SECURITIES AND EXCHANGE COMMISSION

FORM 8-K/A

Current report filing [amend]

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FILER

HEALTHSOUTH CORP	Mailing Address	Business Address
CIK:**785161**| IRS No.: **630860407** | State of Incorp.:**DE** | Fiscal Year End: **1231** Type: **8-K/A** | Act: **34** | File No.: **001-10315** | Film No.: **95535929** SIC: **8093** Specialty outpatient facilities, nec	*TWO PERIMETER PARK SOUTH* *BIRMINGHAM AL 35243*	*TWO PERIMETER PARK S* *STE 224W* *BIRMINGHAM AL 35243* *2059677116*

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 8-KA
Amendment No. 3

Current Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report: May 10, 1995

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

Delaware	1-10315	63-0860407
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

Two Perimeter Park South Birmingham, Alabama	35243
(Address of Principal Executive Offices)	(Zip Code)

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

ITEM 5. OTHER EVENTS

On February 3, 1995, HEALTHSOUTH Corporation, a Delaware corporation (the "Company"), entered into a Stock Purchase Agreement with NovaCare, Inc., a Delaware corporation ("NovaCare"), pursuant to which the Company will purchase the operations of NovaCare's rehabilitation hospital division. Under the terms of the Stock Purchase Agreement, the Company will purchase all of the issued and outstanding capital stock of Rehab Systems Company, a subsidiary of NovaCare, for $215 million in cash, approximately $20 million in long-term debt for a total consideration of approximately $235 million. In accordance with the Stock Purchase Agreement, certain assets will be retained by and certain liabilities will be transferred to NovaCare. This acquisition is to be funded by an increase in the Company's existing bank credit facilities. As a result of this transaction, the Company will acquire 11 rehabilitation hospitals in 7 states, 12 other rehabilitation facilities and two Certificates of Need. The consummation of the transaction is subject to certain regulatory and governmental reviews and approvals, including clearance under the Hart-Scott-Rodino Antitrust Improvements Act. Subject to such approvals, the transaction is expected to close early in the second quarter of 1995.

While the above-described transaction has not been consummated, this amendment is being filed by the Company to file certain historical financial statements of Rehab Systems Company, in order that such financial statements will be publicly available.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial Statements of Businesses Acquired.

The required audited consolidated financial statements of the acquired business, Rehab Systems Company, for the fiscal year ended June 30, 1994, and the unaudited consolidated financial statements for the six months ended December 31, 1994, listed on the Index to Financial Statements included in this Current Report on Form 8-K/A, Amendment No. 3, are herewith filed.

(b) Pro Forma Financial Information.

The required pro forma financial information will be filed within the required period after consummation of the transaction.

(c) Exhibits

2. Stock Purchase Agreement, dated February 3, 1995, among HEALTHSOUTH Corporation, NovaCare, Inc., and NC Resources, Inc., filed as Exhibit (2)-5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, is hereby incorporated herein by reference.

SIGNATURES

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

Date: May 10, 1995.

HEALTHSOUTH Corporation

By /s/ ANTHONY J. TANNER

Anthony J. Tanner
Executive Vice President

and Secretary

Rehab Systems Company
(a wholly-owned subsidiary of NovaCare, Inc.)
Consolidated Financial Statements

Index to Financial Statements

Notes to Consolidated Financial Statements

Report of Independent Accountants

To the Board of Directors and Stockholder
of Rehab Systems Company
(a wholly-owned subsidiary of NovaCare, Inc.)

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of stockholder's equity and of cash flows present fairly, in all material respects, the financial position of Rehab Systems Company (a wholly-owned subsidiary of NovaCare, Inc.) and its subsidiaries at June 30, 1994, and the results of their operations and their cash flows in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

As described in Notes 3 and 6, the Company has significant transactions with affiliated companies.

