SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q/A

Quarterly report pursuant to sections 13 or 15(d) [amend]

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FILER

HEALTHSOUTH CORP

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SIC: **8093** Specialty outpatient facilities, nec

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
AMENDMENT NO. 1

(Mark One)

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 1998; or

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ____________ to _____________.

Commission File Number 1-10315

HEALTHSOUTH CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware	63-0860407
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

ONE HEALTHSOUTH PARKWAY, BIRMINGHAM, ALABAMA 35243
(Address of Principal Executive Offices)
(Zip Code)

(205) 967-7116
(Registrant's Telephone Number, Including Area Code)

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 and 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 X NO ___

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 11, 1998
COMMON STOCK, PAR VALUE $.01 PER SHARE	423,057,045 SHARES

HEALTHSOUTH CORPORATION AND SUBSIDIARIES

AMENDMENT NO. 1 TO
QUARTERLY REPORT ON FORM 10-Q

INTRODUCTORY NOTE: On July 22, 1998, a subsidiary of HEALTHSOUTH Corporation merged with National Surgery Centers, Inc. in a transaction accounting for as a pooling of interests. Based upon an analysis of its effect upon HEALTHSOUTH's trend of earnings, financial condition and similar factors, in accordance with then-current practice under APB 16, the transaction was not material to the results of operations of HEALTHSOUTH. Accordingly, HEALTHSOUTH did not restate prior period financial statements, and HEALTHSOUTH's stockholders' equity at July 1, 1998 was increased by $146,284,000 to reflect the effects of the merger

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when HEALTHSOUTH's original Quarterly Report on Form 10-Q for the three months ended September 30, 1998 was filed. However, new guidance from the Securities and Exchange Commission subsequent to the original filing of such Quarterly Report on Form 10-Q indicated that, in the SEC's view, prior period statements should be revised to reflect the effect of pooling transactions where such transactions would have an effect on any financial statement line item of 3% or more. HEALTHSOUTH therefore files this Amendment No. 1 to Quarterly Report on Form 10-Q to reflect the effects of the National Surgery Centers acquisition on all prior periods presented.

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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HEALTHSOUTH CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(UNAUDITED - IN THOUSANDS)

	SEPTEMBER 30, 1998	DECEMBER 31, 1997
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 206,393	$ 162,992
Other marketable securities	3,716	22,026
Accounts receivable	1,041,487	765,335
Inventories, prepaid expenses, and other current assets	266,155	190,335
TOTAL CURRENT ASSETS	1,517,751	1,140,688
OTHER ASSETS	247,121	222,536

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PROPERTY, PLANT AND EQUIPMENT--NET	2,296,074	1,890,110
INTANGIBLE ASSETS--NET	2,992,757	2,312,990
TOTAL ASSETS	$ 7,053,703	$ 5,566,324
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 37,290	$ 125,824
Salaries and wages payable	110,042	124,823
Income taxes payable	1,506	92,507
Deferred income taxes	45,821	34,119
Accrued interest payable and other liabilities	165,519	101,338
Current portion of long-term debt	48,326	49,160
TOTAL CURRENT LIABILITIES	408,504	527,771
LONG-TERM DEBT	2,780,234	1,565,801
DEFERRED INCOME TAXES	71,276	75,533
DEFERRED REVENUE AND OTHER LONG-TERM LIABILITIES	8,275	2,224
MINORITY INTERESTS--LIMITED PARTNERSHIPS	151,736	104,372
STOCKHOLDERS' EQUITY:		
Preferred Stock, $.10 par value--1,500,000 shares authorized; issued and outstanding--none	0	0
Common Stock, $.01 par value--600,000,000 shares authorized; 422,963,000 and 415,537,000 shares issued at September 30, 1998 and December 31, 1997, respectively	4,230	4,155
Additional paid-in capital	2,576,630	2,474,726
Retained earnings	1,072,074	833,328
Treasury stock	(3,923)	(3,923)
Receivable from Employee Stock Ownership Plan	(10,169)	(12,247)
Notes receivable from stockholders	(5,164)	(5,416)
TOTAL STOCKHOLDERS' EQUITY	3,633,678	3,290,623
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 7,053,703	$ 5,566,324

</TABLE>

See accompanying notes.

HEALTHSOUTH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>

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Revenues	$ 1,047,422	$ 776,062	$ 2,965,265	$ 2,238,628
Operating unit expenses	673,392	480,816	1,853,062	1,399,817
Corporate general and administrative expenses	27,503	20,782	83,021	59,286
Provision for doubtful accounts	24,015	19,782	69,577	54,126
Depreciation and amortization	88,888	65,658	246,925	186,502
Merger costs	25,630	0	25,630	15,875
Loss on impairment of home health assets	77,571	0	77,571	0
Interest expense	46,126	28,107	103,702	81,868
Interest income	(3,450)	(1,799)	(8,589)	(4,984)
	959,675	613,346	2,450,899	1,792,490
Income before income taxes and minority interests	87,747	162,716	514,366	446,138
Provision for income taxes	63,907	54,762	214,485	150,716
Income before minority interests	23,840	107,954	299,881	295,422
Minority interests	(18,170)	(18,901)	(59,478)	(54,592)
Net income	$ 5,670	$ 89,053	$ 240,403	$ 240,830
Weighted average common shares outstanding	422,649	361,543	420,957	356,907
Net income per common share	$ 0.01	$ 0.25	$ 0.57	$ 0.67
Weighted average common shares outstanding -- assuming dilution	433,033	377,458	433,913	376,404
Net income per common share-- assuming dilution	$ 0.01	$ 0.24	$ 0.55	$ 0.64

</TABLE>

See accompanying notes.

