, see Note 6, Property and Equipment, to the consolidated financial statements accompanying the 2016 Form 10-K.

(e) Future operating lease obligations and purchase obligations are not recognized in our condensed consolidated balance sheet.

(f) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on HealthSouth and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. Purchase obligations exclude agreements that are cancelable without penalty. Our purchase obligations primarily relate to software licensing and support.

(g) Because their future cash outflows are uncertain, the following noncurrent liabilities are excluded from the table above: general liability, professional liability, and workers' compensation risks, noncurrent amounts related to third-party billing audits, and deferred income taxes. Also, as of September 30, 2017, we had $0.3 million of total gross unrecognized tax benefits. For more information, see Note 10, Self-Insured Risks, Note 15, Income Taxes, and Note 17, Contingencies and Other Commitments, to the consolidated financial statements accompanying the 2016 Form 10-K and Note 9, Income Taxes, to the condensed consolidated financial statements included in Part I, Item 1, Financial Statements (Unaudited), of this report.

(h) The table above does not include Redeemable noncontrolling interests of $221.3 million because of the uncertainty surrounding the timing and amounts of any related cash outflows.

Our capital expenditures include costs associated with our hospital refresh program, de novo projects, capacity expansions, technology initiatives, and building and equipment upgrades and purchases. During the nine months ended September 30, 2017, we made capital expenditures of approximately $170 million for property and equipment and capitalized software. During 2017, we expect to spend approximately $255 million to $315 million for capital expenditures. Approximately $130 million to $150 million of this budgeted amount is considered nondiscretionary expenditures, which we may refer to in other filings as “maintenance” expenditures. The expected increase in 2017 is due to refurbishments at certain larger hospitals, leasehold improvements and furnishings associated with the build-out of our new home office location, growth in the Company, and an enhanced hospital maintenance program. In addition, we expect to spend approximately $50 million to $100 million on home health and hospice acquisitions during 2017. Actual amounts spent will be dependent upon the timing of construction projects and acquisition opportunities for our home health and hospice business.

Authorizations for Returning Capital to Stakeholders

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. We expect quarterly dividends to be paid in January, April, July, and October. However, the actual declaration of any future cash dividends, and the setting of record and payment dates as well as the per share amounts, will be at the discretion of our board of directors after consideration of various factors, including our capital position and alternative uses of funds. Cash dividends are expected to be funded using cash flows from operations, cash on hand, and availability under our revolving credit facility.

On February 14, 2014, our board of directors approved an increase in our existing common stock repurchase authorization from $200 million to $250 million. As of September 30, 2017, approximately $58 million remained under this authorization. The repurchase authorization does not require the repurchase of a specific number of shares, has an indefinite term, and is subject to termination at any time by our board of directors. Subject to certain terms and conditions, including a maximum price per share and compliance with federal and state securities and other laws, the repurchases may be made from time to time in open market transactions, privately negotiated transactions, or other transactions, including trades under a plan established in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. During the nine months ended September 30, 2017, we repurchased 0.9 million shares of our common stock in the open market for approximately $38 million under this repurchase authorization using cash on

hand. Future repurchases under this authorization generally are expected to be funded using a combination of cash on hand and availability under our $700 million revolving credit facility.

Adjusted EBITDA

Management believes Adjusted EBITDA as defined in our credit agreement is a measure of our ability to service our debt and our ability to make capital expenditures. We reconcile Adjusted EBITDA to Net income and to Net cash provided by operating activities.

We use Adjusted EBITDA on a consolidated basis as a liquidity measure. We believe this financial measure on a consolidated basis is important in analyzing our liquidity because it is the key component of certain material covenants contained within our credit agreement, which is discussed in more detail in Note 9, Long-term Debt, to the consolidated financial statements accompanying the 2016 Form 10-K. These covenants are material terms of the credit agreement. Noncompliance with these financial covenants under our credit agreement—our interest coverage ratio and our leverage ratio—could result in our lenders requiring us to immediately repay all amounts borrowed. If we anticipated a potential covenant violation, we would seek relief from our lenders, which would have some cost to us, and such relief might be on terms less favorable to us than those in our existing credit agreement. In addition, if we cannot satisfy these financial covenants, we would be prohibited under our credit agreement from engaging in certain activities, such as incurring additional indebtedness, paying common stock dividends, making certain payments, and acquiring and disposing of assets. Consequently, Adjusted EBITDA is critical to our assessment of our liquidity.

In general terms, the credit agreement definition of Adjusted EBITDA, therein referred to as “Adjusted Consolidated EBITDA,” allows us to add back to consolidated Net income interest expense, income taxes, and depreciation and amortization and then add back to consolidated Net income (1) all unusual or nonrecurring items reducing consolidated Net income (of which only up to $10 million in a year may be cash expenditures), (2) any losses from discontinued operations and closed locations, (3) costs and expenses, including legal fees and expert witness fees, incurred with respect to litigation associated with stockholder derivative litigation, (4) share-based compensation expense, and (5) cost and expenses in connection with the Encompass Health rebranding. We also subtract from consolidated Net income all unusual or nonrecurring items to the extent they increase consolidated Net income. Under the credit agreement, the Adjusted EBITDA calculation does not include net income attributable to noncontrolling interests and includes (1) gain or loss on disposal of assets, (2) professional fees unrelated to the stockholder derivative litigation, (3) unusual or nonrecurring cash expenditures in excess of $10 million, and (4) pro forma adjustments resulting from debt transactions and development activities. Items falling within the credit agreement’s “unusual or nonrecurring” classification may occur in future periods, but these items and amounts recognized can vary significantly from period to period and may not directly relate to our ongoing operating performance. Accordingly, these items may not be indicative of our ongoing performance, so the Adjusted EBITDA calculation presented here includes adjustments for them.