Price Waterhouse LLP
Philadelphia, PA
March 3, 1995

Rehab Systems Company
(a wholly-owned subsidiary of NovaCare, Inc.)
Consolidated Balance Sheet

(Dollars in thousands, except share data)

	December 31, 1994 (unaudited)	June 30, 1994
Assets		
Current assets:		
Cash and cash equivalents	$ 8,858	$ 7,340
Accounts receivable, net	41,226	39,775
Deferred income taxes	1,239	1,391
Other	5,657	5,648
Total current assets	56,980	54,154
Funds held by trustees	4,474	3,013
Investment in affiliated company	38,435	34,643
Property and equipment, net	38,725	39,312
Excess cost of net assets acquired, net of accumulated amortization of $1,145 at June 30, 1994	62,448	63,020
Other assets	6,935	5,471

	$ 207,997	$ 199,613

Liabilities and Stockholder's Equity

Current liabilities:		
Current portion of long-term debt and capital lease obligations	$ 1,732	$ 2,292
Accounts payable and accrued expenses	21,019	18,133
Notes payable and advances - affiliates	67,379	63,901
Total current liabilities	90,130	84,326
Long-term debt and capital lease obligations	56,755	54,208
Intercompany borrowings	25,000	25,000
Other noncurrent liabilities	2,106	2,131
Total liabilities	173,991	165,665
Commitments and contingent liabilities		
Stockholder's equity:		
Common stock, $.01 par value; 1,000 shares authorized, issued and outstanding	-	-
Additional paid-in capital	42,241	38,449
Accumulated deficit	(8,235)	(4,501)
Total stockholder's equity	34,006	33,948
	$ 207,997	$ 199,613

</TABLE>

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

Rehab Systems Company
(a wholly-owned subsidiary of NovaCare, Inc.)
Consolidated Statement of Operations

(Dollars in thousands)
<TABLE>
<CAPTION>

	Six Months ended December 31, 1994 (unaudited)	Year ended June 30, 1994
<S>	<C>	<C>
Net patient service revenues	$ 71,869	$ 135,356
Operating expenses:		
Operating units	56,560	106,199
Corporate General and administrative	2,647	3,546
Royalty expense	4,423	9,847

Corporate expense allocation	2,098	5,830
Provision for doubtful accounts	675	1,231
Depreciation and amortization	3,459	6,180
Interest expense - third party	2,618	2,894
Interest expense - affiliates	3,286	4,911
	75,766	140,638
Loss before income taxes and minority interest	(3,897)	(5,282)
Allocated income tax benefit	395	1,289
	(3,502)	(3,993)
Minority interest	232	393
Net loss	$ (3,734)	$ (4,386)

</TABLE>

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

Rehab Systems Company
(a wholly-owned Subsidiary of NovaCare, Inc.)
Consolidated Statement of Stockholder's Equity

(Dollars in thousands, except share data)
<TABLE>
<CAPTION>

	Common Stock		Additional	
	Number	Amount	Paid-in-capital	Accumulated deficit
<S>	<C>	<C>	<C>	<C>
Balance at June 30, 1993	1,000	--	$ 18,191	$ (115)
Contributed in connection with acquisitions:				
Business acquisition (RHCA)			10,000	
Investment in affiliate (NACC)			10,258	
Net loss				(4,386)

Balance at June 30, 1994	1,000	--	38,449	(4,501)
Contributed in connection with acquisitions:				
Investment in affiliate (NACC) (unaudited)			3,792	
Net loss (unaudited)				(3,734)
Balance at December 31, 1994 (unaudited)	1,000	--	$ 42,241	$ (8,235)

</TABLE>

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

Rehab Systems Company
(a wholly-owned subsidiary of NovaCare, Inc.)
Consolidated Statement of Cash Flows

(Dollars in thousands)
<TABLE>
<CAPTION>

<S>	Six months ended December 31, 1994 (unaudited) <C>	Year ended June 30, 1994 <C>
Cash flows from operating activities:		
Net loss	$ (3,734)	$ (4,386)
Adjustments to reconcile net income to net cash flows from operating activitites:		
Depreciation and amortization	3,202	5,673
Minority interest	232	393
Provision for uncollectible accounts	675	1,231
Deferred income taxes	152	913
(Increase) decrease in assets, net of effects from acquisition:		
Accounts receivable	(1,926)	(6,198)