HEALTHSOUTH CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net income	$ 240,403	$ 240,830
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	246,925	186,502
Provision for doubtful accounts	69,577	54,126
Income applicable to minority interests of limited partnerships	59,478	54,592
Merger costs	25,630	15,875
Loss on impairment of home health assets	77,571	--
Provision for deferred income taxes	13,145	10,932
Provision for deferred revenue	--	(390)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(314,418)	(152,847)
Inventories, prepaid expenses and other current assets	(73,714)	(46,199)

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Accounts payable and accrued expenses	14,164	(71,632)
NET CASH PROVIDED BY OPERATING ACTIVITIES	358,761	291,789
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(473,344)	(264,852)
Additions to intangible assets, net of effects of acquisitions	(33,690)	(66,641)
Assets obtained through acquisitions, net of liabilities assumed	(707,011)	(273,204)
Payments on purchase accounting accruals related to 1997 acquisitions and dispositions	(295,508)	--
Changes in other assets	(23,711)	(25,849)
Proceeds received on sale of other marketable securities	18,310	28,506
Investment in other marketable securities	--	(139)
NET CASH USED IN INVESTING ACTIVITIES	(1,514,954)	(602,179)
FINANCING ACTIVITIES		
Proceeds from borrowings	2,389,272	569,978
Principal payments on long-term debt	(1,194,016)	(186,635)
Proceeds from exercise of options	60,779	22,760
Reduction in receivable from Employee Stock Ownership Plan	2,078	1,901
Decrease in loans to stockholders	252	7
Proceeds from investment by minority interests	2,061	1,907
Payment of cash distributions to limited partners	(60,832)	(55,917)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,199,594	354,001
INCREASE IN CASH AND CASH EQUIVALENTS	43,401	43,611
Cash and cash equivalents at beginning of period	162,992	159,792
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 206,393	$ 203,403
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 81,406	$ 77,820
Income taxes	286,401	109,339

</TABLE>

HEALTHSOUTH CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(UNAUDITED - IN THOUSANDS)

Non-cash investing activities:
During 1998, the Company issued 699,000 shares of its common stock with a market value of $19,397,000 as consideration for acquisitions accounted for as purchases.

Non-cash financing activities:
The holders of the Company's $115,000,000 in aggregate principal amount of 5% Convertible Subordinated Debentures due 2001 surrendered the Debentures for conversion into approximately 12,226,000 shares of the Company's Common Stock at various dates during 1997.

During 1997, the Company had a two-for-one stock split on its common stock, which was effected in the form of a 100% stock dividend.

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The Company received a tax benefit from the disqualifying disposition of incentive stock options of $21,804,000 for the nine months ended September 30, 1998.

See accompanying notes.

HEALTHSOUTH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997

NOTE 1 -- The accompanying consolidated financial statements include the accounts of HEALTHSOUTH Corporation (the "Company") and its subsidiaries. This information should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997. It is management's opinion that the accompanying consolidated financial statements reflect all adjustments (which are normal recurring adjustments, except as otherwise indicated) necessary for a fair presentation of the results for the interim period and the comparable period presented.

NOTE 2 -- The Company has a $1,750,000,000 revolving credit facility with NationsBank, N.A. ("NationsBank") and other participating banks (the "1998 Credit Agreement"). The 1998 Credit Agreement replaced a previous $1,250,000,000 revolving credit agreement, also with NationsBank, consisting of a $350,000,000 two-year amortizing term note maturing on December 31, 1999, and a $900,000,000 revolving credit facility. In conjunction with the 1998 Credit Agreement, the Company also canceled its $350,000,000 364-day interim revolving credit facility with NationsBank. Interest on the 1998 Credit Agreement is paid based on LIBOR plus a predetermined margin, a base rate, or competitively bid rates from the participating banks. The Company is required to pay a fee based on the unused portion of the revolving credit facility ranging from 0.09% to 0.25%, depending on certain defined ratios. The principal amount is payable in full on June 22, 2003. The Company has provided a negative pledge on all assets under the 1998 Credit Agreement.

On March 24, 1994, the Company issued $250,000,000 principal amount of 9.5% Senior Subordinated Notes due 2001 (the "Notes"). Interest is payable on April 1 and October 1. The Notes are senior subordinated obligations of the Company and, as such, are subordinated to all existing and future senior indebtedness of the Company. The net proceeds from the issuance of the Notes were used by the Company to pay down indebtedness outstanding under its existing credit facilities.

On March 20, 1998, the Company issued $500,000,000 in 3.25% Convertible Subordinated Debentures due 2003 (the "3.25% Convertible Debentures") in a private placement. An additional $67,750,000 principal amount of the 3.25% Convertible Debentures was issued on March 31, 1998 to cover underwriters' overallotments. Interest is payable on April 1 and October 1. The 3.25% Convertible Debentures are convertible into Common Stock of the Company at the option of the holder at a conversion price of $36.625 per share, subject to adjustment upon the occurrence of certain events. The net proceeds from the issuance of the 3.25% Convertible Debentures were used by the Company to pay down indebtedness outstanding under its existing credit facilities.

On June 22, 1998, the Company issued $250,000,000 in 6.875% Senior Notes due 2005 and $250,000,000 in 7.0% Senior Notes due 2008 (collectively, the "Senior Notes"). Interest is payable on June 15 and December 15 of each year, commencing on December 15, 1998. The Senior Notes are unsecured, unsubordinated obligations of the Company. The net proceeds from the issuance of the Senior Notes were used by the Company to pay down indebtedness outstanding under its existing credit facilities.

