

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K/A

Annual report pursuant to section 13 and 15(d) [amend]

Filing Date: **1996-06-12** | Period of Report: **1995-12-31**
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FILER

HEALTHSOUTH CORP

CIK: **785161** | IRS No.: **630860407** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-K/A** | Act: **34** | File No.: **001-10315** | Film No.: **96580096**
SIC: **8093** Specialty outpatient facilities, nec

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SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-K/A
AMENDMENT NO. 1

(Mark One)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [Fee Required] For the fiscal year ended December 31, 1995; or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required] 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 (I.R.S. Employer Identification No.)
of Incorporation or Organization)

Two Perimeter Park South
Birmingham, Alabama 35243

(Address of Principal Executive Offices) (Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class -----	Name of Each Exchange on which Registered -----
Common Stock, par value \$.01 per share	New York Stock Exchange
9.5% Senior Subordinated Notes due 2001	New York Stock Exchange
5% Convertible Subordinated Debentures due 2001	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the Registrant (1) has filed all Reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such Reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

State the aggregate market value of the voting stock held by non-affiliates of the Registrant as of March 15, 1996:

Common Stock, par value \$.01 per share -- \$5,339,826,576

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

Class -----	Outstanding at March 15, 1996 -----
Common Stock, par value \$.01 per share	152,483,607 shares

DOCUMENTS INCORPORATED BY REFERENCE

No documents are incorporated by reference into this Annual Report on Form 10-K.

Index to Exhibits Page _____

HEALTHSOUTH Corporation ("HEALTHSOUTH" or the "Company") files this Amendment No. 1 to its Annual Report on Form 10-K for the year ended December 31, 1995 to amend Items 7, 8 and 14 thereof to reflect the restatement of its audited consolidated financial statements at December 31, 1994 and 1995, and for the years ended December 31, 1993, 1994 and 1995, and the resulting revisions to Management's Discussion and Analysis of Financial Condition and Results of Operations, to reflect the effects of HEALTHSOUTH'S acquisitions of Surgical Care Affiliates, Inc. ("SCA") and Advantage Health Corporation ("Advantage Health"). HEALTHSOUTH acquired both SCA and Advantage Health during the first quarter of 1996, in transactions that were accounted for as poolings of interests.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

The following discussion is intended to facilitate the understanding and assessment of significant changes and trends related to the results of operations and financial condition of the Company, including certain factors related to recent acquisitions by the Company, the timing and nature of which have significantly affected the Company's results of operations. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K.

The Company completed the following acquisitions over the last two years:

- * On December 31, 1993, HEALTHSOUTH acquired substantially all of the assets of the rehabilitation services division of National Medical Enterprises, Inc. (the "NME Selected Hospitals Acquisition"). The purchase price was approximately \$315,000,000, plus net working capital. The Company acquired 28 inpatient rehabilitation facilities, with an aggregate of 2,296 licensed beds, and 45 outpatient rehabilitation centers.
- * On December 29, 1994, HEALTHSOUTH acquired ReLife, Inc. (the "ReLife Acquisition"). A total of 11,025,290 shares of HEALTHSOUTH Common Stock were issued in the transaction, representing a value of \$180,000,000 at the time of the acquisition. At that time, ReLife operated 31 inpatient facilities with an aggregate of 1,102 licensed beds, including nine freestanding rehabilitation hospitals, nine acute rehabilitation units, five sub-acute rehabilitation units, seven transitional living units and one residential facility, and also provided outpatient rehabilitation services at 12 centers.
- * Effective April 1, 1995, HEALTHSOUTH purchased the operations of the rehabilitation hospital division of NovaCare, Inc. (the "NovaCare Rehabilitation Hospitals Acquisition"). The purchase price was approximately \$235,000,000. The NovaCare Rehabilitation Hospitals consisted of 11 rehabilitation hospitals in seven states, 12 other facilities and two Certificates of Need.
- * On June 13, 1995, HEALTHSOUTH acquired Surgical Health Corporation (the "SHC Acquisition"). A total of 8,531,480 shares of HEALTHSOUTH Common Stock were issued in the transaction, representing a value of \$155,000,000 at the time

of the acquisition. The Company also purchased SHC's \$75,000,000 aggregate principal amount of 11.5% Senior Subordinated Notes due 2004 for an aggregate consideration of approximately \$86,000,000. At that time, SHC operated a network of 36 freestanding surgery centers in 11 states, and five mobile lithotripsy units.

- * On October 26, 1995, HEALTHSOUTH acquired Sutter Surgery Centers, Inc. (the "SSCI Acquisition"). A total of 1,776,001 shares of HEALTHSOUTH Common Stock were issued in the transaction, representing a value of \$44,444,000 at the time of the acquisition. At that time, SSCI operated a network of 12 freestanding surgery centers in three states, with an aggregate of 54 operating and procedure rooms.
- * December 1, 1995, HEALTHSOUTH acquired Caremark Orthopedic Services Inc. (the "Caremark Acquisition"). The purchase price was approximately \$127,500,000. At that time Caremark owned and operated approximately 120 outpatient rehabilitation centers in thirteen states.

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- * On January 17, 1996, HEALTHSOUTH acquired Surgical Care Affiliates, Inc. (the "SCA Acquisition"). A total of 45,928,339 shares of HEALTHSOUTH Common Stock were issued in the transaction, representing a value of approximately \$1,400,000,000. At that time, SCA operated a network of 67 freestanding surgery centers in 24 states.
- * On March 14, 1996, HEALTHSOUTH acquired Advantage Health Corporation (the "Advantage Health Acquisition"). A total of 9,101,989 shares of HEALTHSOUTH Common Stock were issued in the transaction, representing a value of approximately \$315,000,000. At that time, Advantage Health operated a network of 136 sites of service, including four freestanding rehabilitation hospitals, one freestanding multi-use hospital, one nursing home, 68 outpatient rehabilitation facilities, 14 inpatient managed rehabilitation units, 24 rehabilitation services management contracts and six managed sub-acute rehabilitation units, primarily located in the northeastern United States.

The NME Selected Hospitals Acquisition, the NovaCare Rehabilitation Hospitals Acquisition and the Caremark Acquisition each were accounted for under the purchase method of accounting and, accordingly, such operations are included in the Company's consolidated financial information from their respective dates of acquisition. The ReLife Acquisition, the SHC Acquisition, the SSCI Acquisition, the SCA Acquisition and the Advantage Health Acquisition were each accounted for as a pooling of interests and, with the exception of data set forth relating to revenues derived from Medicare and Medicaid, all amounts shown in the following discussion have been restated to reflect such acquisitions. ReLife, SHC, SSCI, SCA and Advantage Health did not separately track such revenues. The results of operations of SHC in turn reflect SHC's 1994 acquisition of Heritage Surgical Corporation (the "Heritage Acquisition"), which also was accounted for as a pooling of interests.

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, 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, an impairment loss is calculated based on the excess of the carrying value of the asset over the asset's fair value.

Governmental, commercial and private payors have increasingly

recognized the need to contain their costs for healthcare services. These payors, accordingly, are turning to closer monitoring of services, prior authorization requirements, utilization review and increased utilization of outpatient services. During the periods discussed below, the Company has experienced an increased effort by these payors to contain costs through negotiated discount pricing. The Company views these efforts as an opportunity to demonstrate the effectiveness of its clinical programs and its ability to provide its rehabilitative healthcare services efficiently. The Company has entered into a number of contracts with payors to provide services and has realized an increased volume of patients as a result.

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

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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, 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 period and include the operations of additional locations opened within the same market. New store operations are measured on locations within new markets.

Results of Operations of the Company

Twelve-Month Periods Ended December 31, 1993 and 1994

The Company operated 283 outpatient rehabilitation locations at December 31, 1994, compared to 203 outpatient rehabilitation locations at December 31, 1993. In addition, the Company operated 82 inpatient facilities, 112 surgery centers and five medical centers at December 31, 1994, compared to 51 inpatient facilities, 95 surgery centers and four medical centers at December 31, 1993.

The Company's operations generated revenues of \$1,649,199,000 in 1994, an increase of \$669,993,000, or 68.4%, as compared to 1993 revenues. Same store revenues for the twelve months ended December 31, 1994 were \$1,118,743,000, an increase of \$139,537,000, or 14.3%, as compared to the same period in 1993. New store revenues for 1994 were \$530,456,000. New store revenues primarily reflect the 28 inpatient rehabilitation facilities and 45 associated outpatient rehabilitation locations associated with the NME Selected Hospitals Acquisition. The increase in revenues is primarily attributable to the addition of these operations and increases in patient volume. Revenues generated from patients under Medicare and Medicaid plans respectively accounted for 41.0% and 3.2% of revenues for 1994, compared to 30.6% and 1.0% of revenues for 1993. The increase in Medicare revenues is primarily attributable to the NME Selected Hospitals Acquisition, since the acquired facilities had a greater proportion of Medicare patients than the Company's historical experience in its existing facilities. Revenues from any other single third-party payor were not significant in relation to the Company's revenues. During 1994, same store outpatient visits, inpatient days and surgery center cases increased 21.9%, 18.8% and 4.4%, respectively. Revenue per outpatient visit, inpatient day and surgery case for the same store operations decreased by 8.1%, 6.2% and 0.4%, respectively.

Operating expenses, at the operating unit level, were \$1,161,758,000, or 70.4% of revenues, for 1994, compared to 68.2% of revenues for 1993. Same store operating expenses for 1994 were \$796,343,000, or 71.2% of related revenues. New store operating expenses were \$365,415,000, or 68.9% of related revenues. Corporate general and administrative expenses increased from \$37,043,000 in 1993 to \$61,640,000 in 1994. As a percentage of revenues, corporate general and administrative expense decreased from 3.8% in 1993 to 3.7% in 1994. Total operating expenses were \$1,223,398,000, or 74.2% of revenues, for 1994, compared to \$705,244,000, or 72.0% of revenues, for 1993. The provision for doubtful accounts was \$32,904,000, or 2.0% of revenues, for 1994, compared to \$20,026,000, or 2.0% of revenues, for 1993.

Depreciation and amortization expense was \$113,977,000 for 1994, compared to \$63,572,000 for 1993. The increase represents the investment in additional assets by the Company. Interest expense increased to \$73,644,000 in 1994, compared to \$24,200,000 for 1993, primarily because of the increased borrowings during the year under the Company's revolving line of credit, the issuance of \$250,000,000 principal amount of 9.5% Senior Subordinated Notes due 2001 and the issuance of \$115,000,000 principal amount of 5% Convertible Subordinated Debentures due 2001. For 1994, interest income was \$6,387,000,

compared to \$5,903,000 for 1993.

As a result of the NME Selected Hospitals Acquisition, the Company recognized an expense of approximately \$49,742,000 during the year ended December 31, 1993. By recognizing this expense, the Company accrued approximately \$3,000,000 for costs related to certain employee separations and relocations. In addition,

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the Company provided approximately \$39,000,000 for the write-down of certain assets to net realizable value as the result of planned facility consolidations, and approximately \$7,700,000 for the write-off of certain capitalized development projects. The consolidations are applicable in selected markets where the Company's services overlap with those of the acquired facilities. The costs of development projects in certain target markets that were previously capitalized were written off due to the acquisition of NME facilities in or near those markets. For further discussion, see Note 10 of "Notes to Consolidated Financial Statements".