Other assets	54	(1,601)
(Decrease) increase in liabilities, net of effects from acquisition:		
Accounts payable and accrued expenses	2,745	(8,502)
Net cash flows from operating activities	1,400	(12,477)
Cash flows from investing activities:		
Payments for business acquired	(510)	(51,240)
Additions to property and equipment	(3,376)	(4,109)
Disposition of property and equipment		179
Net cash flows from investing activities	(3,886)	(55,170)
Cash flows from financing activities:		
Notes payable and advances	3,478	50,107
Proceeds from long-term debt and credit agreements	3,361	54,247
Payment of long-term debt and credit agreements	(1,374)	(42,457)
Capital contributions		10,000
Funds held by trustee	(1,461)	(497)
Net cash flow from financing activities	4,004	71,400
Net change in cash and cash equivalents	1,518	3,753
Cash and cash equivalents, beginning of year	7,340	3,587
Cash and cash equivalents, end of year	$ 8,858	$ 7,340
Supplemental cash flow information:		
Cash paid for:		
Interest	$ 1,491	$ 3,832

</TABLE>

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

Rehab Systems Company
(a wholly-owned subsidiary of NovaCare, Inc.)
Notes to Consolidated Financial Statements
(Dollars in thousands)

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1. Basis of Presentation

Rehab Systems Company (the "Company"), a wholly-owned subsidiary of NovaCare, Inc. ("NovaCare"), provides acute rehabilitation care on a multi-disciplinary, physician-directed basis to severely disabled patients through 11 medical rehabilitation hospitals. Minority shareholders maintain a 20% ownership interest in one of the hospitals. The Company also operates four community re-entry programs to help patients return to their community through a multi-disciplinary program of medical and social services.

NovaCare provides certain services to and incurs costs on behalf of the Company. All of the allocations and estimates in the financial statements are based on assumptions that the Company and NovaCare believe are reasonable. However, these allocations and estimates are not necessarily indicative of the costs and expenses that would have resulted if the Company had been operated as a separate entity.

The unaudited financial statements as of December 31, 1994 and for the six-month period then ended include all adjustments (consisting only of normal, recurring adjustments) which, in the opinion of management, are necessary to properly reflect the results for the period.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents. The Company considers investments to be cash equivalents if the securities mature within 90 days from the date of acquisition. Throughout the period covered by these financial statements, the Company participated in NovaCare's cash management program and, as such, its cash funding requirements were met principally by, and generally all cash generated was transferred to, NovaCare.

Funds Held by Trustees. Under terms of trust indentures related to outstanding bond obligations, two hospitals are required to maintain funds with bank trustees whose use is limited to purposes specified by the bond documents, principally debt service. The fair value of these funds approximates carrying value.

Property and Equipment. Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of assets, which principally range from three to seven years for property and equipment and 30 to 40 years for buildings. Assets under capital leases and leasehold improvements are amortized over the lesser of the lease term or the asset's estimated useful life.

Excess Cost of Net Assets Acquired. Assets and liabilities acquired in connection with business combinations accounted for under the purchase method are recorded at their respective fair values. The excess of the purchase price over the fair value of net assets acquired is amortized on a straight-line basis over a 40-year period. The carrying value of goodwill will be evaluated whenever events or changes in circumstances indicate that it may not be recoverable.

Such evalution will be based on the estimated future cash flows (undiscounted and without interest charges) of the acquired business. If those cash flows are less than the underlying assets' carrying value, an impairment loss arises, and will be measured as the difference between the asset carrying values and the fair value of those assets, determined on the basis of discounted cash flows.

Income Taxes. The taxable income of the Company is included in the consolidated tax return of NovaCare. As such, separate income tax returns were not prepared or filed by the Company. Current and deferred income tax expense has been allocated to the Company by applying the asset and liability approach set forth in Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes.

Net Revenue. Net revenue is 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. Retroactive adjustments are accrued on an estimated basis in the period related services are rendered and adjusted in future periods as final settlements are determined. (See Note 5).

3. Related Party Transactions

Royalty Agreements. The Company has entered into license arrangements with a related entity for its use of the "NovaCare" name and associated trademarks. Under those arrangements, royalties are payable annually based upon the value of the trademarks as established by independent appraisal.