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At September 30, 1998, and December 31, 1997, long-term debt consisted of the following:

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<S>	September 30, 1998 <C>	December 31, 1997 <C>
	(in thousands)	
Advances under the 1998 Credit Agreement	$ 1,325,000	$ 1,175,000
9.5% Senior Subordinated Notes due 2001	250,000	250,000
3.25% Convertible Subordinated Debentures due 2003	567,750	0
6.875% Senior Notes due 2005	250,000	0
7.0% Senior Notes due 2008	250,000	0
Other long-term debt	185,810	189,961
	2,828,560	1,614,961
Less amounts due within one year	48,326	49,160
	$ 2,780,234	$1,565,801

</TABLE>

NOTE 3 -- Effective July 1, 1998, the Company acquired Columbia/HCA Healthcare Corporation's interests in 33 ambulatory surgery centers in a transaction accounted for as a purchase. Effective July 31, 1998, the Company entered into certain other arrangements to acquire substantially all of the economic benefit of Columbia/HCA's interests in one additional ambulatory surgery center. The transaction was valued at approximately $550,594,000. Also, during the first nine months of 1998, the Company acquired 97 outpatient rehabilitation facilities, one inpatient rehabilitation hospital, three outpatient surgery centers and 26 diagnostic imaging centers. The total purchase price of these acquired facilities was approximately $156,417,000. The Company also entered into non-compete agreements totaling approximately $22,502,000 in connection with these transactions. The cost in excess of the acquired facilities' net asset value was approximately $698,353,000. The results of operations (not material individually or in the aggregate) of these acquisitions are included in the consolidated financial statements from their respective acquisition dates.

NOTE 4 -- On July 22, 1998, a wholly-owned subsidiary of the Company merged with National Surgery Centers, Inc. ("NSC"). A total of 20,426,261 shares of the Company's Common Stock were issued in connection with the transaction. At the time of the merger, NSC operated 40 outpatient surgery centers in 14 states. The NSC merger was accounted for as a pooling of interests. Accordingly, the Company's consolidated financial statements have been restated to include the results of NSC for all periods presented.

Costs and expenses of $25,630,000, primarily representing accounting, legal and financial advisory services, incurred by the Company in connection with the merger were recorded in operations during the quarter ending September 30, 1998, and reported as Merger Costs in the accompanying consolidated statements of income. The effects of conforming the accounting policies of the Company and NSC were not material.

NOTE 5 -- During the third quarter of 1998, the Company adopted a plan to dispose of or otherwise discontinue substantially all of its home health operations, effective November 1, 1998. Such operations, which were acquired by the Company as portions of larger strategic acquisitions, are inconsistent with the Company's core business and growth strategy. Accordingly, the Company recorded an impairment loss of approximately $77,571,000

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during the quarter ending September 30, 1998. The loss represents the write-down of the home health assets, including goodwill, to their estimated fair value less the estimated costs to sell or otherwise dispose of the assets. Revenues related to the home health assets to be

disposed of were approximately $73,071,000 and $63,407,000 for the nine months ending September 30, 1998 and 1997, respectively.

NOTE 6 -- During the first nine months of 1998, the Company granted incentive and nonqualified stock options to certain Directors, employees and others for 574,000 shares of Common Stock at exercise prices ranging from $26.94 to $29.75 per share.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The Company provides outpatient and rehabilitative healthcare services through its inpatient and outpatient rehabilitation facilities, surgery centers, diagnostic centers and medical centers. The Company has expanded its operations through the acquisition or opening of new facilities and satellite locations and by enhancing its existing operations. As of September 30, 1998, the Company had over 2,000 locations in 50 states, the United Kingdom and Australia, including approximately 1,290 outpatient rehabilitation locations, 131 inpatient rehabilitation facilities, four medical centers, 250 surgery centers, 139 diagnostic centers and approximately 200 locations providing other patient care services.

The Company's revenues include net patient service revenues and other operating revenues. Net patient service revenues are reported at estimated net realizable amounts from patients, insurance companies, third-party payors (primarily Medicare and Medicaid) and others for services rendered. Revenues from third-party payors also include estimated retroactive adjustments under reimbursement agreements which are subject to final review and settlement by appropriate authorities. Management determines allowances for doubtful accounts and contractual adjustments based on historical experience and the terms of payor contracts. Net accounts receivable include only those amounts estimated by management to be collectible.

The Company determines the amortization period of the cost in excess of net asset value of purchased facilities based on an evaluation of the facts and circumstances of each individual purchase transaction. The evaluation includes an analysis of historic and projected financial performance, an evaluation of the estimated useful life of the buildings and fixed assets acquired, the indefinite useful life of Certificates of Need and licenses acquired, the competition within local markets, lease terms where applicable, and the legal terms of partnerships where applicable. The Company utilizes independent appraisers and relies on its own management expertise in evaluating each of the factors noted above. With respect to the carrying value of the excess of cost over net asset value of purchased facilities and other intangible assets, the Company determines on a quarterly basis whether an impairment event has occurred by considering factors such as the market value of the asset, a significant adverse change in legal factors or in the business climate, adverse action by regulators, a history of operating losses or cash flow losses, or a projection of continuing losses associated with an operating entity. The carrying value of excess cost over net asset value of purchased facilities and other intangible assets will be evaluated if the facts and circumstances suggest that it has been impaired. If this evaluation indicates that the value of the asset will not be recoverable, as determined based on the undiscounted cash flows of the entity acquired over the remaining amortization period, the Company's carrying value of the asset will be reduced by the estimated shortfall of cash flows to the estimated fair market value.