During 1994 and 1995, the Company completed the implementation of the plan of consolidation related to the NME Selected Hospitals Acquisition. The accrual for costs related to employee separations was increased by \$338,000 due to a change in estimate. This adjustment was charged to operations in 1994. The total accrual was then reduced by approximately \$758,000 and \$2,580,000 in actual employee separation costs during 1994 and 1995, respectively. In addition, assets with a net book value of \$17,911,000 and \$21,089,000 were written off against the \$39,000,000 provided for in the plan during 1994 and 1995, respectively. Finally, the Company wrote off all of the \$7,700,000 in capitalized development projects provided for in the plan during 1994.

Merger and acquisition related expenses in 1994 of \$6,520,000 represent costs incurred or accrued in connection with completing the ReLife Acquisition (\$2,949,000) and the Heritage Acquisition (\$3,571,000). For further discussion, see Note 2 of "Notes to Consolidated Financial Statements".

During 1994, the Company recognized a \$10,500,000 loss on impairment of assets. This amount relates to the termination of a ReLife management contract and a permanently damaged ReLife facility. The Company determined not to attempt to reopen such damaged facility because, under its existing licensure, the facility was not consistent with the Company's plans. Also during 1994, the Company recognized a \$4,500,000 loss on abandonment of a ReLife computer project. For further discussion, see Note 17 of "Notes to Consolidated Financial Statements".

During the fourth quarter of 1994, the Company adopted a formal plan to dispose of three surgery centers and certain other properties during fiscal 1995. Accordingly, a charge of \$13,197,000 was made to reflect the expected losses resulting from the disposal of these centers. The closings of the three surgery centers was completed by December 31, 1995. For further discussion, see Note 15 of "Notes to Consolidated Financial Statements".

Income before minority interests and income taxes for 1994 was \$184,673,000, compared to \$123,392,000 for 1993. Minority interests reduced income before income taxes by \$31,469,000 in 1994, compared to \$29,377,000 in 1993. The provision for income taxes for 1994 was \$65,121,000, compared to \$37,993,000 for 1993, resulting in effective tax rates of 42.5% for 1994 and 40.4% for 1993. Net income for 1994 was \$88,083,000.

Twelve-Month Periods Ended December 31, 1994 and 1995

The Company operated 537 outpatient rehabilitation locations at December 31, 1995, compared to 283 outpatient rehabilitation locations at December 31, 1994. In addition, the Company operated 95 inpatient facilities, 122 surgery centers and five medical centers at December 31, 1995, compared to 82 inpatient facilities, 112 surgery centers and five medical centers at December 31, 1994.

The Company's operations generated revenues of \$2,003,146,000 in 1995, an increase of \$353,947,000, or 21.5%, as compared to 1994 revenues. Same store revenues for the twelve months ended December 31, 1995 were \$1,817,359,000, an increase of \$168,160,000, or 10.2%, as compared to the same period in 1994. New store revenues for 1995 were \$185,787,000. New store revenues reflect (1) the 11 rehabilitation hospitals and 12 other facilities associated with the Novacare Rehabilitation Hospitals Acquisition, (2) the 120 outpatient rehabilitation centers associated with the Caremark Acquisition, (3) the acquisition of five surgery centers and one outpatient diagnostic imaging operation, and (4) the acquisition of outpatient rehabilitation operations in 34 new markets. See

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Note 10 of "Notes to Consolidated Financial Statements". The increase in revenues is primarily attributable to the addition of these operations and increases in patient volume. Revenues generated from patients under Medicare and Medicaid plans respectively accounted for 40.0% and 2.5% of total revenues for 1995, compared to 41.0% and 3.2% of total revenues for 1994. Revenues from any other single third-party payor were not significant in relation to the Company's total revenues. During 1995, same store outpatient visits, inpatient days and surgery center cases increased 21.7%, 10.8% and 4.8%, respectively. Revenue per outpatient visit, inpatient day and surgery case for same store operations increased (decreased) by 0.8%, 2.5% and (0.9)%, respectively.

Operating expenses, at the operating unit level, were \$1,371,740,000, or 68.5% of revenues, for 1995, compared to 70.4% of revenues for 1994. Same store operating expenses for 1995 were \$1,243,508,000, or 68.4% of related revenues. New store operating expenses were \$128,232,000, or 69.0% of related revenues. Corporate general and administrative expenses decreased from \$61,640,000 in 1994 to \$56,920,000 in 1995. As a percentage of revenues, corporate general and administrative expenses decreased from 3.7% in 1994 to 2.8% in 1995. Total operating expenses were \$1,428,660,000, or 71.3% of revenues, for 1995, compared to \$1,223,398,000, or 74.2% of revenues, for 1994. The provision for doubtful accounts was \$37,659,000, or 1.9% of revenues, for 1995, compared to \$32,904,000, or 2.0% of revenues, for 1994.

Depreciation and amortization expense was \$143,322,000 for 1995, compared to \$113,977,000 for 1994. The increase resulted from the investment in additional assets by the Company. Interest expense increased to \$101,790,000 in 1995, compared to \$73,644,000 for 1994, primarily because of the increased average borrowings during 1995 under the Company's revolving line of credit. For 1995, interest income was \$7,882,000 compared to \$6,387,000 for 1994.

As a result of the NovaCare and SHC acquisitions, the Company recognized \$29,194,000 in merger and acquisition related expenses during the second quarter of 1995. Fees related to legal, accounting and financial advisory services accounted for \$3,400,000 of the expense. Costs and expenses related to the purchase of the SHC Notes (see " -- Liquidity and Capital Resources" and Note 7 of "Notes to Consolidated Financial Statements") totaled \$14,606,000. Accruals for employee separations were approximately \$1,188,000. In addition, the Company provided approximately \$10,000,000 for the write-down of certain assets to net realizable value as the result of a planned facility consolidation. The consolidation is applicable in a market where the Company's existing services overlap with those of an acquired facility. The planned employee separations and facility consolidation were completed by the end of 1995.

In the fourth quarter of 1995, the Company incurred direct costs and expenses of \$4,965,000 in connection with the SSCI Acquisition. These expenses consist primarily of fees related to legal, accounting and financial advisory services and are included in merger and acquisition related expenses for the year ended December 31, 1995.

Also during 1995, the Company recognized a \$53,549,000 loss on impairment of assets. The impaired assets relate to six SHC facilities and eight SCA facilities in which the projected undiscounted cash flows did not support the book value of the long-lived assets of such facilities. See Note 17 of "Notes to Consolidated Financial Statements".

Income before minority interests and income taxes for 1995 was \$211,889,000, compared to \$184,673,000 for 1994. Minority interests reduced income before income taxes by \$43,147,000, compared to \$31,469,000 for 1994. The provision for income taxes for 1995 was \$76,221,000, compared to \$65,121,000 for 1994, resulting in effective tax rates of 45.2% for 1995 and 42.5% for 1994. Net income for 1995 was \$92,521,000.

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Liquidity and Capital Resources

At December 31, 1995, the Company had working capital of \$406,125,000, including cash and marketable securities of \$156,321,000. Working capital at December 31, 1994 was \$282,667,000, including cash and marketable securities of \$129,971,000. For 1995, cash provided by operations was \$306,157,000, compared to \$258,272,000 for 1994. The Company used \$764,825,000 for investing activities during 1995, compared to \$324,876,000 for 1994. Additions to property, plant and equipment and acquisitions accounted for \$172,172,000 and \$493,914,000, respectively, during 1995. Those same investing activities accounted for \$195,297,000 and \$116,650,000, respectively, in 1994. Financing activities provided \$494,100,000 and \$58,975,000 during 1995 and 1994, respectively. Net borrowing proceeds (borrowings less principal reductions) for 1995 and 1994 were \$213,155,000 and \$88,017,000, respectively.

Net accounts receivable were \$409,150,000 at December 31, 1995,

compared to \$307,950,000 at December 31, 1994. The number of days of average revenues in average receivables was 63.2 at December 31, 1995, compared to 59.3 at December 31, 1994. The increase is primarily attributable to approximately \$68,300,000 in net accounts receivable obtained through acquisitions during 1995, since the days' revenues in net accounts receivable of the acquired facilities was generally greater than the Company's historical experience in its existing facilities.

The Company has a \$1,000,000,000 revolving line of credit with NationsBank, N.A. (Carolinas) and 28 other participating banks. Interest is paid based on LIBOR plus a predetermined margin, a base rate or competitively bid rates from the participating banks. This credit facility has a maturity date of October 1, 2000. The Company provided a negative pledge on all assets and granted the banks a first priority security interest in all shares of stock of its subsidiaries and rights and interests in its controlled partnerships. The effective interest rate on the average outstanding balance under the revolving line of credit was 7.01% for the twelve months ended December 31, 1995, compared to the average prime rate of 8.83% during the same period. At December 31, 1995, the Company had drawn \$790,000,000 under its revolving line of credit. On April 18, 1996, the credit facility was amended and restated to increase the maximum amount available thereunder to \$1,250,000,000 and to eliminate the security interests thereunder. See Note 7 of "Notes to Consolidated Financial Statements".

On June 20, 1995, the Company purchased \$67,500,000 of the \$75,000,000 outstanding principal amount of 11.5% Senior Subordinated Notes due 2004 of SHC for 115% of the face value of the Notes. In July 1995, the remaining \$7,500,000 balance was purchased on the open market. See Note 7 of "Notes to Consolidated Financial Statements".

The Company intends to pursue the acquisition or development of additional healthcare operations, including comprehensive outpatient rehabilitation facilities, inpatient rehabilitation facilities, ambulatory surgery centers and companies engaged in the provision of 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 \$30,000,000 on maintenance and expansion of its existing facilities and approximately \$150,000,000 on development of the Integrated Service Model. See Item 1, "Business -- Company Strategy".

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 revolving line of credit 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 of the Company's business, and is not expected to adversely affect the Company in the future unless it increases significantly.

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Statements contained in this Annual Report on Form 10-K 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.

Item 8. Financial Statements and Supplementary Data.

Consolidated financial statements of the Company meeting the requirements of Regulation S-X are filed on the succeeding pages of this Item 8 of this Amendment No. 1 to Annual Report on Form 10-K/A, as listed below:

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Other financial statements and schedules required under Regulation S-X are listed in Item 14(a)2, and filed under Item 14(d), of this Amendment No. 1 to Annual Report on Form 10-K/A.