Notes Payable and Advances. The Company's cash requirements are met by funds generated from operations and by bank borrowings, supplemented as necessary by advances or borrowings from affiliates. During 1994, the Company financed a portion of the acquisition of Rehabilitation Hospital Corporation of America ("RHCA") from affiliates. (See Note 4.)

Borrowings from affiliates are made pursuant to either formal borrowing agreements ("notes payable") or less formal arrangements ("advances"). Notes payable, which approximated $48,500 at June 30, 1994, are limited to $75,000 and bear interest at prime plus 1.5% (8.75% at June 30, 1994). Interest charged for the year ended June 30, 1994 was $3,931. Advances are non-interest bearing. The average advance amount outstanding for the year ended June 30, 1994 was $8,385. At June 30, 1994 the outstanding balance principally comprised outstanding royalties and corporate expense allocations.

Other Expenses. For the period January 1, 1994 to June 30, 1994, NovaCare changed its risk management program to a self insurance program and allocated the cost of workers compensation and group/health insurance to its other NovaCare units, including the Company, on the basis of actual claims experience. Prior to that date, NovaCare or the Company obtained insurance coverage from outside carriers and allocated these expenses on the basis of premiums incurred. Charges allocated to the Company and included under the caption operating units expenses were $2,005 for the year ended June 30, 1994.

Corporate Expenses. The results of operations include significant transactions with NovaCare business units that are outside of the Company's operations. These transactions involve functions and services (such as executive management, cash management, tax administration and legal services) that were provided to the Company by these other NovaCare units. The cost of these functions and services have been allocated to the Company based on the cost allocation methodology used for filing cost reports for Medicare reimbursement purposes. NovaCare management believes this allocation methodology is reasonable. Such charges and allocations are not necessarily indicative of the costs that would have been incurred by the Company as a separate entity.

4. Business Acquisition

Effective October 1, 1993, the Company purchased all of the outstanding common stock of Rehabilitation Hospital Corporation of America ("RHCA") for approximately $30,300 in cash. Funding for this acquisition was provided by NACC and through an additional capital contribution by NovaCare of $10 million. RHCA owned five medical rehabilitation hospitals and six outpatient facilities. The Company sold one of these hospitals in March 1994 which had no effect on the results of operations of the Company.

The principal stockholders of RHCA were limited partnerships in which NovaCare's Chairman of the Board and Chief Executive Officer is a general partner of the general partner. In addition to the purchase price, the Company paid the limited partnerships approximately $21,000 for existing advances from the partnerships, accrued interest on the advances, redemption of preferred stock and accumulated and unpaid dividends.

The results of operations of RHCA have been included in the consolidated results of the Company from October 1, 1993. The acquisition was accounted for as a purchase and, accordingly, the aggregate purchase price was allocated to assets and liabilities acquired based on their fair values at the date of acquisition.

The following unaudited pro forma results of operations give effect to the acquisition of RHCA as if it had occurred on July 1, 1993:

Net revenues	$ 144,066
Net loss	$ (5,027)

The above pro forma information is not necessarily indicative of the results of operations that would have occurred had the acquisition been made as of July 1, 1993, or the results which may occur in the future.

Information with respect to the RHCA acquisition was as follows:

Cash paid (net of cash acquired)	$ 51,240
Liabilities assumed	55,520
	106,760
Fair value of assets acquired	43,739
Cost in excess of fair value of net assets acquired	$ 63,021

5. Receivables and Third-Party Reimbursements

Accounts receivable consisted of the following:

	December 31, 1994 (unaudited)	June 30, 1994
Accounts receivable	$ 32,641	$ 31,734
Due from Medicare	10,357	10,298
Less: Allowance for uncollectible accounts	(1,772)	(2,257)
	$41,226	$ 39,775

Certain of the Company's services are reimbursed by third-party programs, such as Medicare or Medicaid, under which reimbursement for services is subject to federal and state regulations. With regard to approximately 65% of net revenues in 1994, the Company directly billed Medicare or Medicaid for services provided to patients.