The Company, in many cases, operates more than one site within a market. In such markets, there is customarily an outpatient center or inpatient facility with associated satellite outpatient locations. For purposes of the following discussion and analysis, same store operations are measured on locations within markets in which similar operations existed at the end of the

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period and include the operations of additional locations opened within the same market. New store operations are measured on locations within new markets. The Company may, from time to time, close or consolidate similar locations in multi-site markets to obtain efficiencies and respond to changes in demand.

Substantially all of the Company's revenues are derived from private and governmental third-party payors. The Company's reimbursement from governmental third-party payors is based upon cost reports and other reimbursement mechanisms which require the application and interpretation of complex regulations and policies, and such reimbursement is subject to various levels of review and adjustment by fiscal intermediaries and others, which may affect the final determination of reimbursement. In addition, there are increasing pressures from many payor sources to control healthcare costs and to reduce or limit increases in reimbursement rates for medical services. There can be no assurance that payments under

governmental and third-party payor programs will remain at levels comparable to present levels. In addition, there have been, and the Company expects that there will continue to be, a number of proposals to limit Medicare reimbursement for certain services. The Company cannot now predict whether any of these proposals will be adopted or, if adopted and implemented, what effect such proposals would have on the Company. Changes in reimbursement policies or rates by private or governmental payors could have an adverse effect on the future results of operations of the Company.

RESULTS OF OPERATIONS -- THREE MONTHS ENDED SEPTEMBER 30, 1998

The Company operated approximately 1,290 outpatient locations (which includes base facilities and satellites) at September 30, 1998, compared to approximately 880 outpatient locations at September 30, 1997. In addition, the Company operated 131 inpatient rehabilitation facilities, four medical centers, 250 surgery centers, and 139 diagnostic centers at September 30, 1998, compared with 99 inpatient facilities, four medical centers, 210 surgery centers and 77 diagnostic centers at September 30, 1997.

The Company's operations generated revenues of $1,047,422,000 for the quarter ended September 30, 1998, an increase of $271,360,000, or 35.0%, as compared to the same period in 1997. The increase in revenues is primarily attributable to increases in patient volume and the addition of new outpatient, inpatient, diagnostic and surgery centers. Same store revenues for the quarter ended September 30, 1998, were $806,959,000, an increase of $30,897,000, or 4.0%, as compared to the same period in 1997. New store revenues were $240,463,000. Revenues generated from patients under Medicare and Medicaid plans respectively accounted for 35.1% and 2.9% of revenue for the third quarter of 1998, compared to 36.4% and 2.3% for the same period in 1997. Revenues from any other single third-party payor were not significant in relation to the Company's revenues. During the third quarter of 1998, same store outpatient visits, inpatient days, surgical cases and diagnostic cases increased 15.5%, 6.7%, 4.2% and 10.9%, respectively. Revenue per outpatient visit, inpatient day, surgical case and diagnostic case for same store operations increased (decreased) by (0.2)%, 0.1%, (0.8)% and (0.5)%, respectively.

Operating expenses, at the operating unit level, were $673,392,000, or 64.3% of revenues, for the quarter ended September 30, 1998, compared to 62.0% of revenues for the third quarter of 1997. Included in operating expenses, at the operating unit level, for the quarter ended September 30, 1998, is a non-recurring expense item of approximately $27,768,000 related to the Company's plan to dispose of or otherwise discontinue substantially all of its home health operations, as described below. Excluding the non-recurring expense, operating expenses, at the operating unit level, were $645,624,000, or 61.6% of revenues for the quarter ended September 30, 1998. Same store operating expenses, excluding the non-recurring expense item noted above, were $496,279,000, or 61.5% of comparable revenue. New store operating expenses were $149,345,000, or 62.1% of comparable revenue. Corporate general and administrative expenses increased from $20,782,000 during the 1997 quarter to $27,503,000 during the 1998 quarter. As a percentage of revenue, corporate general and administrative expenses decreased from 2.7% during the 1997 quarter to 2.6% in 1998 quarter. The provision for doubtful accounts was $24,015,000, or 2.3% of revenues, for the third quarter of 1998, compared to $19,782,000, or 2.5% of revenues, for the same period in 1997. Management believes that this provision is adequate to cover any uncollectible revenues.

Depreciation and amortization expense was $88,888,000 for the quarter ended September 30, 1998, compared to $65,658,000 for the same period in 1997. The increase represents the investment in additional assets by the Company. Interest expense was $46,126,000 for the quarter ended September 30, 1998, compared to $28,107,000 for the quarter ended September 30, 1997. For the third

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quarter of 1998, interest income was $3,450,000, compared to $1,799,000 for the third quarter of 1997.

As a result of the National Surgery Centers, Inc. acquisition, the Company recognized $25,630,000, primarily representing accounting, legal and financial advisory services, in merger costs during the quarter ending September 30, 1998.

During the third quarter of 1998, the Company adopted a plan to dispose of or otherwise discontinue substantially all of its home health operations, effective November 1, 1998. Such operations,

which were acquired by the Company as portions of larger strategic acquisitions, are inconsistent with the Company's core business and growth strategy. Accordingly, the Company recorded an impairment loss of approximately $77,571,000 during the quarter ending September 30, 1998. The loss represents the write-down of the home health assets, including goodwill, to their estimated fair value less the estimated costs to sell or otherwise dispose of the assets. Including the $27,768,000 non-recurring expense item recognized in operating expenses, as described above, the total non-recurring charge recognized in the third quarter of 1998 related to the plan to dispose of or otherwise substantially discontinue the home health operations was approximately $105,339,000.