Report of Ernst & Young LLP, Independent Auditors

The Board of Directors
HEALTHSOUTH Corporation

We have audited the accompanying consolidated balance sheets of HEALTHSOUTH Corporation and Subsidiaries as of December 31, 1994 and 1995, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1995. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of

HEALTHSOUTH Corporation and Subsidiaries at December 31, 1994 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Birmingham, Alabama
May 23, 1996

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HEALTHSOUTH Corporation and Subsidiaries

Consolidated Balance Sheets

<TABLE>
<CAPTION>

	December 31	
	1994	1995
	(In thousands)	
	<C>	<C>
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 112,317	\$ 152,244
Other marketable securities (Note 3)	17,654	4,077
Accounts receivable, net of allowances for doubtful accounts and contractual adjustments of \$163,151,000 in 1994 and \$235,175,000 in 1995	307,950	409,150
Inventories	32,661	39,239
Prepaid expenses and other current assets	73,879	76,844
Deferred income taxes (Note 11)	14,748	21,977
Total current assets	559,209	703,531
Other assets:		
Loans to officers	1,340	1,625
Other (Note 4)	49,771	68,868
	51,111	70,493
Property, plant and equipment, net (Note 5)	1,048,112	1,283,560
Intangible assets, net (Note 6)	571,661	873,911
Total assets	\$ 2,230,093	\$ 2,931,495

</TABLE>

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<TABLE>
<CAPTION>

	December 31	
	1994	1995
	(In thousands)	
<S>	<C>	<C>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 103,798	\$ 107,018
Salaries and wages payable	41,996	67,905
Accrued interest payable and other liabilities	94,464	87,308
Current portion of long-term debt (Note 7)	36,284	35,175
Total current liabilities	276,542	297,406
Long-term debt (Note 7)	1,102,803	1,356,489
Deferred income taxes (Note 11)	20,914	23,733
Other long-term liabilities (Note 17)	10,642	8,459
Deferred revenue (Note 14)	7,526	1,525
Minority interests-limited partnerships (Note 9)	54,083	57,985
Commitments and contingent liabilities (Note 12)		
Stockholders' equity:		
Preferred stock, \$.10 par value-1,500,000 shares authorized; issued and outstanding-none	-	-
Common stock, \$.01 par value-150,000,000 shares authorized; issued-133,128,000 in 1994 and 152,193,000 in 1995 (Note 8)	1,331	1,522
Additional paid-in capital	529,697	888,216
Retained earnings	257,987	334,582
Treasury stock, at cost (919,000 shares in 1994 and 1,324,000 shares in 1995)	(8,715)	(16,065)
Receivable from Employee Stock Ownership Plan	(17,477)	(15,886)
Notes receivable from stockholders	(5,240)	(6,471)
Total stockholders' equity	757,583	1,185,898
Total liabilities and stockholders' equity	\$ 2,230,093	\$ 2,931,495

</TABLE>

See accompanying notes.

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HEALTHSOUTH Corporation and Subsidiaries

Consolidated Statements of Income

<TABLE>
<CAPTION>

	Year ended December 31		
	1993	1994	1995
	(In thousands, except for per share amounts)		
<S>	<C>	<C>	<C>
Revenues	\$ 979,206	\$ 1,649,199	\$ 2,003,146
Operating expenses:			
Operating units	668,201	1,161,758	1,371,740
Corporate general and administrative	37,043	61,640	56,920
Provision for doubtful accounts	20,026	32,904	37,659
Depreciation and amortization	63,572	113,977	143,322
Interest expense	24,200	73,644	101,790
Interest income	(5,903)	(6,387)	(7,882)
Merger and acquisition related expenses (Notes 2 and 10)	333	6,520	34,159
Loss on impairment of assets (Note 17)	-	10,500	53,549
Loss on abandonment of computer project (Note 17)	-	4,500	-
Loss on disposal of surgery centers (Note 15)	-	13,197	-
NME Selected Hospitals Acquisition related expense (Note 10)	49,742	-	-
Gain on sale of MCA stock (Note 1)	-	(7,727)	-
Gain on sale of partnership interest	(1,400)	-	-
	855,814	1,464,526	1,791,257

Income from continuing operations before income taxes and minority interests	123,392	184,673	211,889
Provision for income taxes (Note 11)	37,993	65,121	76,221
Minority interests	85,399	119,552	135,668
	29,377	31,469	43,147
Income from continuing operations	56,022	88,083	92,521
Income from discontinued operations (Note 16)	4,452	-	-
Net income	\$ 60,474	\$ 88,083	\$ 92,521
Weighted average common and common equivalent shares outstanding	132,479	140,427	148,730
Net income per common and common equivalent share			
Continuing operations	\$ 0.43	\$ 0.63	\$ 0.62
Discontinued operations	0.03	-	-
	\$ 0.46	\$ 0.63	\$ 0.62
Net income per common share-assuming full dilution	\$ N/A	\$ 0.63	\$ 0.62

</TABLE>

See accompanying notes.

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<TABLE>

<CAPTION>

HEALTHSOUTH Corporation and Subsidiaries
Consolidated Statements of Stockholders' Equity

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings
				(In thousands)
<S>	<C>	<C>	<C>	<C>
Balance at December 31, 1992	126,666.0	\$ 1,266.7	\$ 464,595.2	\$ 141,714.1
Proceeds from exercise of options (Note 8)	1,326.7	13.3	2,953.9	-
Proceeds from issuance of common shares	1,953.7	19.5	25,530.3	-
Income tax benefits related to incentive stock options (Note 8)	-	-	584.7	-
Reduction in receivable from ESOP	-	-	-	-
Payments received on stockholders' notes receivable	-	-	-	-
Purchase of limited partnership units	-	-	-	(5,091.7)
Purchases of treasury stock	-	-	-	-
Net income	-	-	-	60,474.0
Dividends paid	-	-	-	(6,033.0)
Distribution of HealthWise common stock (Note 16)	-	-	-	(13,085.0)
Balance at December 31, 1993	129,946.4	1,299.5	493,664.1	177,978.4
Proceeds from exercise of options (Note 8)	2,296.3	23.0	16,341.0	-
Common shares exchanged in the exercise of options	(22.0)	(.2)	(321.2)	-
Proceeds from issuance of common shares	907.5	9.1	13,543.2	-
Income tax benefits related to incentive stock options (Note 8)	-	-	6,469.6	-
Reduction in receivable from ESOP	-	-	-	-
Payments received on stockholders' notes receivable	-	-	-	-
Purchase of limited partnership units	-	-	-	(1,838.0)
Purchase of treasury stock	-	-	-	-
Net income	-	-	-	88,083.0
Dividends paid	-	-	-	(6,236.6)
Balance at December 31, 1994	133,128.2	1,331.4	529,696.7	257,986.8
Adjustment for ReLife Merger (Note 2)	2,732.0	27.3	7,113.7	(3,734.0)

Proceeds from exercise of options (Note 8)	1,100.7	11.0	9,857.0	-
Proceeds from issuance of common shares	15,232.4	152.3	334,895.8	-
Income tax benefits related to incentive stock options (Note 8)	-	-	6,653.3	-
Reduction in receivable from ESOP	-	-	-	-
Loans made to stockholders	-	-	-	-
Purchase of limited partnership units	-	-	-	(4,767.3)
Purchases of treasury stock	-	-	-	-
Net income	-	-	-	92,521.0
Dividends paid	-	-	-	(7,424.9)
Balance at December 31, 1995	152,193.3	\$ 1,522.0	\$ 888,216.5	\$ 334,581.6

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HEALTHSOUTH Corporation and Subsidiaries
Consolidated Statements of Stockholders' Equity (continued)

	Treasury Stock Shares	Treasury Stock Amount	Receivable from ESOP	Notes Receivable from Stockholders	Total Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1992	71.0	\$ (60.0)	\$ (19,642.0)	\$ (5,919.7)	\$ 581,954.3
Proceeds from exercise of options (Note 8)	-	-	-	-	2,967.2
Proceeds from issuance of common shares	-	-	-	-	25,549.8
Income tax benefits related to incentive stock options (Note 8)	-	-	-	-	584.7
Reduction in receivable from ESOP	-	-	710.1	-	710.1
Payments received on stockholders' notes receivable	-	-	-	429.7	429.7
Purchase of limited partnership units	-	-	-	-	(5,091.7)
Purchases of treasury stock	247.2	(2,063.0)	-	-	(2,063.0)
Net income	-	-	-	-	60,474.0
Dividends paid	-	-	-	-	(6,033.0)
Distribution of HealthWise common stock (Note 16)	-	-	-	-	(13,085.0)
Balance at December 31, 1993	318.2	(2,123.0)	(18,931.9)	(5,490.0)	646,397.1
Proceeds from exercise of options (Note 8)	-	-	-	-	16,364.0
Common shares exchanged in the exercise of options	-	-	-	-	(321.4)
Proceeds from issuance of common shares	-	-	-	-	13,552.3
Income tax benefits related to incentive stock options (Note 8)	-	-	-	-	6,469.6
Reduction in receivable from ESOP	-	-	1,455.0	-	1,455.0
Payments received on stockholders' notes receivable	-	-	-	250.0	250.0
Purchase of limited partnership units	-	-	-	-	(1,838.0)
Purchase of treasury stock	600.7	(6,591.8)	-	-	(6,591.8)
Net income	-	-	-	-	88,083.0
Dividends paid	-	-	-	-	(6,236.6)
Balance at December 31, 1994	918.9	(8,714.8)	(17,476.9)	(5,240.0)	757,583.2
Adjustment for ReLife Merger (Note 2)	-	-	-	-	3,407.0
Proceeds from exercise of options (Note 8)	-	-	-	-	9,868.0
Proceeds from issuance of common shares	-	-	-	-	335,048.1
Income tax benefits related to incentive stock options (Note 8)	-	-	-	-	6,653.3
Reduction in receivable from ESOP	-	-	1,590.9	-	1,590.9
Loans made to stockholders	-	-	-	(1,231.0)	(1,231.0)
Purchase of limited partnership units	-	-	-	-	(4,767.3)
Purchases of treasury stock	404.8	(7,350.0)	-	-	(7,350.0)
Net income	-	-	-	-	92,521.0
Dividends paid	-	-	-	-	(7,424.9)
Balance at December 31, 1995	1,323.7	\$ (16,064.8)	\$ (15,886.0)	\$ (6,471.0)	\$ 1,185,898.3

See accompanying notes.