Although reimbursement for services billed directly to Medicare is ultimately received under cost-based reimbursement regulations, Medicare is initially billed using NovaCare's standard pricing schedules. Charges are consistent for Medicare and non-Medicare patients. Aggregate billings are adjusted to allowable cost on the basis of cost reports prepared and subject to audit and retroactive adjustment.

The cost reports for fiscal 1990 and prior years have been settled by Medicare audit. Certain Medicare cost reports for fiscal 1991 through 1993, and all Medicare cost reports for fiscal 1994 remain subject to audit and retroactive adjustment. In the opinion of management, the results of these audits will not have a material effect on the financial position or results of operations for the Company.

6. Investment in Affiliated Company

The Company holds a 14% interest in an affiliated entity, Ninth Avenue Capital Corporation ("NACC"), a Delaware Corporation. NACC, which is wholly owned by the Company and other NovaCare subsidiaries, principally acts as an investment and financing vehicle for NovaCare. The Company accounts for its investment in NACC using the cost method of accounting. During 1994 the common stock of NACC was contributed by NovaCare to the Company. In consideration for the common stock of NACC the Company assumed $25,000 in borrowings from NovaCare and $10,258 was credited to additional paid in capital. This transaction was recorded at NovaCare's historical cost. Those borrowings, which bear interest at 5.5%, are due in 2000 and are classified as long term intercompany borrowings in the accompanying Consolidated Balance Sheet. Interest charged for the year ended June 30, 1994 was $980. During the six months ended December 31, 1994, the Company made additional capital contributions of $3,792 to NACC.

7. Property and Equipment

The components of property and equipment are as follows:

	December 31, 1994 (unaudited)	June 30, 1994
Land and buildings	$ 28,261	$ 27,979
Property, equipment and furniture	22,404	21,409
Leasehold improvements	1,580	1,334
	52,245	50,722
Less: Accumulated depreciation and amortization	(13,520)	(11,410)
	$ 38,725	$ 39,312

Included in property, equipment and furniture are the following assets held under capital leases:

	December 31, 1994 (unaudited)	June 30, 1994
Property, equipment and furniture	$ 7,133	$ 9,882
Less: Accumulated amortization	(5,406)	(7,490)
	$ 1,727	$ 2,392

Depreciation expense and amortization of capital leases aggregated $3,969 for fiscal 1994.

8. Long-Term Debt and Capital Lease Obligations

Long-term debt consisted of the following:

	December 31, 1994 (unaudited)	June 30, 1994
Revolving credit facility (prime rate plus .5% or LIBOR plus .88%) expiring May 27, 1997	$ 38,125	$ 34,765
West Virginia commercial development revenue bonds (9.5% and 12%), payable through 2015	17,715	17,715
Capital lease obligations	1,955	2,751
Other	692	1,269
	58,487	56,500
Less: Current portion	1,732	2,292
	$ 56,755	$ 54,208

In May 1994, NovaCare entered into a revolving credit facility in the amount of $115,000 with a syndicate of banks. This facility was increased to $175,000 effective November 28, 1994. The Company is able to borrow under that agreement. At June 30, 1994, the interest rate on amounts borrowed was 5.25%. The revolving credit facility agreement requires maintenance by NovaCare of minimum working capital and net worth amounts as well as certain financial ratios. At June 30, 1994, NovaCare was in compliance with these requirements. A commitment fee of .25% per annum on the average daily available balance is paid quarterly.

The West Virginia commercial development revenue bonds were issued by two subsidiaries of the Company to construct rehabilitation facilities in the state. Proceeds were restricted to permitted construction expenditures. Sinking fund requirements are reflected in the table below. The obligations are guaranteed by NovaCare, require maintenance of certain financial ratios and restrict the payment of dividends by the subsidiaries. At June 30, 1994, the Company was in compliance with these requirements.

Aggregate annual maturities of long-term debt for each of the next five years at June 30, 1994 are as follows:

1995	$ 572
1996	621
1997	35,377
1998	430
1999	434

The fair value of the Company's long-term debt, based upon the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt at the same remaining maturities, was estimated to be $61,309 at June 30, 1994.