Income before minority interests and income taxes for the third quarter of 1998 was $87,747,000, compared to $162,716,000 for the same period in 1997. Minority interests decreased income before income taxes by $18,170,000 for the quarter ended September 30, 1998, compared to decreasing income before income taxes by $18,901,000 for the third quarter of 1997. The provision for income taxes for the third quarter of 1998 was $63,907,000, compared to $54,672,000 for the same period in 1997. Excluding the tax effects of the merger costs and impairment loss described above, the effective tax rates for the quarters ending September 30, 1998 and 1997 were 39.1% and 38.1%, respectively. Net income for the third quarter of 1998 was $5,670,000, compared to $89,053,000 for the third quarter of 1997.

RESULTS OF OPERATIONS -- NINE MONTHS ENDED SEPTEMBER 30, 1998

Revenues for the nine months ended September 30, 1998, were $2,965,265,000, an increase of $726,637,000, or 32.5%, over the nine months ended September 30, 1997. Same store revenues were $2,435,813,000, an increase of $197,185,000, or 8.8%, as compared to the same period in 1997. New store revenues were $529,452,000. Revenues generated from patients under Medicare and Medicaid plans respectively accounted for 35.9% and 2.8% of revenue for the first nine months of 1998, compared to 37.4% and 2.3% for the same period in 1997. Revenues from any other single third-party payor were not significant in relation to the Company's revenues. During the first nine months of 1998, same store outpatient visits, inpatient days, surgical cases and diagnostic cases increased 16.0%, 8.9%, 7.2% and 11.0%, respectively. Revenue per outpatient visit, inpatient day, surgical case and diagnostic case for same store operations increased (decreased) by 0.7%, 0.3%, (0.9)% and (0.5)%, respectively.

Operating expenses, at the operating unit level, were $1,853,062,000, or 62.5% of revenues, for the nine months ended September 30, 1998, as compared to $1,399,817,000, or 62.5% of revenues, for the first nine months of 1997. Excluding the $27,768,000 non-recurring expense item related to the disposition or discontinuation of home health operations described above, operating expenses at the operating unit level were $1,825,294,000, or 61.6% of comparable revenue. New store operating expenses were $335,092,000, or 63.3% of comparable revenue. As a result of its acquisition of Health Images, Inc., the Company recognized $15,875,000, primarily representing accounting, legal and financial advisory services, in merger costs during the first quarter of 1997. Net income for the nine months ended September 30, 1998, was $240,403,000, compared to $240,830,000 for the same period in 1997.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 1998, the Company had working capital of $1,109,247,000, including cash and marketable securities of $210,109,000. Working capital at December 31, 1997, was $612,917,000, including cash and marketable securities of $185,018,000. For the first nine months of 1998, cash provided by operations was $358,761,000, compared to $291,789,000 for the same period in 1997. Additions to property, plant, and equipment and acquisitions accounted for $473,344,000 and $707,011,000, respectively, during the first nine months of 1998. Those same investing activities accounted for $264,852,000 and $273,204,000, respectively, in the same period in 1997. Financing activities provided $1,199,594,000 and $354,001,000 during the first nine months of 1998 and 1997, respectively. Net borrowing proceeds (borrowing less principal

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reductions) for the first nine months of 1998 and 1997 were $1,195,256,000 and $383,343,000, respectively.

Accounts receivable were $1,041,487,000 at September 30, 1998, compared to $765,335,000 at December 31, 1997. The number of days of average revenues in average receivables at September 30,

1998, was 79.4, compared to 77.1 days of average revenues in average receivables at December 31, 1997. The concentration of net accounts receivable from patients, third-party payors, insurance companies and others at September 30, 1998, is consistent with the related concentration of revenues for the period then ended.

The Company has a $1,750,000,000 revolving credit facility with NationsBank, N.A. ("NationsBank") and other participating banks (the "1998 Credit Agreement"). The 1998 Credit Agreement replaced a previous $1,250,000,000 revolving credit agreement, also with NationsBank, consisting of a $350,000,000 two-year amortizing term note maturing on December 31, 1999, and a $900,000,000 revolving credit facility. In conjunction with the 1998 Credit Agreement, the Company also canceled its $350,000,000 364-day interim revolving credit facility with NationsBank. Interest on the 1998 Credit Agreement is paid based on LIBOR plus a predetermined margin, a base rate, or competitively bid rates from the participating banks. The Company is required to pay a fee based on the unused portion of the revolving credit facility ranging from 0.09% to 0.25%, depending on certain defined ratios. The principal amount is payable in full on September 22, 2003. The Company has provided a negative pledge on all assets under the 1998 Credit Agreement. The effective interest rate on the average outstanding balance under the 1998 Credit Agreement was 6.18% for the nine months ended September 30, 1998, compared to the average prime rate of 8.50% during the same period. At September 30, 1998, the Company had drawn $1,325,000,000 under the 1998 Credit Agreement.

On March 20, 1998, the Company issued $500,000,000 in 3.25% Convertible Subordinated Debentures due 2003 (the "3.25% Convertible Debentures") in a private placement. An additional $67,750,000 principal amount of the 3.25% Convertible Debentures was issued on March 31, 1998 to cover underwriters' overallotments. Interest is payable on April 1 and October 1 of each year, commencing on October 1, 1998. The Convertible Debentures are convertible into Common Stock of the Company at the option of the holder at a conversion price of $36.625 per share, subject to the adjustment upon the occurrence of certain events. The net proceeds from the issuance of the Convertible Debentures were used by the Company to pay down indebtedness outstanding under its other existing credit facilities.