</TABLE>

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<TABLE>
<CAPTION>

	Year ended December 31		
	1993	1994	1995
	(In thousands)		
<S>	<C>	<C>	<C>
Operating activities			
Net income	\$ 60,474	\$ 88,083	\$ 92,521
Adjustments to reconcile net income to net cash provided by operating activities:			
Net income from discontinued operations	(4,452)	-	-
Depreciation and amortization	63,572	113,977	143,322
Provision for doubtful accounts	20,026	32,904	37,659
Provision for losses on impairment of assets	-	10,500	53,549
Provision for losses on abandonment of computer project	-	4,500	-
Merger and acquisition related expenses	-	-	34,159
NME Selected Hospitals Acquisition related expense	49,742	-	-
Loss on disposal of surgery center	-	13,197	-
Income applicable to minority interests of limited partnerships	29,377	31,469	43,147
(Benefit) provision for deferred income taxes	(1,859)	(15,882)	380
Provision for deferred revenue	(49)	(164)	(1,990)
Gain on sale of property, plant and equipment	-	(623)	-
Gain on sale of partnership interests	(1,400)	-	-
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(41,594)	(97,167)	(65,382)
Inventories, prepaid expenses and other current assets	(21,821)	(15,251)	732
Accounts payable and accrued expenses	(1,856)	92,729	(31,940)
Net cash provided by operating activities	150,160	258,272	306,157
Investing activities			
Purchases of property, plant and equipment	(176,220)	(195,297)	(172,172)
Proceeds from sale of property, plant and equipment	-	68,330	14,541
Additions to intangible assets, net of effects of acquisitions	(47,107)	(69,119)	(117,552)
Assets obtained through acquisitions, net of liabilities assumed	(471,200)	(116,650)	(493,914)
Changes in other assets	(6,463)	(21,962)	(6,963)
Proceeds received on sale of other marketable securities	20,554	18,948	22,161
Investments in other marketable securities	(23,344)	(9,126)	(10,926)
Net cash used in investing activities	(703,780)	(324,876)	(764,825)

</TABLE>

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HEALTHSOUTH Corporation and Subsidiaries
Consolidated Statements of Cash Flows (continued)

<TABLE>
<CAPTION>

	Year ended December 31		
	1993	1994	1995
	(In thousands)		
<S>	<C>	<C>	<C>
Financing activities			
Proceeds from borrowings	\$ 590,444	\$ 1,058,479	\$ 685,816
Principal payments on long-term debt and leases	(42,435)	(970,462)	(472,661)
Proceeds from exercise of options	2,950	14,727	9,868
Proceeds from issuance of common stock	15,476	1,136	330,954
Purchase of treasury stock	(2,063)	(6,592)	(7,350)
Reduction in Receivable from ESOP	710	1,455	1,591
Payments received on (loans made to) stockholders	429	250	(1,231)
Dividends paid	(6,033)	(6,237)	(7,425)
Proceeds from investment by minority interests	10,988	2,268	1,103
Purchase of limited partnership interests	(3,784)	(1,698)	(10,076)

Payment of cash distributions to limited partners	(27,722)	(34,351)	(36,489)
Net cash provided by financing activities	538,960	58,975	494,100
(Decrease) increase in cash and cash equivalents	(14,660)	(7,629)	35,432
Cash and cash equivalents at beginning of year (Note 2)	134,606	119,946	116,812
Cash and cash equivalents at end of year	\$ 119,946	\$ 112,317	\$ 152,244

Supplemental disclosures of cash flow information

Cash paid during the year for:

Interest	\$ 22,080	\$ 59,833	\$ 100,189
Income taxes	42,418	60,166	83,059

</TABLE>

Non-cash investing activities:

The Company assumed liabilities of \$94,074,000, \$32,027,000 and \$55,828,000 during the years ended December 31, 1993, 1994 and 1995, respectively, in conjunction with its acquisitions. During the years ended December 31, 1993 and 1994, the Company issued 812,000 and 624,000 common shares, respectively, with a market value of \$8,988,000 and \$9,923,000, respectively, as consideration for acquisitions.

Non-cash financing activities:

During 1995, the Company had a two-for-one stock split on its common stock, which was effected in the form of a one hundred percent stock dividend.

The Company received a tax benefit from the disqualifying disposition of incentive stock options of \$585,000, \$6,470,000 and \$6,653,000 for the years ended December 31, 1993, 1994 and 1995, respectively.

During the year ended December 31, 1994, 11,000 common shares were exchanged in the exercise of options. The shares exchanged had a market value on the date of exchange of \$321,000.

See accompanying notes.

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HEALTHSOUTH Corporation and Subsidiaries
Notes to Consolidated Financial Statements

December 31, 1995

1. Significant Accounting Policies

The significant accounting policies followed by HEALTHSOUTH Corporation and its subsidiaries (the Company) are presented as an integral part of the consolidated financial statements.

Basis of Presentation

The accompanying financial statements have been restated for all periods to account for the mergers with Surgical Care Affiliates, Inc. and Advantage Health Corporation effective January 17, 1996 and March 14, 1996, respectively (see Note 2).

Principles of Consolidation

The consolidated financial statements include the accounts of HEALTHSOUTH Corporation ("HEALTHSOUTH") and its wholly-owned subsidiaries, as well as its limited partnerships (see Note 9). All significant intercompany accounts and transactions have been eliminated in consolidation.

HEALTHSOUTH Corporation is engaged in the business of providing comprehensive rehabilitative, clinical and surgical healthcare services on an inpatient and outpatient basis.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the accompanying consolidated financial statements and notes. Actual results could differ from those estimates.

Marketable Securities

Marketable equity securities and debt securities are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, if material, reported as a separate component of stockholders' equity, net of tax. During 1994, marketable securities consisting of \$13,360,507 of common stock were sold and the resulting gain was recognized in the consolidated statement of income. The adjusted cost of the specific security sold method is used to compute gain or loss on the sale of securities. Interest and dividends on securities classified as available-for-sale are included in investment income. Marketable equity securities and debt securities of the Company have maturities of less than one year.

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Accounts Receivable and Third-Party Reimbursement Activities

Receivables from patients, insurance companies and third-party contractual insured accounts (Medicare and Medicaid) are based on payment agreements which generally result in the Company collecting an amount different from the established rates. Final determination of the settlement is subject to review by appropriate authorities. Adequate allowances are provided for doubtful accounts and contractual adjustments. Uncollectible accounts are written off against the allowance for doubtful accounts after adequate collection efforts are made. Net accounts receivable include only those amounts estimated by management to be collectible.

The concentration of net accounts receivable from third-party contractual payors and others, as a percentage of total net accounts receivable, was as follows:

	December 31	
	1994	1995
Medicare	34%	24%
Medicaid	6	6
Other	60	70
	100%	100%

Inventories

Inventories are stated at the lower of cost or market using the specific identification method.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Upon sale or retirement of property, plant or equipment, the cost and related accumulated depreciation are eliminated from the respective account and the resulting gain or loss is included in the results of operations.

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

Interest cost incurred during the construction of a facility is capitalized. The Company incurred interest of \$26,864,000, \$76,038,000 and \$103,731,000, of which \$2,664,000, \$2,394,000 and \$1,941,000 was capitalized, during 1993, 1994 and 1995, respectively.

Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets or the term of the lease, as appropriate. The estimated useful life of buildings is 30-40 years and the general range of useful lives for leasehold improvements, furniture, fixtures

and equipment is 10-15 years.

Intangible Assets

Cost in excess of net asset value of purchased facilities is amortized over 20 to 40 years using the straight-line method. Organization and start-up costs incurred prior to opening a new facility and partnership formation costs are deferred and amortized on a straight-line basis over a period of 36 months. Organization, partnership formation and start-up costs for a project that is subsequently abandoned are charged to operations in that period. Debt issue costs are amortized over the term of the debt. Noncompete agreements are amortized using the straight-line method over the term of the agreements.

Minority Interests

The equity of minority investors in limited partnerships of the Company is reported on the balance sheet as minority interests. Minority interests reported in the consolidated income statement reflect the respective interests in the income or loss of the limited partnerships attributable to the minority investors, the effect of which is removed from the results of operations of the Company.

Revenues

Revenues include net patient service revenues and other operating revenues. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

Income per Common and Common Equivalent Share

Income per common and common equivalent share is computed based on the weighted average number of common shares and common equivalent shares outstanding during the periods, as adjusted for the two-for-one stock split declared in April 1995. Common equivalent shares include dilutive employees' stock options, less the number of treasury shares assumed to be purchased from the proceeds using the average market price of the Company's common stock. Fully diluted earnings per share (based on 145,149,000 shares in 1994 and 154,843,000 shares in 1995) assumes conversion of the 5% Convertible Subordinated Debentures due 2001 (see Note 7).

Impairment of Assets

In accordance with FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of", the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. Effective January 1, 1995, the company adopted FASB 121 to account for long-lived assets.

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 a regulator; a history of operating 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, an impairment loss is calculated based on the excess of the carrying amount of the asset over the asset's fair value.

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations in accounting for its employee stock options because the alternative fair value accounting provided for under FASB Statement No. 123 "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

2. Mergers

Effective December 29, 1994, the Company merged with ReLife, Inc. ("ReLife") and in connection therewith issued 11,025,290 shares of its common stock for all of ReLife's outstanding common stock. Prior to the merger, ReLife provided a system of rehabilitation services and operated 31 inpatient facilities with an aggregate of approximately 1,100 licensed beds, including nine freestanding rehabilitation hospitals, nine acute rehabilitation units, five sub-acute rehabilitation units, seven transitional living units and one residential facility, and provided outpatient rehabilitation services at twelve outpatient centers. Costs and expenses of \$2,949,000, primarily legal, accounting and financial advisory fees, incurred by HEALTHSOUTH in connection with the ReLife merger have been recorded in operations in 1994 and reported as merger expenses in the accompanying consolidated statements of income.

Effective June 13, 1995, the Company merged with Surgical Health Corporation ("SHC") and in connection therewith issued 8,531,480 shares of its common stock for all of SHC's common and preferred stock. Prior to the merger, SHC operated a network of 36 freestanding surgery centers and five mobile lithotripters in eleven states, with an aggregate of 156 operating and procedure rooms. Costs and expenses of approximately \$19,194,000 incurred by the Company in connection with the SHC merger have been recorded in operations during 1995 and reported as merger expenses in the accompanying consolidated statements of income. Fees related to legal, accounting and financial advisory services accounted for \$3,400,000 of the expense. Costs and expense related to the retirement of the SHC Notes (see Note 7) totaled \$14,606,000. Costs related to employee separations were approximately \$1,188,000.

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Mergers (continued)

SHC merged with Ballas Outpatient Management, Inc. and Midwest Anesthesia, Inc. on February 11, 1993 in a transaction accounted for as a pooling of interests. SHC recorded merger costs of \$333,000 in connection with this transaction in 1993. SHC merged with Heritage Surgical Corporation on January 18, 1994 in a transaction accounted for as a pooling of interests. SHC recorded merger costs of \$3,571,000 in connection with this transaction in 1994. SHC's historical financial statements for the periods prior to the two mergers described above have been restated to include the results of the acquired companies for all periods presented.

Effective October 26, 1995, the Company merged with Sutter Surgery Centers, Inc. ("SSCI") and in connection therewith issued 1,776,001 shares of its common stock in exchange for all of SSCI's outstanding common stock. Prior to the merger, SSCI operated a network of 12 freestanding surgery centers in three states, with an aggregate of 54 operating and procedure rooms. Costs and expenses of approximately \$4,965,000, primarily legal, accounting and financial advisory fees, incurred by the Company in connection with the SSCI merger have been recorded in operations and reported as merger expenses in the accompanying consolidated statements of income.

Effective January 17, 1996, the Company merged with Surgical Care Affiliates, Inc. ("SCA") and in connection therewith issued 45,928,339 shares of its common stock in exchange for all of SCA's outstanding common stock. Prior to the merger, SCA operated 67 surgery centers in 24 states. Costs and expenses of approximately \$19,727,000 primarily legal, accounting and financial advisory fees, incurred by the Company in connection with the SCA merger have been recorded in operations as merger costs during the quarter ended March 31, 1996 (see Note 18).

Effective March 14, 1996, the Company merged with Advantage Health Corporation ("Advantage Health") and in connection therewith issued 9,101,989 shares of its common stock in exchange for all of Advantage Health's outstanding common stock. Prior to the merger, Advantage Health operated a network of 136 sites of service, including four freestanding rehabilitation hospitals, one freestanding

multi-use hospital, one nursing home, 68 outpatient rehabilitation facilities, 14 inpatient managed rehabilitation units, 24 rehabilitation services management contracts and six managed sub-acute rehabilitation units. Costs and expenses of approximately \$9,212,000, primarily legal, accounting and financial advisory fees, incurred by the Company in connection with the Advantage

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Mergers (continued)

Health merger have been recorded in operations as merger costs during the quarter ended March 31, 1996 (see Note 18). Prior to the merger, Advantage Health reported on a fiscal year ending on August 31; accordingly, the historical financial statements of Advantage Health have been recast to a November 30 fiscal-year end to more closely conform to the Company's calendar fiscal-year end. The accompanying consolidated financial statements are based on a combination of the Company's results for a December 31 fiscal year and Advantage Health's results for its recasted November 30 year-end for all periods presented.