Adjusted EBITDA is not a measure of financial performance under generally accepted accounting principles in the United States of America, and the items excluded from Adjusted EBITDA are significant components in understanding and assessing financial performance. Therefore, Adjusted EBITDA should not be considered a substitute for Net income or cash flows from operating, investing, or financing activities. Because Adjusted EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, Adjusted EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. Revenues and expenses are measured in accordance with the policies and procedures described in Note 1, Summary of Significant Accounting Policies, to the consolidated financial statements accompanying the 2016 Form 10-K.

Our Adjusted EBITDA for the three and nine months ended September 30, 2017 and 2016 was as follows (in millions):

Reconciliation of Net Income to Adjusted EBITDA

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$ 85.1	$ 78.1	$ 248.9	$ 236.0
Loss from discontinued operations, net of tax, attributable to HealthSouth	0.1	0.1	0.2	0.3
Provision for income tax expense	43.1	42.1	111.4	124.2
Interest expense and amortization of debt discounts and fees	36.8	42.5	118.5	130.5
Professional fees—accounting, tax, and legal	—	—	—	1.9
Net noncash loss on disposal of assets	3.0	1.6	3.3	2.0
Depreciation and amortization	46.2	43.5	137.2	128.8
Loss on early extinguishment of debt	0.3	2.6	10.7	7.4
Stock-based compensation expense	9.2	4.3	37.9	17.4
Net income attributable to noncontrolling interests	(19.2)	(16.4)	(53.2)	(53.7)
Adjusted EBITDA	$ 204.6	$ 198.4	$ 614.9	$ 594.8

Reconciliation of Net Cash Provided by Operating Activities to Adjusted EBITDA

	Nine Months Ended September 30,	
	2017	2016
Net cash provided by operating activities	$505.8	$499.4
Provision for doubtful accounts	(42.7)	(46.7)
Professional fees—accounting, tax, and legal	—	1.9
Interest expense and amortization of debt discounts and fees	118.5	130.5
Equity in net income of nonconsolidated affiliates	6.2	7.3
Net income attributable to noncontrolling interests in continuing operations	(53.2)	(53.7)
Amortization of debt-related items	(7.7)	(10.3)
Distributions from nonconsolidated affiliates	(6.6)	(5.9)
Current portion of income tax expense	60.1	13.6

Change in assets and liabilities	32.6	51.7
Premium paid on bond redemption	—	5.8
Net cash used in operating activities of discontinued operations	0.7	0.6
Other	1.2	0.6
Adjusted EBITDA	$614.9	$594.8

Growth in Adjusted EBITDA in 2017 compared to 2016 resulted primarily from revenue growth. For additional information see the “Results of Operations” and “Segment Results of Operations” sections of this Item.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, see Note 1, Basis of Presentation, to our condensed consolidated financial statements included under Part I, Item 1, Financial Statements (Unaudited), of this report.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our primary exposure to market risk is to changes in interest rates on our variable rate long-term debt. We use sensitivity analysis models to evaluate the impact of interest rate changes on our variable rate debt. As of September 30, 2017,

our primary variable rate debt outstanding related to $138.0 million in advances under our revolving credit facility and $298.3 million outstanding under our term loan facilities. Assuming outstanding balances were to remain the same, a 1% increase in interest rates would result in an incremental negative cash flow of approximately $3.7 million over the next 12 months, while a 1% decrease in interest rates would result in an incremental positive cash flow of approximately $3.7 million over the next 12 months, assuming floating rate indices are floored at 0%.

See Note 5, Long-term Debt, and Note 7, Fair Value Measurements, to the condensed consolidated financial statements included in Part I, Item 1, Financial Statements (Unaudited), of this report, for additional information regarding our long-term debt.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out by our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended. Based on our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There have been no changes in our Internal Control over Financial Reporting during the quarter ended September 30, 2017 that have a material effect on our Internal Control over Financial Reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information relating to certain legal proceedings in which we are involved is included in Note 11, Contingencies and Other Commitments, to the condensed consolidated financial statements contained in Part I, Item 1, Financial Statements (Unaudited), of this report and is incorporated herein by reference and should be read in conjunction with the related disclosure previously reported in our Quarterly Report on Form 10-Q for the quarters ended March 31, 2017 and June 30, 2017 and our Annual Report on Form 10 K for the year ended December 31, 2016 (the "2016 Form 10-K").