On June 22, 1998, the Company issued $250,000,000 in 6.875% Senior Notes due 2005 and $250,000,000 in 7.0% Senior Notes due 2008 (collectively, the "Senior Notes"). Interest is payable on June 15 and December 15 of each year, commencing on December 15, 1998. The Senior Notes are unsecured, unsubordinated obligations of the Company. The net proceeds from the issuance of the Senior Notes were used by the Company to pay down indebtedness outstanding under its existing credit facilities.

The Company intends to pursue the acquisition or development of additional healthcare operations, including comprehensive outpatient rehabilitation facilities, ambulatory surgery centers, inpatient rehabilitation facilities and companies engaged in the provision of outpatient surgery and rehabilitation-related services, and to expand certain of its existing facilities. While it is not possible to estimate precisely the amounts which will actually be expended in the foregoing areas, the Company anticipates that over the next twelve months, it will spend approximately $150,000,000 on maintenance and expansion of its existing facilities and approximately $300,000,000 on development of the Integrated Service Model, pursuant to which the Company plans to utilize its services in particular markets to provide an integrated continuum of coordinated care.

Although the Company is continually considering and evaluating acquisitions and opportunities for future growth, the Company has not entered into any agreements with respect to material future acquisitions. The Company believes that existing cash, cash flow from operations, and borrowings under the 1998 Credit Agreement will be sufficient to satisfy the Company's estimated cash requirements for the next twelve months and for the reasonably foreseeable future.

Inflation in recent years has not had a significant effect on the Company's business, and is not expected to adversely affect the Company in the future unless it increases significantly.

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EXPOSURES TO MARKET RISK

The Company is exposed to market risk related to changes in interest rates. Because of its favorable borrowing arrangements and current market conditions, the Company currently does not use derivatives, such as swaps or caps, to alter the interest characteristics of its debt instruments and investment securities. The impact on earnings and value of market risk-sensitive financial instruments (principally marketable security investments and long-term debt) is subject to change as a result of movements in market rates and prices. The Company uses sensitivity analysis models to evaluate these impacts.

The Company's investment in marketable securities was $3,716,000 at September 30, 1998, which represents less than 1% of total assets at that date. These securities are generally short-term, highly-liquid instruments and, accordingly, their fair value approximates cost. Earnings on investments in marketable securities are not significant to the Company's results of operations, and therefore any changes in interest rates would have a minimal impact on future pre-tax earnings.

With respect to the Company's interest-bearing liabilities, approximately $1,325,000,000 in long-term debt at September 30, 1998 is subject to variable rates of interest, while the remaining balance in long-term debt of $1,503,560,000 is subject to fixed rates of interest (see Note 2 of "Notes to Consolidated Financial Statements" for further description). The fair value of the Company's total long-term debt, based on discounted cash flow analyses, approximates its carrying value at September 30, 1998. Based on a hypothetical 1% increase in interest rates, the potential losses in future annual pre-tax earnings would be approximately $13,250,000. The impact of such a change on the carrying value of long-term debt would not be significant. These amounts are determined considering the impact of the hypothetical interest rates on the Company's borrowing cost and long-term debt balances. These analyses do not consider the effects, if any, of the potential changes in the overall level of economic activity that could exist in such an environment. Further, in the event of a change of significant magnitude, management would expect to take actions intended to further mitigate its exposure to such change.

Foreign operations, and the related market risks associated with foreign currency, are currently insignificant to the Company's results of operations and financial position.

COMPUTER TECHNOLOGIES AND YEAR 2000 COMPLIANCE

The Company is aware of the issues associated with the programming code in existing computer systems as the year 2000 approaches. Many existing computer programs use only two digits to identify a year in the date field. The issue is whether such code exists in the Company's mission-critical applications and if that code will produce accurate information to date-sensitive calculations after the turn of the century.

The Company is involved in an extensive, ongoing program to identify and correct problems arising from the year 2000 issues. The program is broken down into the following categories: (1) mission-critical computer applications which are internally maintained by the Company's information technology department; (2) mission-critical computer applications which are maintained by third-party vendors; (3) non-mission-critical applications, whether internally or externally maintained; (4) hardware; (5) embedded applications which control certain medical and other equipment; (6) computer applications of its significant suppliers; and (7) computer applications of its significant payors.

Mission-critical computer applications are those which are integral to the Company's business mission, which have no reasonable manual alternative for producing the same information and results, and the failure of which to produce accurate information and results would have a significant adverse impact on the Company. Such applications include the Company's general business systems and its patient billing systems. Most of the Company's clinical applications are not considered mission-critical, because reasonable manual alternatives are available to produce the same information and results for as long as necessary.

The Company's review of its internally maintained mission-critical applications revealed that such applications contained very few date-sensitive calculations. The revisions to these applications have been completed and testing is being conducted during November and December, 1998. Implementation is scheduled for the first quarter of 1999. The budget for this project is approximately $150,000.

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The Company's general business applications are all licensed from and maintained by the same vendor. All such applications are already year 2000 compliant. The Company has received written confirmation from the vendors of its other externally maintained mission-critical applications that such applications are currently year 2000 compliant or will be made year 2000 compliant by the end of 1998. The cost to be incurred by the Company related to externally maintained applications is not currently expected to be material.