The mergers of the Company with ReLife, SHC, SSCI, SCA and Advantage Health were accounted for as poolings of interests and, accordingly, the Company's consolidated financial statements have been restated to include the results of the acquired companies for all periods presented.

Combined and separate results of the Company and its 1995 mergers, SHC and SSCI, and 1996 mergers, SCA and Advantage Health, are as follows (in thousands):

<TABLE>
<CAPTION>

	HEALTHSOUTH	SHC	SSCI	SCA	Advantage Health	Combined
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Year ended						
December 31, 1993						
Revenues	\$ 575,346	\$ 80,983	\$ 22,096	\$ 199,270	\$ 101,511	\$ 979,206
Net income	13,592	3,605	139	36,668	6,470	60,474
Year ended						
December 31, 1994						
Revenues	1,127,441	108,749	38,175	239,272	135,562	1,649,199
Net income (loss)	53,225	(3,264)	532	29,280	8,310	88,083
Year ended						
December 31, 1995						
Revenues	1,475,884	50,935	29,868	263,866	182,593	2,003,146
Net income	76,819	1,090	1,040	3,322	10,250	92,521

</TABLE>

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Mergers (continued)

There were no material transactions between the Company, ReLife, SHC, SSCI, SCA and Advantage Health prior to the mergers. The effects of conforming the accounting policies of the combined companies are not material.

Prior to its merger with the Company, ReLife reported on a fiscal year ending on September 30. The restated financial statements for all periods prior to and including December 31, 1994, are based on a combination of the Company's results for its December 31 fiscal year and ReLife's results for its September 30 fiscal year. Beginning January 1, 1995, all facilities acquired in the ReLife merger adopted a December 31 fiscal year end; accordingly, all consolidated financial statements for periods after December 31, 1994 are based on a consolidation of the Company and the former ReLife subsidiaries on a December 31 year end. ReLife's historical results of operations for the three months ended December 31, 1994 are not included in the Company's consolidated statements of income or cash flows. An adjustment has been made to stockholders' equity as of January 1, 1995 to adjust for the effect of excluding ReLife's results of operations for the three months ended December 31, 1994. The following is a summary of ReLife's results of operations and cash flows for the three months ended December 31,

1994 (in thousands):

Statement of Income Data:

Revenues	\$	38,174
Operating expenses:		
Operating units		31,797
Corporate general and administrative		2,395
Provision for doubtful accounts		541
Depreciation and amortization		1,385
Interest expense		858
Interest income		(91)
HEALTHSOUTH merger expense		3,050
Loss on disposal of fixed assets		1,000
Loss on abandonment of computer project		973

		41,908

Net loss before income taxes and minority interests	\$	(3,734)
		=====

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Mergers (continued)

Statement of Cash Flow Data:

Net cash provided by operating activities	\$	38,077
Net cash used in investing activities		(9,632)
Net cash used in financing activities		(23,950)

Net increase in cash	\$	4,495
		=====

During the three months ended December 31, 1994, ReLife received \$7,141,000 in proceeds from the exercise of stock options.

3. Cash, Cash Equivalents and Other Marketable Securities

Cash, cash equivalents and other marketable securities consisted of the following:

<TABLE>
<CAPTION>

	December 31	
	1994	1995

	(In thousands)	

<S>	<C>	<C>
Cash	\$ 99,959	\$ 140,476
Municipal put bonds	2,100	2,095
Tax advantaged auction preferred stocks	7,000	7,200
U.S. Government and Agency obligations	3,258	2,473
	-----	-----
Total cash and cash equivalents	112,317	152,244
United States Treasury notes	1,004	-
Certificates of deposit	2,135	1,962
Municipal put bonds	3,975	615
Municipal put bond mutual funds	8,514	500
Collateralized mortgage obligations	1,000	1,000
Common stocks	1,026	-
	-----	-----
Total other marketable securities	17,654	4,077
	-----	-----
Total cash, cash equivalents and other marketable securities (approximates market value)	\$ 129,971	\$ 156,321
	=====	=====

</TABLE>

For purposes of the consolidated balance sheets and statements of cash flows, marketable securities purchased with an original maturity of ninety days or less are considered cash equivalents.

HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Other Assets

Other assets consisted of the following:

<TABLE>

<CAPTION>

	December 31	
	1994	1995
	(In thousands)	
<S>	<C>	<C>
Notes and accounts receivable	\$ 15,104	\$ 24,628
Investment in Caretenders Health Corp.	7,370	7,417
Prepaid long-term lease	-	8,888
Investments in other unconsolidated subsidiaries	8,566	6,754
Real estate investments	12,529	14,324
Trusted funds	-	1,879
Other	6,202	4,978
	-----	-----
	\$ 49,771	\$ 68,868
	=====	=====

</TABLE>

The Company has a 19% ownership interest in Caretenders Health Corp. ("Caretenders"); accordingly, the Company's investment is being accounted for using the equity method of accounting. The investment was initially valued at \$7,250,000. The Company's equity in earnings of Caretenders for the years ended December 31, 1993, 1994 and 1995 was not material to the Company's results of operations.

It was not practicable to estimate the fair value of the Company's various investments in other unconsolidated subsidiaries (involved in operations similar to those of the Company) because of the lack of a quoted market price and the inability to estimate fair value without incurring excessive costs. The carrying amount at December 31, 1995 represents the original cost of the investments, which management believes is not impaired.

HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

<TABLE>

<CAPTION>

	December 31	
	1994	1995
	(In thousands)	
<S>	<C>	<C>
Land	\$ 71,729	\$ 76,686
Buildings	578,643	767,038
Leasehold improvements	67,742	87,216
Furniture, fixtures and equipment	468,016	603,985
Construction-in-progress	47,873	33,407
	-----	-----
	1,234,003	1,568,332
Less accumulated depreciation and amortization	185,891	284,772
	-----	-----
	\$ 1,048,112	\$ 1,283,560
	=====	=====

</TABLE>

6. Intangible Assets

Intangible assets consisted of the following:

<TABLE>
<CAPTION>

	December 31	
	1994	1995
	(In thousands)	
	<C>	<C>
Organizational, partnership formation and start-up costs	\$ 99,714	\$ 163,820
Debt issue costs	19,808	34,973
Noncompete agreements	36,089	70,636
Cost in excess of net asset value of purchased facilities	495,380	736,195
	650,991	1,005,624
Less accumulated amortization	79,330	131,713
	\$ 571,661	\$ 873,911

</TABLE>

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt

Long-term debt consisted of the following:

<TABLE>
<CAPTION>

	December 31	
	1994	1995
	(In thousands)	
	<C>	<C>
Notes and bonds payable:		
Advances under a \$550,000,000 credit agreement with banks	\$ 510,000	\$ -
Advances under a \$1,000,000,000 credit agreement with banks	-	790,000
11.5% Senior Subordinated Notes due 2004	75,000	-
9.5% Senior Subordinated Notes due 2001	250,000	250,000
5.0% Convertible Subordinated Debentures due 2001	115,000	115,000
Notes payable to banks and various other notes payable, at interest rates from 5.5% to 9.75%	138,853	180,166
Hospital revenue bonds payable	24,763	32,337
Noncompete agreements payable with payments due at ranging intervals through December 2004	17,610	24,161
Other	7,861	-
	1,139,087	1,391,664
Less amounts due within one year	36,284	35,175
	\$ 1,102,803	\$ 1,356,489

</TABLE>

The fair value of total long-term debt approximates book value at December 31, 1994 and 1995. The fair values of the Company's long-term debt are estimated using discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt (continued)

During 1994, the Company entered into a Credit Agreement with NationsBank, N.A. ("NationsBank") and other participating banks (the "1994 Credit Agreement")

which consisted of a \$550,000,000 revolving facility and term loan. On April 11, 1995, the Company amended and restated the 1994 Credit Agreement with NationsBank to increase the size of the revolving credit facility to \$1,000,000,000. Interest 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 on the unused portion of the 1994 revolving credit facility ranging from 0.1875% to 0.375%, depending on certain defined ratios. The principal amount is payable in full on October 1, 2000. The Company provided a negative pledge of all its assets and has granted a first priority security interest in and lien on all shares of stock of its subsidiaries and rights and interests in its partnerships. At December 31, 1995, the effective interest rate associated with the 1994 Credit Agreement was approximately 6.56%.

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 will be subordinated to all existing and future senior indebtedness of the Company, and also will be effectively subordinated to all existing and future liabilities of the Company's subsidiaries and partnerships. The Notes rank senior to all subordinated indebtedness of the Company, including the 5% Convertible Subordinated Debentures due 2001 described below. The Notes mature on April 1, 2001.

Also on March 24, 1994, the Company issued \$100,000,000 principal amount of 5% Convertible Subordinated Debentures due 2001 (the Convertible Debentures). An additional \$15,000,000 of Convertible Debentures was issued in April 1994 to cover underwriters' over allotments. Interest is payable on April 1 and October 1. The Convertible Debentures are convertible into Common Stock of the Company at the option of the holder at a conversion price of \$18.8125 per share, subject to adjustment in the occurrence of certain events.

The net proceeds from the issuance of the Notes and Convertible Debentures were used by the Company to pay down indebtedness outstanding under its other existing credit facilities.

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt (continued)

In June 1994, SHC (see Note 2) issued \$75 million of 11.5% Senior Subordinated Notes due July 15, 2004 (the "SHC Notes"). The proceeds of the SHC Notes were used to pay down indebtedness outstanding under other existing credit facilities. During 1995, the Company purchased \$67,500,000 of the \$75,000,000 outstanding principal amount of the SHC Notes for 115% of the face value of the Notes and the remaining \$7,500,000 balance was purchased on the open market, using proceeds from the Company's other long-term credit facilities. The loss on retirement of the SHC Notes totaled approximately \$14,606,000. The loss consists of the premium, write-off of unamortized bond issue costs and other fees and is included in merger and acquisition related expenses in the accompanying consolidated statement of income (see Note 2).

Principal maturities of long-term debt are as follows:

Year ending December 31	(In thousands)
-----	-----
1996	\$ 35,175
1997	91,604
1998	27,003
1999	21,181
2000	807,777
After 2000	408,924
	=====
	\$ 1,391,664
	=====

8. Stock Options

The Company has various stockholder-approved stock option plans which provide for the grant of options to directors, officers and other key employees to purchase Common Stock at 100% of the fair market value as of the date of grant. The Board of Directors administers the stock option plans. Options may be granted as incentive stock options or as non-qualified stock options. Incentive stock options vest 25% annually, commencing upon completion of one year of employment subsequent to the date of grant. Non-qualified stock options generally are not subject to any vesting provisions. The options expire at dates ranging from five to ten years from the date of grant.