9. Leases

The Company is obligated under capital leases for office and hospital equipment. All capital leases expire over the next five years.

Hospital facility land and buildings are leased under operating leases having initial terms ranging between 10 and 13 years with renewal options of five years. Rent during the renewal periods will be market-based rates as defined in the lease agreements. The agreements contain contingent rental provisions based on revenue levels at the respective facilities. Payment of certain leases is collateralized by letters of credit totaling $1,653 which expire on various dates through May 1995. Under the terms of the lease agreements, these letters of credit must be renewed but may be reduced or eliminated if certain lease coverage ratios are attained. With regard to a significant portion of these operating leases, the Company initially purchased and developed the land, constructed the hospital facility and sold the land and buildings to unrelated third parties from which the Company subsequently leased back the land and buildings.

The Company also rents office space and office, transportation and therapy equipment under non-cancelable operating leases.

Future minimum lease commitments for all non-cancelable leases at June 30, 1994 are as follows:

Fiscal Year	Capital Leases	Operating Leases
1995	$ 1,799	9,253
1996	483	9,131
1997	245	9,085
1998	228	8,883
1999	92	8,769
2000 and thereafter		24,432
Total minimum lease payments	2,847	$ 69,553
Less: Amount representing interest	96	
Present value of minimum payments under capital lease obligations	2,751	

Current amount	1,720
Long-term amount	$ 1,031

Total rent expense charged to operations for the year ended June 30, 1994 was $11,360, including contingent rent of $1,386.

10. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses include the following:

	December 31, 1994 (unaudited)	June 30, 1994
Accounts payable	$ 3,582	$ 4,293
Accrued compensation and benefits	6,268	4,920
Due to Medicare	5,509	3,123
Other	5,660	5,797
	$ 21,019	$ 18,133

11. Income Taxes

The components of income tax benefit are as follows:

	Year ended June 30,1994
Current:	
Federal	$(2,362)
State	160
	(2,202)
Deferred:	
Federal	876
State	37
	913
	$(1,289)

The components of the net deferred tax asset are as follows:

	June 30, 1994
Accruals and reserves not currently deductible for tax purposes	$ 1,391
Acquired operating loss carryforward	3,464
Other	978
Gross deferred tax assets	5,833
Expenses capitalized for financial statement purposes	(320)
Depreciation and capital leases	(324)
Gross deferred tax liabilities	(644)
Valuation allowance on acquired operating loss carryforward	(3,464)
Net deferred tax asset	$ 1,725

The reconciliation of the expected tax benefit (computed by applying the federal statutory rate to income before income taxes) to actual tax benefit was as follows:

	Year end June 30, 1994
Expected tax benefit	$ (1,986)
Non-deductible amortization of excess cost of net assets acquired	393
Minority interest	137
Other, net	167
	$ (1,289)

In accordance with the Company's tax sharing agreement with NovaCare, the benefit of net operating losses which were utilized in the consolidated tax returns of NovaCare have been recognized. On a separate return basis, the benefit would not have been recognized. The acquired operating loss carryforwards are subject to restrictions under Section 382 of the Internal Revenue Service Code and separate tax return limitations.

12. Benefit Plans

NovaCare has in place defined contribution 401(k) plans in which substantially all employees of the Company may participate. Under those plans, employees may make voluntary contributions of their compensation, which are partially matched by the Company. Company contributions for 1994 were $487.

13. Contingencies

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability, if any, with respect to these actions will not have a material adverse effect on the financial position or results of operations of the Company.

14. Concentrations of Credit Risk

The Company operates facilities located in various cities across the United States. It grants credit without collateral to its patients, most of whom are local residents with insured third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	June 30, 1994
Medicare	42%
Medicaid	12
Other third party payors	44
Patients	2
	100%

15. Subsequent Event

On February 3, 1995, NovaCare reached an agreement for the sale of the Company to HEALTHSOUTH Corporation. The sale is contingent upon regulatory approval. In accordance with the agreement, certain assets will be retained by and certain liabilities will be transferred to NovaCare. The effects of this transaction have not been reflected in these financial statements.