The Company has reviewed all of its non-mission-critical applications and determined that some of these applications are not year 2000 compliant and will not be made to be compliant. In such cases, the Company has developed manual alternatives to produce the information that such systems currently produce. The incremental cost of the manual systems is not currently estimated to be material. The Company plans to evaluate the effectiveness of the manual systems before any decisions are made on the replacement of the non-compliant applications.

The Company has engaged a consultant to test all of its computer hardware for year 2000 compliance at a cost of approximately $800,000. The consultant is currently testing the computer hardware at nine pilot sites. The results of the pilot test will be available by November 30, 1998. Testing will begin at the remainder of the Company's sites in January 1999. Results from their test are expected to be available by March 31, 1999. The Company has regularly upgraded its significant servers and hardware platforms. Therefore, it is expected that the consultant's tests will only reveal that the Company's older personal computers are not year 2000 compliant. Once the results of the tests are available, the Company will determine which hardware components are necessary to replace and will develop a plan to do so. The cost of such replacements cannot be estimated until the plan is developed.

The Company has not completed its review of embedded applications which control certain medical and other equipment. The Company expects to complete this review during the fourth quarter of 1998. The nature of the Company's business is such that any failure of these type applications is not expected to have a material adverse effect on its business. In particular, the Company has focused on reviewing and testing those applications the failure of which would be likely to cause a significant risk of death or serious injury to patients under treatment in the Company's facilities, and the Company believes that, because of the types of services it primarily provides and the nature of its patient population, there is little likelihood of such an event occurring because of the failure of an embedded application.

The Company has sent inquiries to its significant suppliers of equipment and medical supplies concerning the year 2000 compliance of their significant computer applications. Responses have been received from over 85% of those suppliers, and no significant problems have been identified. Second requests have been mailed to all non-respondents.

The Company has also sent inquiries to its significant third-party payors. Responses have been received from payors representing over 75% of the Company's revenues. Such responses indicate that these payors' systems will be year 2000 compliant. Second requests were mailed to all non-respondents during October 1998. The Company will continue to evaluate year 2000 risks with respect to such payors as additional responses are received. In that connection, it should be noted that substantially all of the Company's revenues are derived from reimbursement by governmental and private third-party payors, and that the Company is dependent upon such payors' evaluation of their year 2000 compliance status to assess such risks. If such payors are incorrect in their evaluation of their own year 2000 compliance status, this could result in delays or errors in reimbursement to the Company by such payors, the effects of which could be material to the Company.

Guidance from the Securities and Exchange Commission requires the Company to describe its "reasonably likely worst case scenario" in connection with year 2000 issues. As discussed above, while there is always the potential risk of serious injury or death resulting from a failure of embedded applications in medical and other equipment used by the Company, the Company does not believe that such events are reasonably likely to occur. The Company believes that the most reasonably likely worst case to which it would be exposed is that, notwithstanding the Company's attempts to obtain year 2000 compliance

assurance from third-party payors, there is a material failure in such payors' systems which prevents or substantially delays reimbursement to the Company for its services. In such event, the Company would be forced to rely on cash on hand and available borrowing capacity to the extent of any shortfall in reimbursement, and could be forced to incur additional costs for personnel and

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other resources necessary to resolve any payment issues. It is not possible at this time to predict the nature or amount of such costs or the materiality of any reimbursement issues that may arise as a result of the failure of payors' payment systems, the effect of which could be substantial. The Company continues to endeavor to obtain reliable information from its payors as to their compliance status, and will attempt to adopt and revise its contingency plans for dealing with payment issues if, as and when such issues become susceptible of prediction.

Based on the information currently available, the Company believes that its risk associated with problems arising from year 2000 issues is not significant. However, because of the many uncertainties associated with year 2000 compliance issues, and because the Company's assessment is necessarily based on information from third-party vendors, payors and suppliers, there can be no assurance that the Company's assessment is correct or as to the materiality or effect of any failure of such assessment to be correct. The Company will continue with its assessment process as described above and, to the extent that changes in such assessment require it, will attempt to develop alternatives or modifications to its compliance plan described above. There can, however, be no assurance that such compliance plan, as it may be changed, augmented or modified from time to time, will be successful.

FORWARD-LOOKING STATEMENTS

Statements contained in this Quarterly Report on Form 10-Q which are not historical facts are forward-looking statements. In addition, the Company, through its senior management, from time to time makes forward-looking public statements concerning its expected future operations and performance and other developments. Such forward-looking statements are necessarily estimates reflecting the Company's best judgment based upon current information and involve a number of risks and uncertainties, and there can be no assurance that other factors will not affect the accuracy of such forward-looking statements. While it is impossible to identify all such factors, factors which could cause actual results to differ materially from those estimated by the Company include, but are not limited to, changes in the regulation of the healthcare industry at either or both of the federal and state levels, changes in reimbursement for the Company's services by governmental or private payors, competitive pressures in the healthcare industry and the Company's response thereto, the Company's ability to obtain and retain favorable arrangements with third-party payors, unanticipated delays in the Company's implementation of its Integrated Service Model, general conditions in the economy and capital markets, and other factors which may be identified from time to time in the Company's Securities and Exchange Commission filings and other public announcements.