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Stock Options (continued)

The following table summarizes activity in the stock option plans:

<TABLE>

<CAPTION>

	1993	1994	1995
	-----	-----	-----
<S>	<C>	<C>	<C>
Options outstanding January 1:	12,984,118	16,403,058	15,051,161
Granted	4,635,063	1,719,537	3,418,206
Exercised	853,169	2,205,639	1,447,821
Canceled	362,954	865,795	494,203
	-----	-----	-----
Options outstanding at December 31	16,403,058	15,051,161	16,527,343
	=====	=====	=====
Option price range for options granted during the period	\$6.75 - \$22.07	\$10.56 - \$18.25	\$13.43 - \$30.75
Option price range for options exercised during the period	\$1.50 - \$15.35	\$1.50 - \$8.95	\$1.52 - \$26.86
Options exercisable at December 31	10,964,105	11,233,043	13,134,988
Options available for grant at December 31	3,051,016	3,237,061	4,516,978

</TABLE>

9. Limited Partnerships

HEALTHSOUTH operates a number of rehabilitation and surgery centers as limited partnerships in which HEALTHSOUTH serves as the general partner. These limited partnerships are included in the consolidated financial statements (as more fully described in Note 1 under "Minority Interests"). The limited partners share in the profit or loss of the partnerships based on their respective ownership percentage (ranging from 1% to 50% at December 31, 1995) during their ownership period.

Beginning in 1992, due to federal and state regulatory requirements, the Company began the process of buying back selected partnership interests of its physician limited partners. The buyback prices for the interests were in general based on a predetermined multiple of projected cash flows of the partnerships. The excess of the buyback price over the book value of the limited partners' capital amounts was charged to the Company's retained earnings.

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Acquisitions

Effective April 1, 1995, the Company acquired the rehabilitation hospitals division of NovaCare, Inc. ("NovaCare"), consisting of 11 rehabilitation hospitals, 12 other facilities, and certificates of need to build two other facilities. The total purchase price for the NovaCare facilities was approximately \$235,000,000 in cash. The cost in excess of net asset value was approximately \$173,000,000. Of this excess, approximately \$129,000,000 was allocated to leasehold value and the remaining \$44,000,000 to cost in excess of net asset value of purchased facilities. As part of the acquisition, the Company acquired approximately \$4,790,000 in deferred tax assets. The Company also provided approximately \$10,000,000 for the write-down of certain assets to net realizable value as the result of a planned facility consolidation. The consolidation is applicable in a market where the Company's existing services overlap with those of an acquired facility. The planned employee separations and facility consolidation were completed by the end of 1995.

The Company's proforma 1995 revenues, net income and net income per common and common equivalent share giving effect to the NovaCare acquisition were \$2,042,948,000, \$91,959,000 and \$.62, respectively. The Company's proforma 1994 revenues, net income and net income per common and common equivalent share giving effect to the NovaCare acquisition were \$1,799,805,000, \$87,607,000 and \$.62, respectively.

Effective December 1, 1995, the Company acquired Caremark Orthopedic Services Inc. ("Caremark"). Caremark owns and operates approximately 120 outpatient rehabilitation centers in 13 states. The total purchase price was approximately \$127,500,000 in cash.

Also at various dates during 1995, the Company acquired 70 separate outpatient rehabilitation operations located throughout the United States, three physical therapy practices, one home health agency, one nursing home, 75 licensed subacute beds, five outpatient surgery centers and one outpatient diagnostic imaging operation. The combined purchase prices of these acquisitions was approximately \$136,724,000. The form of consideration comprising the combined purchase prices was approximately \$117,405,000 in cash and \$19,319,000 in notes payable.

In connection with these transactions, the Company entered into non-compete agreements with former owners totaling \$16,222,000. In general, these non-compete agreements are payable in monthly or quarterly installments over periods ranging from five to ten years.

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Acquisitions (continued)

The fair value of the total net assets relating to the 1995 acquisitions described above, excluding the NovaCare acquisition, was approximately \$72,844,000. The total cost of these acquisitions exceeded the fair value of the net assets acquired by approximately \$191,380,000. The Company evaluated each acquisition independently to determine the appropriate amortization period for the cost in excess of net asset value of purchased facilities. Each evaluation included an analysis of historic and projected financial performance, evaluation of the estimated useful lives of buildings and fixed assets acquired, the indefinite lives of certificates of need and licenses acquired, the competition within local markets, lease terms where applicable, and the legal term of partnerships where applicable. Based on these evaluations, the Company determined that the cost in excess of net asset value of purchased facilities relating to the 1995 acquisitions should be amortized over periods ranging from 25 to 40 years on a straight-line basis. No other identifiable intangible assets were recorded in the acquisitions described above.

All of the 1995 acquisitions described above were accounted for as purchases and, accordingly, the results of operations of the acquired businesses are included in the accompanying consolidated financial statements from their respective dates of acquisition. With the exception of NovaCare, none of the above acquisitions were material individually or in the aggregate.

At various dates during 1994, the Company acquired 53 separate outpatient operations and a majority equity interest in five outpatient surgery centers located throughout the United States. The combined purchase price of these acquired outpatient operations was approximately \$80,456,000. The Company also acquired a specialty medical center in Dallas, Texas, a contract therapist provider, a diagnostic imaging company, four physical therapy practices and two home health agencies. The combined purchase price of these operations was approximately \$32,044,000. The form of consideration constituting the total purchase prices of \$112,500,000 was approximately \$88,455,000 in cash, \$14,122,000 in notes payable and approximately 624,000 shares of common stock valued at \$9,923,000.

In connection with these transactions, the Company entered into non-compete agreements with former owners totaling \$10,814,000. In general, these non-compete agreements are payable in monthly or quarterly installments over periods ranging from five to ten years.

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Acquisitions (continued)

The fair value of the total net assets relating to the 1994 acquisitions described above was approximately \$17,958,000. The total cost for 1994 acquisitions exceeded the fair value of the net assets acquired by approximately \$94,542,000. Based on the evaluation of each acquisition utilizing the criteria described above, the Company determined that the cost in excess of net asset value of purchased facilities relating to the 1994 acquisitions should be

amortized over periods ranging from 25 to 40 years on a straight-line basis. No other identifiable assets were recorded in the acquisitions described above.

All of the 1994 acquisitions described above were accounted for as purchases and, accordingly, the results of operations of the acquired businesses (not material individually or in the aggregate) are included in the accompanying consolidated financial statements from their respective dates of acquisition.

Effective December 31, 1993, the Company completed an acquisition from National Medical Enterprises, Inc. (NME) of 28 inpatient rehabilitation facilities and 45 outpatient rehabilitation centers, which constituted substantially all of NME's rehabilitation services division (the NME Selected Hospitals Acquisition). The purchase price was approximately \$296,661,000 cash, plus net working capital of \$64,503,000, subject to certain adjustments, the assumption of approximately \$16,313,000 of current liabilities and the assumption of approximately \$17,111,000 in long-term debt.

As a result of the NME Selected Hospitals Acquisition, HEALTHSOUTH recognized an expense of approximately \$49,742,000 during the year ended December 31, 1993. This expense represents management's estimate of the cost to consolidate operations of thirteen existing HEALTHSOUTH facilities (three inpatient facilities and ten outpatient facilities) into the operations of certain facilities acquired from NME. This plan was formulated by HEALTHSOUTH's management in order to more efficiently provide services in markets where multiple locations now exist as a result of the acquisition. The plan of consolidation calls for the affected operations to be merged into the operations of the acquired facilities over a period of 12 to 24 months from the date of the NME Selected Hospitals Acquisition. Due to the single-use nature of these properties, the consolidation plan does not provide for the sale of these facilities.

The total expense of \$49,742,000 consists of several components. First, approximately \$39,000,000 relates to the writedown of the assets of the affected HEALTHSOUTH facilities to their estimated net realizable value. Of this \$39,000,000, approximately

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Acquisitions (continued)

\$31,500,000 relates to the assets of the three inpatient facilities and approximately \$7,500,000 relates to the assets of the ten outpatient facilities. The \$39,000,000 is broken down into the following asset categories (net of any related accumulated depreciation or amortization):

<TABLE>
<CAPTION>

	Inpatient Facilities	Outpatient Facilities	Total
(In thousands)			
<S>	<C>	<C>	<C>
Land	\$ 2,898	\$ -	\$ 2,898
Buildings	16,168	-	16,168
Equipment	4,326	2,920	7,246
Intangible assets	6,111	3,455	9,566
Other assets	1,997	1,125	3,122
	\$ 31,500	\$ 7,500	\$ 39,000

</TABLE>

During the year ended December 31, 1994, management discontinued operations in two of the inpatient facilities and three of the outpatient facilities affected by the plan and merged them into the operations of the acquired facilities. Accordingly, assets with a net book value of approximately \$17,911,000 were written off in 1994 against the reserves established at December 31, 1993. Operations at the remaining inpatient facility and the remaining seven outpatient facilities identified in the plan were discontinued during 1995 and charged against the remaining reserve.

Second, \$7,700,000 relates to the write-off of certain capitalized development projects. These projects relate to the planned facilities that, if completed, would be in direct competition with certain of the acquired NME facilities. These development projects were written off in 1994 against the reserves

established at December 31, 1993.

Finally, approximately \$3,000,000 was accrued for costs of employee separations, relocations and other direct costs related to the planned consolidation of the affected operations. During the second quarter of 1994, management revised its estimate of the cost of the employee separations and relocations. The revised estimate calls for approximately 150 employees to be affected by separations and approximately 400 to be affected by relocations. Separation benefits under the revised plan range from one month's to one year's compensation and totals approximately \$2,188,000. Relocation benefits are estimated to be \$2,000 per employee and total \$800,000. An additional

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Acquisitions (continued)

\$350,000 has been provided for additional direct administrative costs associated with the implementation of the plan, including outplacement services, travel and legal fees. Accordingly, the total revised estimated cost of employee separations and relocations is \$3,338,000. The difference between the initial estimate and the revised estimate was treated as a change in accounting estimate and charged to operations in the second quarter of 1994.

The total costs relating to terminations and relocations incurred by the Company and charged against the reserve were \$758,000 and \$2,580,000 for the years ended December 31, 1994 and 1995, respectively. This cost is the only cash expense included in the acquisition related expense.

Also at various dates during 1993, the Company acquired 27 separate outpatient rehabilitation operations and three physical therapy practices located throughout the United States. The total consideration paid for these acquired outpatient rehabilitation operations was approximately \$30,033,000, consisting of \$24,485,000 in cash and \$5,548,000 in notes payable. The fair value of the net assets acquired was approximately \$8,813,000. The total cost of the 1993 outpatient rehabilitation acquisitions exceeded the fair value of the net assets acquired by approximately \$21,220,000. The Company also acquired 15 outpatient surgery center operations during 1993. The total consideration paid for these acquired outpatient surgery center operations was approximately \$66,418,000, consisting of \$51,791,000 in cash, \$5,639,000 in notes payable and approximately 812,000 shares of common stock valued at \$8,988,000. The total cost of the 1993 outpatient surgery acquisitions exceeded the fair value of the net assets acquired by approximately \$25,847,000. Based on the evaluation of each acquisition, utilizing the criteria described above, the Company determined that the cost in excess of net asset value of purchased facilities relating to the 1993 acquisitions should be amortized over a 40 year period on a straight line basis. No other identifiable intangible assets were recorded in the acquisitions described above.