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part I, Item 1A, Risk Factors, of the 2016 Form 10-K and Part II, Item 1A, Risk Factors, of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2017. Certain information in those risk factors has been updated by the discussion in the "Executive Overview—Key Challenges" section of Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, of this report, which section is incorporated by reference herein.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities

The following table summarizes our repurchases of equity securities during the three months ended September 30, 2017:

Period	Total Number of Shares (or Units) Purchased[1]	Average Price Paid per Share (or Unit) ($)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs[2]
July 1 through July 31, 2017	852	$ 45.88	—	$ 77,990,964
August 1 through August 31, 2017	461,068	43.38	461,068	57,990,985
September 1 through September 30, 2017	—	—	—	57,990,985
Total	461,920	43.38	461,068	

(1) The number of shares reported in this column includes both the shares purchased under the plan or program as reported in the third column of this table and 852 shares purchased pursuant to our Directors' Deferred Stock Investment Plan. This plan is a nonqualified deferral plan allowing non-employee directors to make advance elections to defer a fixed percentage of their director fees. The plan administrator acquires the shares in the open market which are then held in a rabbi trust. The plan provides that dividends paid on the shares held for the accounts of the directors will be reinvested in shares of our common stock which will also be held in the trust. The directors' rights to all shares in the trust are nonforfeitable, but the shares are only released to the directors after departure from our board.

(2) On October 28, 2013, we announced our board of directors authorized the repurchase of up to $200 million of our common stock. On February 14, 2014, our board of directors approved an increase in this common stock repurchase authorization from $200 million to $250 million. The repurchase authorization does not require the repurchase of a specific number of shares, has an indefinite term, and is subject to termination at any time by our board of directors. Subject to certain terms and conditions, including a maximum price per share and compliance with federal and state securities and other laws, the repurchases may be made from time to time in open market transactions, privately negotiated transactions, or other transactions, including trades under a plan established in

accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

Dividends

We paid quarterly cash dividends of $0.21 per share on our common stock on January 15, April 15, and July 15 of 2015. On July 16, 2015, our board of directors approved an increase in our quarterly dividend and declared a cash dividend of $0.23 per share that was paid on October 15, 2015, and we paid the same per share quarterly dividend through July 15, 2016.

On July 21, 2016, our board of directors approved an increase in our quarterly dividend and declared a cash dividend of $0.24 per share that was paid on October 17, 2016, and we paid the same per share quarterly dividend on January 17, 2017, April 17, 2017 and July 17, 2017. 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. 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. We expect quarterly dividends to continue to be paid in January, April, July, and October. However, the actual declaration of any future cash dividends, and the setting of record and payment dates as well as the per share amounts, will be at the discretion of our board each quarter after consideration of various factors, including our capital position and alternative uses of funds.

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 remains less than or equal to 2.00x. 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. We believe we currently have adequate capacity under these covenants to pursue the dividend strategy described in this report for the foreseeable future based on the capacity as of the date of this report and anticipated restricted payments. See Note 5, Long-term Debt, to the condensed consolidated financial statements included in Part I, Item 1, Financial Statements (Unaudited), of this report and Note 9, Long-term Debt, to the consolidated financial statements accompanying the 2016 Form 10-K.

Item 6. Exhibits

See the Exhibit Index immediately following the signature page of this report.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

HEALTHSOUTH CORPORATION

By: /s/ Douglas E. Coltharp
Douglas E. Coltharp
Executive Vice President and Chief Financial Officer

Date: October 31, 2017

EXHIBIT INDEX

The exhibits required by Regulation S-K are set forth in the following list and are filed by attachment to this report unless otherwise noted.

No.	Description
3.1.1	Restated Certificate of Incorporation of HealthSouth Corporation, as filed in the Office of the Secretary of State of the State of Delaware on May 21, 1998 (incorporated by reference to Exhibit 3.1 to HealthSouth's Annual Report on Form 10-K filed with the SEC on June 27, 2005).
3.1.2	Certificate of Amendment to the Restated Certificate of Incorporation of HealthSouth Corporation, as filed in the Office of the Secretary of State of the State of Delaware on October 25, 2006 (incorporated by reference to Exhibit 3.1 to HealthSouth's Current Report on Form 8-K filed on October 31, 2006).
3.1.3	Certificate of Designations of 6.50% Series A Convertible Perpetual Preferred Stock, as filed with the Secretary of State of the State of Delaware on March 7, 2006 (incorporated by reference to Exhibit 3.1 to HealthSouth's Current Report on Form 8-K filed on March 9, 2006).
3.2	Amended and Restated Bylaws of HealthSouth Corporation, effective as of May 7, 2015 (incorporated by reference to Exhibit 3.1 to HealthSouth's Current Report on Form 8-K filed on May 11, 2015).
10.1	Fourth Amended and Restated Credit Agreement, dated September 29, 2017, among HealthSouth Corporation, Barclays Bank PLC, as administrative agent and collateral agent, Citigroup Global Markets Inc., as syndication agent, Bank of America, N.A., Goldman Sachs Lending Partners LLC, and Morgan Stanley Senior Funding, Inc., as co-documentation agents, and various other lenders from time to time.
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Sections of the HealthSouth Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language), submitted in the following

files:

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document