PART II -- OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

The Company has been served with certain lawsuits filed beginning September 30, 1998 which purport to be class actions under the federal and Alabama securities laws. Such lawsuits were filed following a decline in the Company's stock price at the end of the third quarter of 1998. Three of the suits have been filed in the United States District Court for the Northern District of Alabama. Robert M. Gordon, et al., v. HEALTHSOUTH Corporation, et al., Civil Action No. 98-J-2634-S, and Twin Plus LLC, et al. v. HEALTHSOUTH Corporation, et al., Civil Action No. 98-PWG-2695-S, are identical complaints filed against the Company and certain of its officers and directors alleging that, during the period August 12, 1997 through September 30, 1998, the defendants misrepresented or failed to disclose certain material facts concerning the Company's business and financial condition in order to artificially inflate the price of the Company's Common Stock and issued or sold shares of such stock during the purported class period, all allegedly in violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. Irene Rigas, et al. v. HEALTHSOUTH Corporation, et al., Civil Action No. 98-RRA-2777-S, is substantially identical to the Gordon and Twin Plus complaints, except that the named plaintiffs therein purport to represent separate subclasses consisting of former stockholders of Horizon/CMS Healthcare Corporation and National Surgery Centers, Inc. who received shares of the Company's Common Stock in connection with the Company's acquisition of those entities and assert additional claims

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under Section 11 of the Securities Act of 1933 with respect to the registration of securities issued in those acquisitions. A fourth suit, Peter J. Petrunya v. HEALTHSOUTH Corporation, et al., Civil Action No. 98-05931, has been filed in the Circuit Court for Jefferson County, Alabama, and alleges that during the period July 16, 1996 through September 30, 1998 the defendants misrepresented or failed to disclose certain material facts concerning the Company's business and financial condition, allegedly in violation of Sections 8-6-17 and 8-6-19 of the Alabama Securities Act. Based upon information in the media, the Company believes that additional similar suits may have been filed, but the Company has not been served with any such suits.

Additionally, a suit styled Dennis Family Trust v. Richard M. Scrushy, et al., Civil Action No. 98-06592, has been filed in the Circuit Court for Jefferson County, Alabama, purportedly as a derivative action on behalf of the Company. That suit largely replicates the allegations of the federal actions described in the preceding paragraph and alleges that the current directors of the Company, certain former directors and certain officers of the Company breached their fiduciary duties to the Company and engaged in other allegedly tortious conduct.

The Company believes that all claims asserted in the above suits are without merit, and expects to vigorously defend against such claims. Because such suits have only recently been filed, the Company cannot currently predict the outcome of any such suits or the magnitude of any potential loss if the Company's defense is unsuccessful.

Item 2. CHANGES IN SECURITIES.

(c) Recent Sales of Unregistered Securities

During the three months ended September 30, 1998, the Company issued 56,624 shares of its Common Stock in a transaction not registered under the Securities Act of 1933. Such shares were issued effective July 16, 1998, to RPI, Inc. in connection with the Company's acquisition by merger of RPI, Inc.'s subsidiary Sigma Health Properties, Inc., the general partner of a partnership which owned the building in which the Company's Tallahassee,

Florida rehabilitation hospital operates. Such shares were issued in reliance upon the exemption provided by Section 4(2) of the Securities Act, inasmuch as the transaction did not involve any public offering.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

11. Computation of Income Per Share (unaudited)
27. Financial Data Schedule

(b) Reports on Form 8-K

The Company filed no Current Reports on Form 8-K during the three months ended September 30, 1998.

No other items of Part II are applicable to the Registrant for the period covered by this Quarterly Report on Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 to be signed on its behalf by the undersigned thereunto duly authorized.

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HEALTHSOUTH Corporation
(Registrant)

Date: March 25, 1999

/s/ RICHARD M. SCRUSHY

Richard M. Scrushy
Chairman of the Board and
Chief Executive Officer

Date: March 25, 1999

/s/ MICHAEL D. MARTIN

Michael D. Martin
Executive Vice President and
Chief Financial Officer

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EXHIBIT 11

HEALTHSOUTH CORPORATION AND SUBSIDIARIES

COMPUTATION OF INCOME PER SHARE (UNAUDITED)

(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)

Exhibit 11--September 1998

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	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997	1998	1997
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Numerator:				
Net income	$ 5,670	$ 89,053	$ 240,403	$ 240,830
Numerator for basic earnings per share--income available to common stockholders	5,670	89,053	240,403	240,830
Effect of dilutive securities:				
Elimination of interest and amortization on 5% Convertible Subordinated Debentures due 2001, less the related effect of the provision of income taxes	--	--	--	960
Elimination of interest and amortization on 3.25% Convertible Subordinated Debentures due 2003, less the related effect of the provision of income taxes	-- (1)	--	-- (1)	--
Numerator for diluted earnings per share--income available to common stockholders after assumed conversion	$ 5,670	$ 89,053	$ 240,403	$ 241,790
Denominator:				
Denominator for basic earnings per share--weighted-average shares	422,649	361,543	420,957	356,907
Effect of dilutive securities:				
Net effect of dilutive stock options	10,384	15,915	12,956	15,421
Assumed conversion of 5% Convertible Subordinated Debentures due 2001	--	--	--	4,076
Assumed conversion of 3.25% Convertible Subordinated Debentures due 2003	-- (1)	--	-- (1)	--
Dilutive potential common shares	10,384	15,915	12,956	19,497
Denominator of diluted earnings per share--adjusted weighted-average shares and assumed conversions	433,033	377,458	433,913	376,404
Basic earnings per share	$ 0.01	$ 0.25	$ 0.57	$ 0.67
Diluted earnings per share	$ 0.01	$ 0.24	$ 0.55	$ 0.64

</TABLE>

(1) The effect of these securities was antidilutive for the three months and nine months ended September 30, 1998.

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