Also during 1993, the Company acquired 100% of the stock of Rebound, Inc. ("Rebound") for net consideration of approximately \$14,000,000 in cash. Rebound operated 293 beds in thirteen facilities. The purchase price exceeded the fair value of the net assets acquired by approximately \$11,200,000, which was allocated to excess of cost over net asset value of purchased facilities.

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Acquisitions (continued)

All of the 1993 acquisitions described above were accounted for as purchases and, accordingly, the results of operations of the acquired businesses are included in the accompanying consolidated financial statements from their respective dates of acquisition.

11. Income Taxes

HEALTHSOUTH and its subsidiaries file a consolidated federal income tax return. The limited partnerships file separate income tax returns. HEALTHSOUTH's allocable portion of each partnership's income or loss is included in the taxable income of the Company. The remaining income or loss of each partnership is allocated to the limited partners.

The Company utilizes the liability method of accounting for income taxes, as required by Financial Accounting Standards Board (FASB) Statement No. 109, "Accounting for Income Taxes".

At December 31, 1995, the Company has net operating loss carryforwards of approximately \$41,736,000 for income tax purposes expiring through the year 2010. Those carryforwards resulted from the Company's acquisitions of Diagnostic Health Corporation, ReLife, NovaCare and SHC (Notes 2 and 10).

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 1994 are as follows:

<TABLE>
<CAPTION>

	Current	Noncurrent	Total
	(In thousands)		
<S>	<C>	<C>	<C>
Deferred tax assets:			
NME Selected Hospitals Acquisition related expense	\$ -	\$ 15,241	\$ 15,241
Disposal of surgery centers	5,681	-	5,681
Accruals	2,975	-	2,975
Allowance for bad debts	21,459	-	21,459
Amortization	-	5,686	5,686
Other	2,019	3,444	5,463
Total deferred tax assets	32,134	24,371	56,505

</TABLE>

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Income Taxes (continued)

<TABLE>
<CAPTION>

	Current	Noncurrent	Total
	(In thousands)		
<S>	<C>	<C>	<C>
Deferred tax liabilities:			
Depreciation and amortization	\$ -	\$ 25,239	\$ 25,239
Purchase price accounting	-	4,941	4,941
Non-accrual experience method	12,353	-	12,353
Contracts	3,849	-	3,849
Capitalized costs	-	10,487	10,487
Other	1,184	4,618	5,802
Total deferred tax liabilities	17,386	45,285	62,671
Net deferred tax assets (liabilities)	\$ 14,748	\$ (20,914)	\$ (6,166)

</TABLE>

Significant components of the Company's deferred tax assets and liabilities as of December 31, 1995 are as follows:

<TABLE>
<CAPTION>

	Current	Noncurrent	Total
	(In thousands)		
<S>	<C>	<C>	<C>
Deferred tax assets:			
Accruals	\$ 8,016	\$ -	\$ 8,016
Disposal of surgery centers	2,675	-	2,675
Impairment of assets	1,309	5,434	6,743
Development costs	-	849	849
Acquired net operating loss	-	16,277	16,277
Allowance for bad debts	29,089	-	29,089
Other	1,818	5,549	7,367
Total deferred tax assets	42,907	28,109	71,016

Deferred tax liabilities:

Depreciation and amortization	\$	-	\$	30,960	\$	30,960
Non-accrual experience method		14,559		-		14,559
Purchase price accounting		-		4,802		4,802
Contracts		3,849		-		3,849
Capitalized costs		-		12,916		12,916
Other		2,522		3,164		5,686

Total deferred tax liabilities		20,930		51,842		72,772

Net deferred tax assets (liabilities)	\$	21,977	\$	(23,733)	\$	(1,756)
=====						

</TABLE>

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Income Taxes (continued)

The provision for income taxes was as follows:

<TABLE>
<CAPTION>

	Year ended December 31		
	1993	1994	1995
	(In thousands)		
<S>	<C>	<C>	<C>
Currently payable:			
Federal	\$ 34,492	\$ 70,641	\$ 66,927
State	5,360	10,362	8,914
	-----	-----	-----
	39,852	81,003	75,841
Deferred (benefit) expense :			
Federal	(1,362)	(14,046)	342
State	(497)	(1,836)	38
	-----	-----	-----
	(1,859)	(15,882)	380
Total provision	\$ 37,993	\$ 65,121	\$ 76,221
=====			

</TABLE>

The difference between the provision for income taxes and the amount computed by applying the statutory federal income tax rate to income before taxes was as follows:

<TABLE>
<CAPTION>

	Year ended December 31		
	1993	1994	1995
	(In thousands)		
<S>	<C>	<C>	<C>
Federal taxes at statutory rates	\$ 43,187	\$ 64,636	\$ 74,161
Add (deduct):			
State income taxes, net of federal tax benefit	2,987	4,899	5,832
Minority interests	(10,282)	(11,014)	(15,102)
Disposal/impairment charges	-	668	9,955
Other	2,101	5,932	1,375
	-----	-----	-----
	\$ 37,993	\$ 65,121	\$ 76,221
=====			

</TABLE>

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies

The Company is a party to legal proceedings incidental to its business. In the

opinion of management, any ultimate liability with respect to these actions will not materially affect the consolidated financial position or results of operations of the Company.

At December 31, 1995, anticipated capital expenditures for the next twelve months are \$180,000,000. This amount includes expenditures for maintenance and expansion of the Company's existing facilities as well as development and integration of the Company's services in selected metropolitan markets.

Beginning December 1, 1993, the Company became self-insured for professional liability and comprehensive general liability. The Company purchased coverage for all claims incurred prior to December 1, 1993. In addition, the Company purchased underlying insurance which would cover all claims once established limits have been exceeded. It is the opinion of management that at December 31, 1995 the Company has adequate reserves to cover losses on asserted and unasserted claims.

Prior to consummation of the SCA and Advantage Health mergers (see Note 2), these companies carried professional malpractice and general liability insurance. The policies were carried on a claims made basis. The companies had policies in place to track and monitor incidents of significance. Management is unaware of any claims that may result in a loss in excess of amounts covered by existing insurance.

Operating leases generally consist of short-term lease agreements for buildings where facilities are located. These leases generally have 5-year terms, with one or more renewal options, with terms to be negotiated at the time of renewal. Total rental expense for all operating leases was \$35,812,000, \$75,355,000 and \$100,183,000 for the years ended December 31, 1993, 1994 and 1995, respectively.

The following is a schedule of future minimum lease payments under all operating leases having initial or remaining non-cancelable lease terms in excess of one year:

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Commitments and Contingencies (continued)

Year ending December 31	(In thousands)
1996	\$ 96,663
1997	88,066
1998	81,004
1999	70,720
2000	57,546
After 2000	269,627
Total minimum payments required	\$ 663,626

13. Employee Benefit Plans

The Company has a 401(k) savings plan which matches 15% of the first 4% of earnings that an employee contributes. All contributions are in the form of cash. All employees who have completed one year of service with a minimum of 1,000 hours worked are eligible to participate in the plan. Company contributions are gradually vested over a seven-year service period. Contributions to the plan by the Company were approximately \$544,000, \$1,168,000 and \$1,287,000 in 1993, 1994 and 1995, respectively.

In 1991, the Company established an Employee Stock Ownership Plan ("ESOP") for the purpose of providing substantially all employees of the Company the opportunity to save for their retirement and acquire a proprietary interest in the Company. The ESOP currently owns approximately 830,000 shares of the Company's common stock, which were purchased with funds borrowed from the Company, \$10,000,000 in 1991 (the "1991 ESOP Loan") and \$10,000,000 in 1992 (the "1992 ESOP Loan"). At December 31, 1995, the combined ESOP Loans had a balance of \$15,886,000. The 1991 ESOP Loan, which bears an interest rate of 10%, is payable in annual installments covering interest and principal over a ten-year period beginning in 1992. The 1992 ESOP Loan, which bears an interest rate of 8.5%, is payable in annual installments covering interest and principal over a ten-year period beginning in 1993. Company contributions to the ESOP began in 1992 and shall at least equal the amount required to make all ESOP loan amortization payments for each plan year. The Company recognizes compensation expense based on the shares allocated method. The total compensation expense related to the ESOP recognized by the Company was \$3,198,000, \$3,673,000 and \$3,524,000 in 1993, 1994 and 1995, respectively. Interest incurred on the ESOP Loans was

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Employee Benefit Plans (continued)

approximately \$1,743,000, \$1,608,000 and \$1,460,000 in 1993, 1994 and 1995, respectively. Approximately 229,000 shares owned by the ESOP have been allocated to participants at December 31, 1995.

During 1993, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 93-6, "Employers Accounting for Employee Stock Ownership Plans". Among other provisions, SOP 93-6 requires that compensation expense relating to employee stock ownership plans be measured based on the fair market value of the shares when allocated to the employees. The provisions of SOP 93-6 apply only to leveraged ESOPs formed after December 31, 1992, or shares newly acquired by an existing leveraged ESOP after December 31, 1992. Because all shares owned by the Company's ESOP were acquired prior to December 31, 1992, the Company's accounting policies for the shares currently owned by the ESOP are not affected by SOP 93-6.

14. Sale of Assets

During the second quarter of 1994, the Company consummated the sale of selected properties to Capstone Capital Corporation ("Capstone"), a real estate investment trust. These properties include six ancillary hospital facilities, three outpatient rehabilitation facilities, two outpatient surgery centers, one uncompleted medical office building and one research facility. The net proceeds to the Company as a result of this transaction were approximately \$58,425,000. The net book value of the properties was approximately \$50,735,000. Because the Company is leasing back substantially all of the properties from Capstone, payments which aggregate \$6.9 million annually, the resulting gain on sale of approximately \$7,690,000 has been recorded on the accompanying consolidated balance sheet as deferred revenue and will be amortized into income over the initial lease terms of the properties. The Company is accounting for each of the new leases as an operating lease with an initial lease term of 5 years. During 1995, the Company sold another inpatient rehabilitation hospital property to Capstone under terms similar to those described above. Aggregate annual lease payments for this property totaled \$1.7 million. The resulting loss of approximately \$4,010,000 has been netted against the deferred gain described above and will be amortized to expense over the initial lease term. The Company and certain Company officers own approximately 4.5% of the outstanding common stock of Capstone at December 31, 1995.

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Loss on Disposal of Surgery Centers

During the fourth quarter of 1994, the Company adopted a formal plan to dispose of three surgery centers and certain other properties during fiscal 1995. Accordingly, a charge of \$13,197,000 was made to reflect the expected losses resulting from the disposal of these centers. The charge is comprised primarily of losses on the sale of owned facilities and equipment, write-off of intangible and other assets, and accrual of future operating lease obligations and estimated operating losses through the anticipated date of disposal.

The following are the major components of the restructuring charge (in thousands):

<TABLE>

<S>	<C>
Write down of land, buildings and equipment	\$ 4,806
Write off of excess of cost over fair value of net assets acquired and other assets	2,762
Estimated operating losses through anticipated date of disposal	1,750
Accrual of future lease commitments and other obligations resulting from disposal	3,879

	\$ 13,197
	=====

</TABLE>

The closings of the three surgery centers were completed by December 31, 1995. An accrual of \$5,629,000 and \$929,000 is included in accrued liabilities on the accompanying December 31, 1994 and 1995 consolidated balance sheets, respectively, for the remaining costs to be incurred relative to the disposal of

these surgery centers and the other properties. The reduction in this accrual relates primarily to costs incurred during 1995 as a result of closing these centers.

16. Spin-Off of HMO Subsidiary

Effective December 1, 1993, SCA (see Note 2) spun off the net assets of its HMO subsidiary, HealthWise of America, Inc. (HealthWise). The spin-off was accomplished by a tax-free distribution of one HealthWise common share for every ten shares of SCA's common stock. The distribution is reflected as a charge to retained earnings of the Company for the year ended December 31, 1993. The operating results of HealthWise have been classified as discontinued operations on the accompanying consolidated statements of income and are summarized as follows (in thousands).

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

16. Spin-Off of HMO Subsidiary (continued)

	1993

Net revenue	\$ 110,276

Income before income taxes	7,296
Income taxes	(2,844)

Net income	\$ 4,452
	=====

17. Impairment of Long-Term Assets

During 1994, certain events occurred which impaired the value of specific long-term assets of ReLife (see Note 2). A hospital in Missouri with a distinct part unit which ReLife was managing was purchased in 1994 by an acute care provider which terminated the contract with ReLife. Remaining goodwill of \$1,700,000 and costs allocated to the management contract of \$1,300,000 were written off as there is no value remaining for the terminated contract.

A ReLife facility in central Florida incurred tornado damage and has not been operating since September 1993. During 1994, management of ReLife determined that it is probable that this facility will not reopen. Start-up costs of \$1,600,000 were written off. This facility is leased under an operating lease as described in Note 12 through the year 2001. An impairment accrual has been established based on the projected undiscounted net cash flows related to this non-operating facility for the remainder of the lease term. The accrual totaled \$5,900,000 and consists of \$4,700,000 in lease payments and \$1,200,000 in fixed costs and operating expenses, including property taxes, maintenance, security and other related costs.

During 1994, ReLife entered into a contract for a new information system. Payments under the contract and related costs were capitalized during the year. After the agreement to merge with HEALTHSOUTH was entered into (see Note 2), the computer project was abandoned resulting in a write-off of capitalized cost of \$4,500,000.

During the second quarter of 1995, the Company recognized an \$11,192,000 loss on impairment of assets which relates to six SHC (see Note 2) facilities in which the undiscounted cash flows did not support the book value of the long-lived assets of such facilities. The assets were written down to fair value as determined from an independent appraisal of such properties.

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

17. Impairment of Long-Term Assets (continued)

In the fourth quarter of 1995 the Company recorded an asset impairment charge of approximately \$42,357,000 relating to goodwill and tangible assets identifiable with eight surgery centers. Approximately \$36,792,000 of this charge related to surgery centers which the Company intends to operate on an ongoing basis while the remaining loss of \$5,565,000 is identifiable with four surgery centers which the Company decided during the fourth quarter of 1995 to close.

The Company has historically assessed recoverability of goodwill and other long-lived assets using undiscounted cash flows estimated to be received over

the useful lives of the related assets. In the fourth quarter of 1995, certain events occurred which significantly impacted the Company's estimates of future cash flows to be received from four of the Company's surgery centers. Those events primarily related to a decline in operating results combined with a deterioration in relationships with key physicians at certain of those locations. As a result of these events, the Company revised its estimates of undiscounted cash flows to be received over the remaining estimated useful lives of these centers and determined that goodwill and other long-lived assets (primarily property and equipment) had been impaired. The Company developed its best estimates of future operating cash flows at these locations considering future requirements for capital expenditures as well as the impact of inflation. The projections of cash flows also took into account estimates of significant one-time expenses as well as estimates of additional revenues and resulting income from future marketing efforts in the respective locations. The amount of the impairment charge was determined by discounting the estimates of future cash flows, using an estimated 8.5% incremental borrowing rate which management believes is commensurate with the risks involved. The resulting net present value of future cash flows was then compared to the historical net book value of goodwill and other long-lived assets at each operating location which resulted in an impairment loss relative to these centers of \$36,792,000.

The remaining impairment charge of \$5,565,000 relative to the centers to be closed was based on the fair value of the related assets less estimated costs to sell. Assets held for sale having a remaining net book value of \$2,838,726 are included in property and equipment on the accompanying December 31, 1995 balance sheet. The Company intends to close those centers and dispose of the related assets during the next fiscal year.

The above amounts are included in operations in the accompanying consolidated statement of income.

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HEALTHSOUTH Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

18. Subsequent Events

Effective January 17, 1996, the Company merged with Surgical Care Affiliates, Inc. in a transaction accounted for as a pooling of interests (see Note 2).

Effective March 14, 1996, the Company merged with Advantage Health Corporation in a transaction accounted for as a pooling of interests (see Note 2).

On January 17, 1996, the Company voted to increase the number of its authorized common shares to 250,000,000. At no time during 1995 did the shares outstanding exceed those authorized.

On April 18, 1996, the credit facility (Note 7) was amended and restated to increase the maximum amount available thereunder to \$1,250,000 and to eliminate the security interests thereunder.

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PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) Financial Statements, Financial Statement Schedules and Exhibits.

1. Financial Statements.

The consolidated financial statements of the Company and its subsidiaries filed as a part of this Amendment No. 1 to Annual Report on Form 10-K are listed in Item 8 hereof, which listing is hereby incorporated herein by reference.

2. Financial Statement Schedules.

The financial statement schedules required by Regulation S-X are filed under Item 14(d) of this Amendment No. 1 to Annual Report on Form 10-K, as listed below:

Schedules Supporting the Financial Statements

Schedule II Valuation and Qualifying Accounts 50

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission have been omitted because they are not required under the related instructions or are inapplicable, or because the information has been provided in the Consolidated Financial Statements or the Notes thereto.

3. Exhibits.

The Exhibits filed as a part of this Amendment No. 1 to Annual Report on Form 10-K are listed in Item 14(c) hereof, which listing is hereby incorporated herein by reference.

(b) Reports on Form 8-K.

No Current Reports on Form 8-K were filed by the Company during the last quarter of the period covered by this Amendment No. 1 to Annual Report on Form 10-K.

(c) Exhibits.

The Exhibits required by Regulation S-K are set forth in the following list and are filed by attachment to this Amendment No. 1 to Annual Report on Form 10-K.

(11) HEALTHSOUTH Corporation and Subsidiaries, Computation of Income Per Share.

(23)-1 Consent of Ernst & Young LLP.

(d) Financial Statement Schedules.

Schedule II: Valuation and Qualifying Accounts

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<TABLE>
<CAPTION>

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

Column A	Column B	Column C	Column D	Column E	
Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts - Describe	Deductions - Describe	Balance at End of Period
(In thousands)					
<S>	<C>	<C>	<C>	<C>	<C>
Year ended December 31, 1993:					
Allowance for doubtful accounts and contractual adjustments	\$ 62,174	\$ 20,026	\$ 369,821 (1) 52,021 (2)	\$ 368,930 (3)	\$ 135,112
Year ended December 31, 1994:					
Allowance for doubtful accounts and contractual adjustments	\$ 135,112	\$ 32,904	\$ 757,916 (1) 7,041 (2)	\$ 769,822 (3)	\$ 163,151
Year ended December 31, 1995:					
Allowance for doubtful accounts and contractual adjustments	\$ 163,151	\$ 37,659	\$ 958,552 (1) 28,650 (2)	\$ 952,837 (3)	\$ 235,175

<FN>

- (1) Provisions for contractual adjustments which are netted against gross revenues.
- (2) Allowances of acquisitions in years 1993, 1994 and 1995, respectively.
- (3) Write-offs of uncollectible patient accounts receivable and third party contractual adjustments, net of third party retroactive settlements.

</FN>

</TABLE>

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

HEALTHSOUTH Corporation

By /s/RICHARD M. SCRUSHY

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

Date: June 12, 1996

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EXHIBIT 11

HEALTHSOUTH Corporation and Subsidiaries
 Computation of Income Per Share (Unaudited)
 In Thousands, except for per share data
 <TABLE>
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	Year Ended December 31,		
	1993	1994	1995
<S>	<C>	<C>	<C>
PRIMARY:			
Weighted average common shares outstanding	127,572	131,510	139,631
Net effect of dilutive stock options	4,907	8,917	9,099
	-----	-----	-----
Total Common and Common Equivalent Shares	132,479	140,427	148,730
	=====	=====	=====
Net income/(loss)	\$ 60,474	\$ 88,083	\$ 92,521
	=====	=====	=====
Net income/(loss) per common and common equivalent share	\$ 0.46	\$ 0.63	\$ 0.62
	=====	=====	=====
FULLY DILUTED:			
Weighted average common shares outstanding	127,572	131,510	139,631
Net effect of dilutive stock options	4,907	8,917	9,099
	-----	-----	-----
	132,479	140,427	148,730
Assumed conversion of 5% Convertible Subordinated Debentures due 2001	(1)	4,722	6,113
	-----	-----	-----
Total Common and Common Equivalent Shares, Fully Diluted	\$ 132,479	\$ 145,149	\$ 154,843
	=====	=====	=====
Net income	\$ 60,474	\$ 88,083	\$ 92,521
Elimination of interest and amortization on 5% Convertible Subordinated Debentures due 2001, less the related effect on the provision for income taxes	(1)	2,927	3,826
	-----	-----	-----
Net income, fully diluted	\$ 60,474	\$ 91,010	\$ 96,347
	=====	=====	=====
Net income per common and common equivalent share	N/A	\$ 0.63	\$ 0.62
	=====	=====	=====

<FN>
 (1) There were no other potentially dilutive securities outstanding for this period.

</FN>
 </TABLE>

Exhibit (23) - Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-13489) pertaining to the 1984 Incentive Stock Option Plan, in the Registration Statement (Form S-8 No. 33-23642) pertaining to the 1988 Non-Qualified Stock Option Plan, in the Registration Statement (Form S-8 No. 33-34908) pertaining to the 1989 Stock Option Plan, in the Registration Statement (Form S-8 No. 33-40798) pertaining to the 1990 Stock Option Plan, in the Registration Statement (Form S-8 No. 33-50440) pertaining to the 1991 Stock Option Plan, in the Registration Statement (Form S-8 No. 33-64308) pertaining to the 1992 Stock Option Plan, in the Registration Statement (Form S-8 No. 33-64316) pertaining to the 1993 Consultants' Stock Option Plan, in the Registration Statement (Form S-8 No. 33-55303) pertaining to the 1993 Stock Option Plan, in the Registration Statement (Form S-8 No. 333-02221) pertaining to the 1995 Stock Option Plan, in the Registration Statement (Form S-8 No. 33-6231) pertaining to the Surgical Health Corporation and Heritage Surgical Corporation Stock Option Plans and in the Registration Statement (Form S-8 No. 33-64615) pertaining to the Sutter Surgery Centers, Inc. Stock Option Plans, of our report dated May 23, 1996, with respect to the consolidated financial statements and schedule of HEALTHSOUTH Corporation and Subsidiaries included in the Annual Report (Form 10-K/A) for the year ended December 31, 1995.

Birmingham, Alabama
May 23, 1996

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